

**Social Policy in a Cold Climate**

**Working Paper 15**

**January 2015**



---

# **The Coalition's Record on Employment: Policy, Spending and Outcomes 2010-2015**

**Abigail McKnight**



## **Acknowledgements**

The author would like to thank Ruth Lupton, Conor D'arcy, John Hills, Rachael Takens-Milne, Sharon Witherspoon and members of the SPCC advisory group for their comments on earlier versions of this paper, and Cheryl Conner for her help in its production. The author is grateful to Timo Long and Andrew Keep at HM Treasury for assistance with the PESA data series. All errors and omissions and responsibility for the opinions expressed remain the author's alone.

The paper draws on Office for National Statistics (ONS) statistics which are subject to Crown copyright and are reproduced under the Open Government Licence v.3.

## Contents

Summary .....	5
1. Introduction .....	5
2. The Coalition’s Inheritance .....	7
3. Aims.....	11
4. Policies .....	16
<i>Get Britain Working measures – Pre-Work Programme</i> .....	19
<i>Work Clubs</i> .....	19
<i>Work Together</i> .....	19
<i>Enterprise Clubs</i> .....	19
<i>Work experience</i> .....	19
<i>New Enterprise Allowance</i> .....	20
<i>Sector-based work academies</i> .....	20
<i>Mandatory Work Activity and Skills Conditionality</i> .....	20
<i>The Work Programme</i> .....	21
<i>Youth Contract</i> .....	23
<i>Other areas of employment policy</i> .....	24
Summary .....	26
5. Spending .....	27
6. Inputs and outputs .....	29
Summary .....	32
7. Outcomes Part I.....	33
<i>The Work Programme</i> .....	33
<i>Rates of moving off JSA and ESA</i> .....	37
<i>New Enterprise Allowance</i> .....	39
<i>Mandatory Work Activity and Skills Conditionality</i> .....	39
Summary .....	40
8. Outcomes - Part II .....	42
General labour market assessment.....	42
<i>Employment</i> .....	42
<i>Unemployment and economic inactivity</i> .....	43
<i>Earnings</i> .....	53
Summary .....	58
9. Discussion and conclusion .....	59
References .....	62
Annex 1 – Classification of employment policy expenditure in PESA data .....	66
Annex 2 – Outputs.....	67

## List of Tables

Table 1: Expenditure shares by output group, 2007/08 to 2012/13.....	30
Table 2: Published inputs and associated costs for DWP provided employment advice services (2012/13) .....	30
Table 3: Referrals to the Work Programme and attachments .....	31
Table 4: Share of monthly intake into the Work Programme with at least three/six cumulative months in work after 2 years on the programme, and DWP’s minimum expected levels .....	35

## List of Figures

Figure 1: Spending on employment policy 1997/98 to 2013/14 (real terms 2009/10 price levels (£billions) and % GDP) – unemployment rates (ILO measure).....	28
Figure 2: Composition of monthly Work Programme referrals by month of attachment and payment group .....	32
Figure 3 The share of each monthly intake into the Work Programme with at least three/six months in work after a year – All claimants and for four of the nine payment groups.....	34
Figure 4: Share of JSA claimants who had left JSA by 52 weeks from month of claim start.....	38
Figure 5: ILO and claimant unemployment rates and the percentage point (pp) gap between the two rates.....	44
Figure 6: Trends in unemployment and inactivity rates (%) – working age population.....	45
Figure 7: Trends in the UK distribution of employment by industry sector – 1997-2014 .....	46
Figure 8: Unemployment rates (ILO) by age – March 1992-October 2014 .....	47
Figure 9: Unemployment and inactivity rates (%) for people with work limiting disabilities .....	49
Figure 10: Share of the working age population claiming out of work benefits (GB).....	50
Figure 11: Trends in the share of public sector employment.....	51
Figure 12: The number of individuals working as employees or in self-employment relative to Jan-March 2008 levels (thousands) .....	53
Figure 13: Changes in real average weekly earnings – annual percentage change (single month) .....	54
Figure 14: Median real hourly earnings (2013 prices) .....	55
(a) Age-earnings profiles	
(b) Lifetime profiles by age cohort	
Figure 15: Actual annual growth rates in real hourly wages among employees who remain in employment.....	56
Figure 16: Inequality in weekly earnings of employees 1997-2013.....	58

## Summary

The Coalition came to power amid a continuing economic crisis and rising unemployment. How successfully did its active labour market policies contribute to employment growth?

- The Coalition's supply side measures in the labour market represented evolution rather than revolution. Labour's 'welfare to work' programme was reformed, but the aims remained similar.
- A single Work Programme targeted longer-term unemployed people, especially those claiming Jobseeker's Allowance (JSA) and people with limiting illnesses or disabilities receiving Employment and Support Allowance (ESA). Delivery contracts were awarded on a 'payment by results' basis.
- A Youth Contract, from 2012, targeted persistent youth unemployment. Subsidies were paid to employers hiring and then retaining 18 to 24-year olds claiming JSA for more than six months.
- Spending on active labour market policies peaked in 2010/11 at £4.8bn (2009/10 prices). An immediate dip to £3.5bn in 2011/12 was attributable to the introduction of 'payment by results', which deferred the Work Programme's costs. By 2013/14 expenditure had increased to £4bn.
- Unemployment fell from a peak of 8.5 per cent in 2011 to 6 per cent in autumn 2014, but the Work Programme's contribution disappointed government intentions. Outcomes improved (from just one in ten referrals initially leading to sustained employment) but the vast majority still leave the programme without finding such work and the programme has been least successful at helping the most disadvantaged participants.
- The government both overestimated the share of Incapacity Benefit claimants that would be found to be capable of work (based on the highly controversial Work Capability Assessments) and the extent to which those who were assessed to be capable of work would secure employment (just 12 weeks) with the assistance provided by the Work Programme.
- The government reduced the size of public sector employment from 19.4 per cent in 2010 to 17.2 per cent in 2014. However, self-employment drove the recovery in the labour market by expanding to 15 per cent of the workforce, its highest level over 40 years. The proportion of unemployed people moving into self-employment grew from 8 per cent before the recession to 11 per cent but their real average earnings sank (down 22 per cent).
- Low pay remained more common in the UK than most other developed nations. The real value of the National Minimum Wage declined despite a real terms increase to £6.50 per hour in 2014.
- Although the labour market showed considerable resilience, falling real earnings and low labour productivity have affected living standards, consumption and tax revenues.

## 1. Introduction

This is one of a series of papers examining aspects of the social policy record of the UK Conservative/Liberal Democrat Coalition 2010-15, with a particular focus on poverty, inequality and the distribution of social and economic outcomes. The papers follow a similar but smaller set covering Labour's record from 1997-2010, published in 2013. They follow the same format as those papers. Starting with a brief assessment of the situation the Coalition inherited from Labour, they move to a description of the Coalition's aims (as discerned from manifestos, the Coalition Agreement and subsequent policy statements) and the policies enacted. They then describe trends in spending on the area under consideration, and an account of what was bought with the money expended (inputs and outputs). Finally, they turn to outcomes, and a discussion of the relationship between policies, spending and outcomes, so far as this can be discerned.

All the papers focus on UK policy where policy is not devolved (for example taxes and benefits) and English policy where it is, although in some cases some spending, outcomes and international comparisons cannot be disaggregated below the UK level. In the case of devolved policy areas, key points of similarity and difference between England and the other UK nations are highlighted, but a full four country comparison is beyond the scope of the study.

Unlike some of the others in the series, this paper does not follow a similar one for the Labour period as employment was not separately covered. For this reason, rather more time is spent outlining the inheritance and taking a longer view in the outcomes section in terms of trends. In common with the policy regime, the paper takes a supply-side perspective, concentrating on government efforts to move people off out-of-work benefits into (sustainable) work. Policies aimed at increasing the level of demand for labour through economic development and industrial strategies are relevant but arguably these policies have been much less prominent both under this government and the last.

## 2. The Coalition's Inheritance

The Coalition entered government in a period of relatively high and increasing unemployment following the 2007/08 financial and economic crisis. Preceding the rise in unemployment the UK had enjoyed the longest period of economic growth for over a century and employment rates had reached record levels (McKnight, 2009). The Labour government had built on the changes introduced by the outgoing Conservative government (1979-1997) in relation to the design of active labour market programmes, in particular Jobseeker's Allowance (JSA) (introduced in 1996) which incorporated a more demanding regime in terms of what was expected of jobseekers in return for their entitlement to receive out of work benefits<sup>1</sup>.

Employment and employment policy had undergone a number of important transformations during the time that the Labour Party had been in power (1997-2010). New Labour came into government in 1997 without a pledge for full employment, breaking with Labour Party traditions. They adopted a modern definition of full employment and instead made a commitment to 'Employment Opportunity for All' (Gordon Brown, Pre-Budget speech November 1997); later defining an employment rate of 80 per cent of the working age population as an aspiration. Within this definition it was recognised that some unemployment was both inevitable and even desirable. This level of unemployment is often referred to as *frictional unemployment* and is determined by the gaps in time between workers moving between jobs, the time it takes for new entrants and re-entrants to find work, seasonal unemployment and short term mismatches between labour supply and labour demand. The Labour government set out to tackle *structural unemployment* which is a more fundamental long term mismatch between labour supply and labour demand.

Through a raft of policies Labour made considerable progress in both reducing and keeping structural unemployment down and what the Coalition government inherited was a third type of unemployment which economists typically refer to as *cyclical unemployment*. Cyclical unemployment, taking its name from the business cycle, occurs where aggregate demand is not sufficient to provide enough jobs for the number of available workers. Unemployment during recessions is generally thought to arise because wages tend to be 'sticky', not adjusting downwards in response to falling demand, the outcome of which is that firms both limit recruitment and lay-off workers, either due to a contraction in output or because they go out of business.

Another break from Labour's past was a shift in policy emphasis away from demand side policies to supply side policies. Instead of large scale job creation programmes the policy emphasis was on improving the skills of the workforce, creating a more flexible and adaptable workforce, and working to re-engage long term unemployed people and tackling youth unemployment<sup>2</sup>.

Concerns had grown over the 1980s and into the 1990s regarding increasing levels of long term unemployment and how this share of the potential labour force was so distant from the labour market

---

<sup>1</sup> Under JSA entitlement to contribution based out of work benefit (based on National Insurance contributions and not means tested) was cut from 12 months to 6 months after which unemployed jobseekers could apply for income-based (means tested) JSA. For an evaluation of JSA see Smith et al., 2000.

<sup>2</sup> One of the five specific pledges offered by the Labour Party and included on a pledge card in the lead up to the 1997 General Election was to "get 250,000 under-25-year-olds off benefit and into work by using money from a windfall levy on the privatised utilities".

that they could no longer be considered part of the effective labour supply (see for example, Layard et al., 1994). Lord Layard, one of the key labour market experts in this area, worked with the Labour Party in developing the New Deal programme. This programme was designed as both an investment programme tackling high levels of youth unemployment and a way to turn the long term unemployed into effective jobseekers. There was underpinning this programme a strong emphasis on 'Rights and Responsibilities' which recognised unemployed people's entitlement to unemployment benefit but made clear that benefit receipt was conditional on them taking active steps to find work. The introduction of the New Deal programmes transformed active labour market programmes in the UK, jobseekers were expected to do much more to prepare for work and secure employment than had ever been the case. Tailor-made programmes were initially created for different groups of jobseekers (under 25s, long-term unemployed 25-49 year olds, older people 50+, disabled people, lone parents and musicians). There were different degrees of compulsion and provision but from October 2009 a single programme, the Flexible New Deal, replaced all of the different programmes. Latterly, private providers were increasingly used to deliver employment services. They were contracted to provide elements of the New Deal for Young People, the delivery of employment services to long-term unemployed people living in Employment Zones<sup>3</sup> and from 2009 more extensively in the delivery of the Flexible New Deal.

The Labour government also sought to bring other out-of-work groups back into the labour force. Out-of-work welfare benefit recipients traditionally not required to actively seek work (such as lone parents and some people with disabilities) were being increasingly moved onto 'active' benefits and required to search for work as a condition of their benefit receipt. Concern had grown that the previous Conservative government (1979-1997) had tried to hide the extent of unemployment by moving a significant number of unemployment benefit claimants onto disability related benefits which didn't count in terms of unemployment measured using the 'Claimant count' (Alcock et al., 2003; Beatty and Fothergill, 2004). The share of the working age population claiming disability-related out of work benefits did increase but whether this was the result of conscious policy or because these benefits, and the regime that accompanied them, were more attractive to out of work claimants or simply because disability incidence and its recognition grew in the working age population is not clear. Not only was this increase costly as these benefits are more generous but claimants circumstances in relation to their entitlement to these benefits were not reviewed and they were not required to attend interviews with job centre advisers. The claimant count became such an unreliable measure of unemployment due to the fact that it only covered a fraction of unemployed people that the Labour government adopted the widely used ILO measure of unemployment<sup>4</sup> as its preferred measure.

Social change also played a part in driving increases in workless household rates with an increasing number of families headed by a lone parent in the UK (usually a mother). Evidence showed that while employment rates among mothers who were part of a couple were increasing, the same was not true for lone parent mothers (Gregg and Harkness, 2003; McKnight, 2005). While it was accepted that there were good reasons why the employment rates between these two groups might differ, the Labour Party was of the opinion that employment was the best route out of poverty and the overlap between children living in a workless household and the chances of that household being in low income poverty. This was

---

<sup>3</sup> Employment Zones (EZ) were introduced in 2000 in 15 areas of the UK where high levels of long term unemployment persisted. In these areas New Deal 25+ was replaced by EZ programmes.

<sup>4</sup> Individuals are counted as unemployed under the ILO definition if they are out of work but have been looking for work in the past four weeks and are available to start work in the next two weeks. It is not dependent on their benefit status and is an internationally recognised standard measure of unemployment.

behind many of the policy changes designed to increase employment rates among lone parents. At one time there was a target to increase the rate of employment among lone parents to 70 per cent by 2010 and although this was abandoned and not met, employment rates did increase and the share of lone parents claiming Income Support did fall, some of which could be attributed to government policy (Gregg and Harkness, 2003; McKnight, 2000).

UK governments have traditionally spent relatively low amounts on active labour market programmes; below the OECD average and considerably lower than France and Germany (OECD xstat). The US is also a low investor in active employment policy and in 1997, according to OECD statistics, both the UK and the US were spending a similar share of GDP on this policy area (0.19 and 0.24% GDP, respectively); this was in contrast to Germany spending 1.11% GDP and France 1.22% GDP. The share of GDP spent on active employment policy increased under the Labour government with a boost in expenditure on the New Deal programmes (initially funded by a £5 billion windfall levy on privatised utilities) and since the start of the economic and financial crisis due to the increase in the number of unemployed people requiring employment services. In 2010 around 0.4% GDP was spent on active employment policy (OECD xstat); the OECD average was 0.6% GDP.

Not only is employment unequally distributed among the working age population, hitting those with the lowest marketable skills hardest, but so too are the rewards from work. Over the 1980s earnings inequality in the UK rose faster and further than in any EU country and while the debate continues on the dominant cause of this rise, there is now a general consensus that globalisation, skill biased technological change and the decline in the power of labour market institutions each contributed to this increase (McKnight and Tsang, 2013). While the Labour Party did not pledge to bring earnings inequality down, in their 1997 manifesto they outlined a commitment to tackle the growing problem of low wage employment through the introduction of a National Minimum Wage (NMW). The NMW transformed the low wage labour market in the UK and effectively eradicated extreme low pay in the formal labour market, yet the UK continued to have one of the highest shares of workers employed in low paid jobs and there is evidence to suggest that the NMW is being used as a 'going rate' by many employers (Resolution Foundation, 2014).

The NMW was part of a wider "Making Work Pay" agenda which also involved strengthening and widening in-work benefits (WFTC/WTC) and reducing tax paid by low paid workers (through changes to the National Insurance schedule, Income tax rates and Personal Allowances).

A number of important changes were introduced under the Labour government regarding the regulation of employment and improvements to workers' rights arising from EU directives; although in some cases the UK negotiated opt outs. Many of these regulations focused on protecting 'marginal' workers in growing forms of 'flexible employment' (sometime referred to as atypical employment), to provide for a healthier work-life balance particularly for parents, to improve health and safety at work and to regulate for equal treatment across different groups of workers.

Employers of part-time workers and fixed-term employees were prevented from treating these workers less favourably than full-time or permanent employees through The Part-time Workers (Prevention of Less Favourable Treatment) Regulations 2000 and the Fixed Term Employees (Prevention of Less Favourable Treatment) Regulations 2002.

In 2003 the UK Working Time Regulations (EU Working Time Directive) came into force, updating earlier versions from 2000 and 1993, giving workers the right to a minimum number of holidays each year (20 days), rest breaks (a rest period for every six hours of work), and rest of at least 11 hours in any 24 hour period. It restricts excessive night work, gives workers the right to a weekly day off work (24 hours uninterrupted) and provides for a right for most employees to work no more than 48 hours per week; although the UK negotiated a voluntary opt out of the 48 hour limit to the working week. This means that an employee can voluntarily opt out but is required to submit this in writing to their employer<sup>5</sup>.

Also introduced in the 2003 Employment Act was the right for parents of young and disabled children, who had been working for their employer for a minimum of 26 weeks, to apply for flexible working arrangements. This right was extended in 2007 to cover carers of adults. Although employers can turn down a request, any request has to be taken seriously and can only be turned down on reasonable grounds. Employees can ask ACAS to arbitrate where an agreement cannot be reached and employees have a right to take the matter to an employment tribunal.

A number of pieces of legislation were brought in to prevent employer discrimination against: age (The Employment Equality (Age) Regulations 2006); religion or belief (The Employment Equality (Religion or Belief) Regulations 2003) and sexual orientation (The Employment Equality (Sexual Orientation) Regulations 2003[5]).

The Labour government had made huge gains in the labour market with record levels of employment prior to the 2007/08 financial and economic crisis. However, the Coalition formed a government a little over two years after the start of the financial and economic crisis. Unemployment rates had increased steeply since the start of 2008 through the rise in cyclical unemployment and stood at 8.1% in May 2010 with 1.5 million people in the UK claiming JSA (claimant count) and a total of 4.93 million working age people claiming out-of-work benefits. Given the depth of the recession, the global extent of the recession (affecting domestic and export markets) and the experience of recent UK recessions, expectations were that unemployment would rise further and remain high for some time. Added to this youth unemployment had started increasing prior to the recession.

Labour had transformed active labour market policy but was still struggling to have a big impact on increasing employment outcomes for the long term unemployed, tackling youth unemployment or low rates of employment among people with a long term illness or disability. In addition, significant disparities in employment and wage rates persisted between different ethnic groups and between men and women.

---

<sup>5</sup> Employees in a small number of occupations are not allowed to opt out of the 48 hour limit (such as airline staff).

### 3. Aims

In this section we outline the employment policy aims of the Coalition government included in the Coalition Agreement and then trace their origins back to the Conservative and Liberal Democrat 2010 election manifestos. The Coalition's aims for employment policy, as set out in the Coalition Agreement, were largely linked to reforms of the welfare system and active labour market programmes with a little on regulation and equality (Cabinet Office 2010). The big announcement was that all existing welfare to work programmes would end and be replaced by a single programme to help unemployed people get back into work. This was coupled with a pledge to investigate how to simplify the benefit system in order to improve incentives to work (p23). This included points on how different types of claimants would be treated within the system and at what point claimants would be eligible for assistance through the welfare to work programme *"we will ensure that Jobseeker's Allowance claimants facing the most significant barriers to work are referred to the new welfare to work programme immediately, not after 12 months as is currently the case. We will ensure that Jobseeker's Allowance claimants aged under 25 are referred to the programme after a maximum of six months."* and *"we will re-assess all current claimants of Incapacity Benefit for their readiness to work. Those assessed as fully capable for work will be moved onto Jobseeker's Allowance"*. It was made clear that there would be a greater emphasis on the conditionality of qualifying for out of work benefits *"we will ensure that receipt of benefits for those able to work is conditional on their willingness to work"*.

Other aims related to how the contracts and funding of providers used to deliver active labour market programmes would be reformed, demonstrating a greater emphasis on payment by results and financial savings: *"we will realign contracts with welfare to work service providers to reflect more closely the results they achieve in getting people back into work"* and *"we will reform the funding mechanism used by government to reflect the fact that initial investment delivers later savings through lower benefit expenditure, including creating an integrated work programme with outcome funding based upon the DEL/AME switch."*<sup>6</sup>

There was very little detail on what changes would be made to welfare to work programmes in terms of what would be on offer, with one pledge on promoting self-employment as a route out of unemployment *"we will support would-be entrepreneurs through a new programme – Work for Yourself – which will give the unemployed access to business mentors and start-up loans"*. Another recognising that some job seekers lacked sufficient skills and experience, hinting that the Coalition government was not going to pursue a simple "work first" welfare to work programme *"we will draw on a range of Service Academies to offer pre-employment training and work placements for unemployed people"* and the fact that self-help would be promoted *"we will develop local Work Clubs – places where unemployed people can gather to exchange skills, find opportunities, make contacts and provide mutual support."*

On employment legislation the Coalition Agreement reflected the fact that both parties supported the National Minimum Wage but made no commitment on how it should develop or more broadly about how

<sup>6</sup> In this context DEL/AME switch is where one type of public expenditure (here savings from benefit expenditure) are used to offset the cost incurred in making that saving (delivering the programmes that assist jobseekers to leave benefit and find work) and these are paid to the contracted providers instead of a service fee. This means that the Work Programme will be largely paid for out of Annual Managed Expenditure (AME) rather than Departmental Expenditure Limit (DEL) as previous welfare to work programmes have been.

and if low wage employment more broadly should be tackled *"we support the National Minimum Wage because of the protection it gives low-income workers and the incentives to work it provides."* There was also a pledge to *"review employment and workplace laws, for employers and employees, to ensure they maximise flexibility for both parties while protecting fairness and providing the competitive environment required for enterprise to thrive."* (p10)

On labour market equality the Coalition said that they would tackle gender inequality in the labour market with a pledge to *"promote equal pay and take a range of measures to end discrimination in the workplace"* as well as *"look to promote gender equality on the boards of listed companies"*. For ethnic minorities the Coalition government pledged to *"... [provide] internships for under-represented minorities in every Whitehall department and to [fund] a targeted national enterprise mentoring scheme for Black, Asian and Minority Ethnic people who wanted to start a business"*. The only pledge in relation to tackling overall inequalities related to the public sector: *"we will undertake a fair pay review in the public sector to implement our proposed '20 times' multiple"*; that no public sector worker can earn over 20 times more than the lowest paid person in their organisation. Under the equalities heading the Coalition agreement also includes a pledge to *"extend the right to request flexible working to all employees, consulting with business on how best to do so"* (p18).

The hastily drafted Coalition Agreement, drawn up in five days following the inconclusive 2010 General Election, largely reflects employment policy pledges in the Conservative Manifesto. The new welfare to work programme – the Work Programme – was outlined in the Conservative Manifesto (Conservative Party 2010, p15/p16) and in speeches prior to the election in 2010 (see for example, Freud 2009). The Conservative Manifesto proposed the Work Programme as a way of reducing "welfare dependency" with a particular focus on Incapacity Benefit claimants who would all be reassessed, with those found to be fit to work transferred onto Jobseeker's Allowance. In line with the pledges included in the Coalition Agreement, claimants would become eligible for assistance earlier in the Work Programme than under the Flexible New Deal that it would replace (straightaway for those facing the greatest barriers to work and after six months of unemployment for those aged under 25). It was made clear that the programme would be delivered by private and voluntary sector providers who would be rewarded according to their success in getting people into sustainable work. Service Academies and local Work Clubs were also outlined in the Conservative Manifesto. 'Work-fare' did not feature in the Coalition Agreement but the Conservatives in their manifesto did state that *"long term benefit claimants who fail to find work will be required to 'work for the dole' on community work programmes"*. Also the threat of sanctions featured in the manifesto which stated that JSA claimants refusing to join the Work Programme would lose their right to claim out-of-work benefits until they do, and that people who refuse to accept reasonable job offers could forfeit their benefits for up to three years.

In other areas, as well as measures designed to boost small businesses through taxation and steps to increase government research and procurement contracts being awarded to small and medium sized enterprises (p16), the Conservative Manifesto outlines the 'Work for Yourself' programme that made it into the Coalition Agreement. As well as indicating that the Conservatives would support the minimum wage they pledged to reduce the very high marginal tax rates faced by many people on low incomes (p16). On equality they stated that they would *"force equal pay audits on any company found to be discriminating on the basis of gender"*. They also made a commitment to abolish the default retirement age effectively increasing the length of the working life for many to reflect increasing life expectancy.

The Conservatives in their 2010 Election Manifesto included eight "Benchmarks for Britain" which they invite the electorate to use to judge the economic success or failure for the next government. Number 3 relates specifically to employment:

*"3. Get Britain working again: We will reduce youth unemployment and reduce the number of children in workless households as part of our strategy for tackling poverty and inequality" (Conservative Party 2010, p5).*

The Liberal Democrats in their 2010 Election Manifesto (Liberal Democrat Party, 2010) had very little to say about reforming active labour market programmes but chose to focus on job creation, something that didn't feature in the Coalition Agreement: *"To boost the economy and create jobs for those who need them, we will begin our term of office with a one-year economic stimulus and job creation package"* (p21). This job creation was to be linked with a green economic stimulus package: *"Liberal Democrats will begin our term of office with a one-year job creation and green economic stimulus package. We have identified £3.1 billion of public spending that can be used to create 100,000 jobs. This programme will be a first step towards our target for a zero-carbon Britain by 2050"* (p23). The plan involved refurbishing shipyards in the North of England and Scotland, an 'Eco Cash-Back' scheme, energy efficiency improvements in schools and public buildings, bringing back 250,000 empty homes, investing £140 million on a bus scrappage scheme to help bus companies replace old polluting buses with new, accessible low-carbon ones and create more jobs (p23/p24).

Some help was pledged by the Liberal Democrats to young people affected by the recession *"A work placement scheme with up to 800,000 places will ensure that young people have the opportunity to gain skills, qualifications and work experience even if they can't find a job. Young people on the scheme would be paid £55 a week for up to three months."* (p24). On equality, the Liberal Democrats pledged that they would: *"require name-blind job application forms to reduce sex and race discrimination in employment, initially for every company with over 100 employees"*; introduce *"fair pay audits for every company with over 100 employees to combat discrimination in pay, for example against women. We will require all public companies to declare in full all remunerations of £200,000 per year or more."* And the only pledge that touched on welfare to work reform ('Welfare' does not even appear in the index) is in relation to fair access to work and employment services for people with disabilities: *"[Give] disabled job seekers better practical help to get to work, using voluntary and private sector providers, as well as JobCentre Plus services. We will also reform Access to Work, so disabled people can apply for jobs with funding already in place for equipment and adaptation that they need."* (p30). The only mention of the minimum wage in the Liberal Democrats manifesto was a pledge to *"Set the minimum wage at the same level for all workers over 16 (except for those on apprenticeships)"* (p51).

The Coalition entered government largely adopting the Conservative party's proposed reforms to active labour market policies and rapidly replaced the Flexible New Deal with the Work Programme. Reflecting the lack of input into the Coalition Agreement of Liberal Democrat policies in relation to welfare to work reform, and the absence of policy in this area in their Manifesto, Conservative politicians have had a monopoly on ministerial posts in relation to work and welfare.

### Box 1: The Coalition Agreement

In terms of employment policy the Coalition Agreement largely reflects policies outlined in the Conservative manifesto. Shared policies are underlined below; clauses in bold type stem entirely from the Liberal Democrats.

#### *Jobs and Welfare*

- We will end all existing welfare to work programmes and create a single welfare to work programme to help all unemployed people get back into work.
- We will ensure that Jobseeker's Allowance claimants facing the most significant barriers to work are referred to the new welfare to work programme immediately, not after 12 months as is currently the case. We will ensure that Jobseeker's Allowance claimants aged under 25 are referred to the programme after a maximum of six months.
- We will realign contracts with welfare to work service providers to reflect more closely the results they achieve in getting people back into work.
- We will reform the funding mechanism used by government to finance welfare to work programmes to reflect the fact that initial investment delivers later savings through lower benefit expenditure, including creating an integrated work programme with outcome funding based upon the DEL/AME switch.
- We will ensure that receipt of benefits for those able to work is conditional on their willingness to work.
- We support the National Minimum Wage because of the protection it gives low-income workers and the incentives to work it provides.
- We will re-assess all current claimants of Incapacity Benefit for their readiness to work. Those assessed as fully capable for work will be moved onto Jobseeker's Allowance.
- We will support would-be entrepreneurs through a new programme – Work for Yourself – which will give the unemployed access to business mentors and start-up loans.
- We will draw on a range of Service Academies to offer pre-employment training and work placements for unemployed people.
- We will develop local Work Clubs – places where unemployed people can gather to exchange skills, find opportunities, make contacts and provide mutual support.
- We will investigate how to simplify the benefit system in order to improve incentives to work.

#### *Equalities*

- We will promote equal pay and take a range of measures to end discrimination in the workplace.
- We will extend the right to request flexible working to all employees, consulting with business on how best to do so.
- **We will undertake a fair pay review in the public sector to implement our proposed '20 times' pay multiple.**

***In individual manifestos but not in the Coalition Agreement:***

**Liberal Democrats:**

We will begin our term in office with a one-year job creation and green economic stimulus package. We have identified £3.1 billion of public spending that can be used to create 100,000 jobs.

We will also create hundreds and thousands of opportunities for young people affected by the recession. A work placement scheme with up to 800,000 places will ensure that young people have the opportunity to gain skills, qualifications and work experience even if they can't find a job. Young people on the scheme would be paid £55 a week for up to three months. (fed into the policy development of the Youth Contract).

We will give disabled job seekers better practical help to get to work, using voluntary and private sector providers, as well as JobCentre Plus services. We will also reform Access to Work, so disabled people can apply for jobs with funding already in place for equipment and adaption that they need. (Largely implemented once in government through eligibility of ESA claimants to the Work Programme.)

**Conservatives:**

With the Conservatives, long-term benefit claimants who fail to find work will be required to 'work for the dole' on community work programmes. (Later introduced as 'Help to Work' scheme for those returning to Jobcentre Plus having not secured employment after two years on the Work Programme).

People who refuse to accept reasonable job offers could forfeit their benefits for up to three years. (in 2012 legislation was introduced that allowed claimants to be sanctioned for three years, stating that the three year sanction "will apply only in the most extreme cases where claimants have serially and deliberately breached their most important requirements, and they have not changed behaviour after receiving previous sanctions").

## 4. Policies

While there are many policies that impact on employment and unemployment including macroeconomic policies (both monetary and fiscal), in this paper we largely focus on active labour market policies (welfare-to-work programmes) reflecting this project's focus on social policy rather than economic policy. These policies are designed to boost employment and reduce unemployment/economic inactivity by helping those without work move into work and stay in work. These are the policies for which we have information on expenditure and we can make some assessment of the impact of policies and resource allocation on outcomes. We will also touch on developments in the area of low wage employment – in particular the national minimum wage – and self-employment as these two areas have come under the political spotlight over the course of the Coalition government's term in office.

The Coalition government's approach to providing employment services to job seekers claiming out of work benefits can be divided into those that are effectively managed by Jobcentre Plus, usually made available to claimants at the start of a claim for out of work benefits, and the programme of support for longer term unemployed or those considered to face the greatest barriers to work. Sometimes the first phase is referred to as "Get Britain Working measures", more recently "pre-Work Programme support", and the second is the "Work Programme". Claimants unable to secure sustained employment after two years on the Work Programme return to Jobcentre Plus and from April 2014 have had to participate in the Help to Work scheme. A brief description of these phases follows an outline of the two main out-of-work 'active' benefits and then we turn to a short discussion on programmes specifically designed to help young unemployed job seekers and disabled people. In this paper we will not cover the introduction of Universal Credit which has only partly been rolled out (12,000 claimants by August 2014) but it is the backdrop to many of the changes being made to benefit entitlement and conditionality (more information can be found in Hills, 2015).

Unemployed people are entitled to apply for Jobseeker's Allowance (JSA). If they have made sufficient National Insurance (NI) contributions they can claim contribution-based JSA for up to six months, if they have insufficient NI contributions, or their entitlement to contribution-based JSA has expired, they can claim income-related JSA. At the start of a claim individuals are required to attend a JSA interview and sign a Jobseeker's Agreement (or in some cases a Claimant Commitment) which sets out steps required to find work and ways to improve chances of finding work. Claimants are then required to attend Jobsearch Reviews ('sign-on') every two weeks or when asked to do so, and are required to demonstrate that they have been actively searching for work.

People who are ill or disabled and out of work can apply for Employment and Support Allowance (ESA) – introduced for new claims in 2008. They are required to undergo a Work Capability Assessment<sup>7</sup> (WCA) if on the basis of a paper-based assessment they are not assigned to the ESA support group (considered not to be capable of work-related activity). The outcome of a WCA determines whether a claimant is referred to JSA, assigned to a work-related activity group or to the support group. These assessments have been contracted out to a private provider - and their reliability has attracted wide ranging criticism. Individuals in the work-related activity group are required to attend regular interviews with an adviser and are given a prognosis in relation to the months before they would be expected to

---

<sup>7</sup> Work Capability Assessments were introduced by the Labour Government in the Welfare Reform Act 2007.

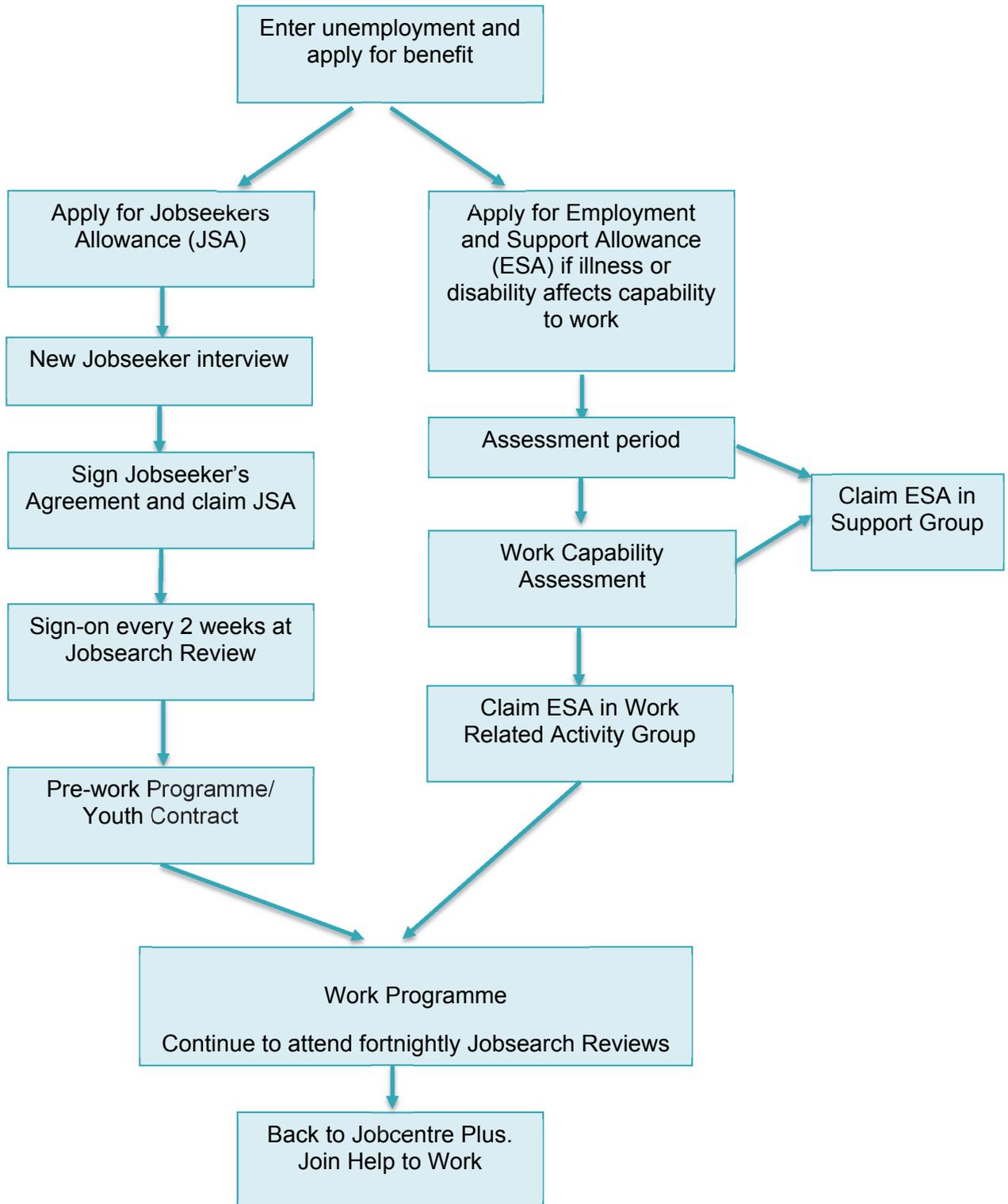
return to work; these can be short term (3-6 months) or as long as a year. People with existing claims for Incapacity Benefit, Income Support paid because of illness or disability and Severe Disablement Allowance when ESA was introduced, are gradually being migrated onto ESA. The process for reassessing all Incapacity Benefit claims through a WCA started in April 2011 and was due to complete by March 2014 but it has been beset with controversy. Initially Atos healthcare was awarded the contract in late 2010 but in March 2014 it was agreed that their contract with DWP would be terminated early amid high levels of criticism from many individuals and organisations about the quality and reliability of the assessments, a large share of decisions being overturned on appeal, the unnecessary stress and anxiety incurred by those undergoing the assessments and delays in assessments being made. The House of Commons Work and Pensions committee published a highly critical report in July 2014 concluding that *"the design of the ESA benefit and assessment process is so problematic, particularly in relation to the confusion and limitations of the outcome groups, that its inefficiencies and the detriment inappropriate decisions cause to claimants can only be resolved in a fundamental redesign of the ESA claims process over the next few years."* (HC 302, 2014; p49). The report also notes how changes over time have been associated with a fall in the share of ESA claimants assessed to be fit-for-work<sup>8</sup> and an increase in the share assigned to the support group. The Government considerably underestimated the share of claimants they thought would be assigned to the support group; initially the Government estimated that 20% of IB claimants would be assigned to the support group but by Autumn 2013 the figure was around 70%. Maximus Health Services UK is due to start a three-year contract in March 2015 and in a recent interview they suggested that it could take them up to 18 months to deal with the backlog (Guardian, 8<sup>th</sup> November 2014).

To assist job seekers, DWP provides an internet based job matching service through Universal Jobmatch which was introduced in 2012 replacing a previous web-based vacancy posting / job search tool. Claimants can be required to register for and use Universal Jobmatch as part of their job seeking activities and use can be monitored by Jobcentre staff. Universal Jobmatch has been criticised for advertising bogus vacancies and fraudulent postings as well as being costly. However, having a readily accessible database of job vacancies to assist job seekers and a source from which advisers can draw from to present opportunities to them during Jobsearch Reviews is a necessary component of government funded employment services.

---

<sup>8</sup> "27% of new claimants were found fit for work in the period July to September 2013. This compares with 64% when ESA was introduced in 2008. For migrated IB claimants, the figure was 11%, down from 27% in the second quarter of 2012" (HC 302, 2014; p10).

**Box 2: Routes through claiming JSA and ESA and progression through welfare to work provision**



### *Get Britain Working measures – Pre-Work Programme*

Most unemployed people have relatively short spells of unemployment and during this time they can be offered a variety of interventions to help them back into work. Some are compulsory and refusal to participate can result in benefit sanctions<sup>9</sup>. Get Britain Working measures are designed to support jobseekers, as part of the Jobcentre Plus offer, and were introduced between October 2010 and August 2011. These measures are in addition to regular meetings with Jobcentre advisers to discuss job opportunities and review jobseekers' efforts in seeking work in line with their Jobseeker's Agreement. Jobcentre Plus district managers are allowed to use their discretion to identify which measures to offer in their area. These interventions include: Work Clubs, Work Together, Enterprise Clubs, Work Experience, New Enterprise Allowance and sector-based work experience and each are outlined briefly below.

#### *Work Clubs*

These clubs provide unemployed and inactive people with a place to meet and exchange skills, find opportunities, make contacts, share experiences and receive support to help them in their return to work.

#### *Work Together*

This initiative encourages unemployed people to consider volunteering with the aim of improving employment prospects while looking for paid work. Jobcentre Plus advisers inform job seekers of local organisations that have agreed to support unemployed people in this way, steer them to online support and make them aware of specific opportunities.

#### *Enterprise Clubs*

These clubs are targeted at unemployed people interested in self-employment. The aim is to support the development of a network of locally-led, community-based support. Unemployed people interested in self-employment are provided with a place to meet and exchange skills, make contacts, share experiences, receive support and encourage each other to work through their business ideas.

#### *Work experience*

Primarily designed to help young people aged 18-24 years who have been claiming JSA for three months (prior to becoming eligible for the Work Programme) gain experience and increase their chance of securing a job. Placements last 2-8 weeks (with some exceptions) and participants continue to receive benefit and are expected to continue to search for paid work. Introduced in January 2011 but since April 2012 has been part of the Youth Contract (more below) although in some cases people over 24 years can be offered a placement<sup>10</sup>. The scheme operates across Great Britain (GB).

---

<sup>9</sup> Sanctions are not covered in detail in this paper although they are an important element of the Coalition's benefit regime.

<sup>10</sup> Initially the placements were voluntary but in February 2012 the government made attendance mandatory after the end of the first week on a placement - participants who drop out could be sanctioned – this proved so unpopular with employers that a number pulled out of the scheme (Toynbee, 2012; BBC News Online, 2012) and subsequently the government removed the mandatory element.

### *New Enterprise Allowance*

The New Enterprise Allowance (NEA) programme was developed to assist and support unemployed people who wanted to start up a business. It was launched in April 2011, rolled out across GB in phases between April and November 2011, for people aged 18 and over who had been claiming JSA for six months or longer. Since October 2012 JSA claimants aged 18+ are now eligible for NEA from the first day of their claim. From February 2013 lone parents on Income Support and some ESA claimants have also been able to access the programme.

New Enterprise Allowance scheme is delivered by Lead Accountable Bodies (LABs)<sup>11</sup> in each Jobcentre Plus (JCP) district on behalf of DWP. JCP refers eligible claimants who wish to start their own business, who then receive advice, guidance and support from volunteer business mentors or paid business advisers as they develop their business plan over a period of eight to twelve weeks and through the first six months of trading. Participants demonstrating that they have a viable business proposition with the potential for growth are able to access financial support consisting of a weekly allowance (£65 a week for the first 13 weeks followed by £33 a week for a further 13 weeks) and access to a loan to help with start-up costs (up to £1,000).

### *Sector-based work academies*

Sector-based academy placements offer pre-employment training, work experience placements and a guaranteed job interview or an apprenticeship for recipients of JSA and ESA (work-related activity group) by employers in sectors with high volumes of local job vacancies. Participation is voluntary, although claimants may face a sanction if they do not complete. The placements are available in England and Scotland and last no more than six weeks.

### *Mandatory Work Activity and Skills Conditionality*

Jobcentre Plus advisers across Great Britain can require JSA and ESA (work-related activity group) claimants to attend a short work placement (4 weeks/30 hours a week) or work related activity to gain skills (Mandatory Work Activity). These participants continue to claim JSA and attend Jobsearch Reviews. The placements are sourced by contracted providers in organisations and institutions that are deemed to deliver a community benefit, for example charity shops and conservation projects. Claimants referred to MWA who do not comply are referred for a benefits sanction, with the severity of sanctions increasing with repeated non-compliance<sup>12</sup>.

JSA and ESA claimants can also be required to undertake activities to address an identified skills need (Skills Conditionality). Some claimants are referred to the National Careers Service (in England) to assess skills needs and some directly to training which includes basic skills (English, numeracy, literacy, occupational skills, employability skills and English for Speakers of Other Languages).

---

<sup>11</sup> LABs bring together partners in an area to plan informal adult learning provision to meet local needs and support economic and social priorities. LABs manage the entire budget and the LABs payment model in relation to NEAs is determined by their performance based on the numbers who: start, complete the preparation stage, commence trading and complete 26 weeks of trading (see, Atkinson et al., 2013 p.88 for details).

<sup>12</sup> This component of the Coalition's employment policy has attracted considerable media attention due to its "workfare" features and a number of high profile employers have withdrawn from the scheme.

## *The Work Programme*

The aim of the Work Programme, introduced in June 2011, is to help long-term unemployed people and those considered to need the most assistance, to find and maintain paid work, reducing the time people spend claiming benefits. In comparison with the Flexible New Deal, which it replaced, there is greater involvement of private and third sector organisations on designing and delivering the interventions and a stronger emphasis on employment retention as a key goal. The design of the Work Programme which gives providers considerable freedom in terms of the choice of interventions to provide (the so-called 'black box') can be seen to represent a strong commitment to experimentation and a means of boosting private sector provision of employment services. The routes onto the Work Programme vary depending on which out-of-work benefit people qualify for and other personal characteristics such as age and whether or not they are assessed to require extra assistance in finding work. The diagram in Box 2 outlines the various routes that lead claimants to the Work Programme. Throughout their time on the Work Programme Jobcentre Plus continues to administer participants' claims and throughout a claim participants are required to attend fortnightly Jobsearch Reviews (sign-on) including demonstrating that they continue to meet the conditions set out in their Jobseeker's Agreement.

JSA claimants aged 18-24 years who are still without paid work after nine months<sup>13</sup>, twelve months for those aged 25 and over and after three months for those considered to be most disadvantaged and in need of help, are referred by Jobcentre Plus advisers to the Work Programme. ESA claimants in the work-related activity group are also referred to the Work Programme. Initially ESA claimants with a short term prognosis of 3 months at the start, widened from October 2011 to include those with a 6 month prognosis and since October 2012 the eligible group was extended to include claimants with a 12 month prognosis (the prognosis denotes the length of time by which these claimants are assessed to be capable of work). All ESA claimants can volunteer to participate.

Eighteen prime contractors hold between them 40 contracts with the DWP and manage around 700 subcontracts with a second tier of providers offering a range of services. They are largely paid according to the results that they achieve in terms of participants finding and remaining in work, although in recognition of front end costs a fixed attachment payment was initially paid but reduced in value until being eliminated from July 2014. The value of payments vary according to nine DWP defined payment groups which distinguish between those easier to help and those considered to be harder to help, with higher value payments being made for job outcomes for groups considered to be harder to help (see Box 3). They vary from £3,410 for a JSA claimant aged 18-24 (£3,300 for an ESA volunteer) to £13,120 for an ESA ex-Incapacity Benefit claimant (maximum payment, excluding attachment fee). Higher payments are made on the basis that greater savings will result from achieving job outcomes (in terms of benefit expenditure) for the harder to help groups and a recognition that providers will need to offer a higher level of support and greater value interventions to assist these individuals. Contractors can claim a job outcome payment when a participant has been in work for a cumulative period (3-6 months depending on payment group; 3 months for the harder to help groups) and sustainment payments for every four weeks a participant remains in work beyond the job outcome period for up to two years. The Work Programme contracts are time limited with the last referrals being made to contractors in March 2016 and payments possible until the final cohort completes the programme (up to four years after this date).

---

<sup>13</sup> This is longer than the six months stated in the Coalition Agreement.

**Box 3: Work Programme payment groups**

Group	Claimant description	Time of referral	Basis <sup>1</sup>	Max payment (excl. attachment fee)
1	JSA 18-24	From 9 months	M	£3,410
2	JSA 25+	From 12 months	M	£3,995
3	JSA early entrant	From 3 months	M/V	£6,200
4	JSA (ex-IB)	From 3 months	M	£6,200
5	ESA – volunteer	After WCA	V	£3,300
6	New ESA	After WCA	M	£5,900
7	ESA (ex IB)	Any time	M/V	£13,120
8	IB and IS	Any time	V	£3,825
9	JSA prison leaver	Immediately	M	£5,110

Note 1: M=Mandatory, V=Voluntary

Participants remain on the active stage of the Work Programme for a maximum of two years. If they have not found sustained employment during this time they return to Jobcentre Plus. From April 2014 all JSA claimants leaving the Work Programme without finding work have had to participate in the Help to Work scheme. This can include: taking part in community work placements, such as clearing up litter and graffiti in their local areas; attending daily signings at the Jobcentre until they find work; or for participants with multiple barriers to finding work, for example literacy or numeracy problems, intensive support is provided.

Two groups are looked at in the following section where specific provision is designed to help groups of jobseekers in need of extra help. Youth unemployment had been growing prior to the recession (McKnight, 2009) and for a number of years there has been a growing concern about a group of young people who are not in education, employment or training (so called NEETs). The Youth Contract introduced by the Coalition government, is designed to address joblessness and economic inactivity among young people. First we examine in some detail provision for young people who qualify for the Youth Contract and then we turn our attention to specific provision made available to people who qualify for disability related out of work benefits but are considered to be capable of work in a limited capacity. This is a group facing some of the greatest challenges in terms of securing and progressing in employment and much has been done in recent years to increase the amount of support available to unemployed disabled people not all of which has been particularly successful. Some of this has been in the form of evaluation of people's ability to work and the design of out of work benefits (introduction of the ESA), as well as tailor made active labour market programmes (New Deal for Disabled People), support for disabled people in work, and legislation to address discrimination in the work place (Disability Discrimination Act 1995 and the Equality Act 2010). The Coalition government has built on the existing policy platform and introduced some new elements that are outlined below.

## *Youth Contract*

The Youth Contract<sup>14</sup>, primarily targeted at 18-24 year olds, was launched in April 2012 in response to stubbornly high levels of youth unemployment and inactivity. Three elements of the Youth Contract were provided and managed by the Department for Education (DfE), the Department for Business, Innovation and Skills (BIS) and the DWP. The DfE element, aimed at engaging 16 and 17 year olds who are not in employment, education or training (NEET), was introduced in 2012 and this provision ends in March 2015. The DWP component incorporates some programmes already available through Jobcentres and the Work Programme with the aim of helping young unemployed people find and stay in work. The package includes funding for work experience (as above), Wage Incentives, additional advisor support, sector-based work academies (as above). Funding was made available for an extra 250,000 work experience placements or sector based academy places. The BIS component was Apprentice Grants for Employers available for eligible 16-24 year olds (£1,500 paid to employers over and above existing subsidies towards the cost of training). Up to 40,000 places in small and medium sized enterprises (less than 250 employees) could be funded at a total cost of £60 million.

Wage incentives were made available to employers, including to parts of the public sector. They were initially only available for Work Programme participants but since December 2012 all 18-24 year old claimants who had been claiming benefit for at least six months have been eligible (initially trialled in 20 areas from July 2012). This employment subsidy (lower for those working 16-29 hours per week - £1,137.50 rather than £2,275) was paid to employers who employ an eligible young person for 26 weeks. If the young employee leaves after 13 weeks, employers receive half of the subsidy. Work Programme providers and Jobcentre Plus staff are responsible for identifying eligible beneficiaries, recruiting employers and ensuring that jobs are eligible. The last cohort qualifying for this subsidy must have found work by 6<sup>th</sup> August 2014.

The component of the Youth Contract managed by DfE, contracted providers to design and deliver services to 16-17 year olds not in education, employment or training (NEET) or identified as being at risk of NEET with very low levels of qualifications or no qualifications at all. Providers were paid according to results achieved in terms of (re)engaging these young people in education (with one exception which concentrated on apprenticeships).

## **Specific active labour market programmes designed to assist people with disabilities**

### *Access to Work*

Access to Work (AtW) is a Jobcentre Plus grant scheme, which assists disabled people who are in or about to start paid employment or self-employment or for those participating in a Jobcentre Plus agreed

---

<sup>14</sup> The Youth Contract is also covered in Lupton (2015) Social Policy in a Cold Climate, Working Paper 14: *The Coalition's record on Further and Higher Education and Skills: Policy, Spending and Outcomes 2010-2015*.

Job/Work Trial<sup>15</sup> and for young disabled people taking up a Work Experience placement or those receiving a New Enterprise Allowance. AtW was first introduced in 1994 and has been continued under the Coalition government. There is no fixed amount and awards are related to the support required. It is available to people who have a disability or health condition that is likely to last for 12 months or more.

AtW provides both practical advice and support to disabled people and their employers, to help overcome barriers to work resulting from disability. Funding in the form of a grant is available to pay for identified additional disability related support (additional costs) required to assist the person to do their job over and above those costs associated with reasonable adjustments which the employer is legally required to make. This could help fund aids, adaptations, and additional costs of travel as well as a support worker.

### *Work Choice*

Work Choice is a programme of support available to disabled people whose needs are not met through the Work Programme, Access to Work or workplace adjustments. It replaced WORKSTEP, Work Preparation and the Job Introduction Scheme in October 2010. The Work Choice programme is delivered by providers who work with eligible participants through three different stages. The initial stage which can last for up to six months offers participants assistance with personal skills and work-related advice to help them move into supported or unsupported employment (a job that is independent of a Work Choice provider). The second stage, lasting up to two years, is available for those participants who have found paid employment (or self-employment) supported by Work Choice (16+ hours a week). The provider works with the employer and participant to identify and provide support required to start and continue working. The final stage, which has no time limit, provides participants with help to progress in their job and where appropriate, help them move into unsupported work. As with the Work Programme, prime providers can sub-contract with specialist second-tier providers to deliver the programme. Remploy, owned by the DWP, is also delivering Work Choice.

Disability Employment Advisors (DEAs) are responsible for referring eligible disabled people to the programme. Work Choice providers, including Remploy, can refer people to DEAs to be considered for the programme. Jobcentre Plus advisers can also refer JSA and ESA suitable claimants for DEA assistance and to be considered for Work Choice. Individuals can also self-refer.

Providers receive an initial payment for each individual who starts Work Choice, a further payment if that individual obtains a job outcome, and a final payment if that job outcome is sustained – unsupported for at least 6 months. They are expected to provide certain elements of the normal AtW provision and participants moving into unsupported work can apply for AtW.

### *Other areas of employment policy*

In other areas of employment policy, the government initiated a review of employment law – the Employment Law Review which is being led by BIS – continuing throughout the Coalition government's term in office. There isn't scope in this paper to cover this review in detail which has resulted in

---

<sup>15</sup> Under an agreement reached with Jobcentre Plus, employers are able to offer a jobseeker a work trial for 30 days prior to offering them a job. During this time the jobseeker continues to claim JSA/ESA and agrees to the work trial on a voluntary basis. There are no sanctions for non-completion the Work Trial and there is no compulsion for the jobseeker to accept any job offered at the end of the trial.

important changes such as the removal of the default retirement age, the introduction of the right to request flexible working and changes to rules around unfair dismissal and large-scale redundancies. Details can be found in the Employment Law Review annual updates published by BIS<sup>16</sup>. In March 2011 the Hutton Review of Fair Pay in the public sector was published (Hutton, 2011). Among other things the review examined the case for introducing the '20 times' multiple in the public sector – the proposal that no public sector worker should earn over 20 times more than the lowest paid person in their organisation. Despite the fact that the Coalition agreement stated that the review would look at how to *implement* the '20 times' multiple, the Hutton Review concluded that such a cap would not be helpful and deemed it to be inoperable across a diverse public sector workforce. Hutton instead recommended that every public body should annually publish the multiple of top to median pay. The local government transparency code (DCLG, 2014) requires local government to publish pay multiples on their website, defined as the ratio between the highest paid taxable earnings for the given year and the median figure of the whole of the authorities workforce.

From 30 June 2014 the legal right to request flexible working was extended to all workers who have been with their current employer for a minimum of 26 weeks.

Agency Worker Regulations 2010, which built on the 2008 Temporary and Agency Workers (Equal Treatment) Bill, gives temporary agency workers a number of rights from the first day of any assignment. These are the right to full access to staff facilities (such as canteen, childcare facilities, etc) and access to information on employer's internally advertised job vacancies. After 12 weeks in the same job, agency workers have a right to equal treatment in relation to entitlements to pay and other basic working conditions (annual leave, rest breaks etc) and pregnant agency workers are allowed to take paid time off for ante-natal appointments during an assignment.

The Equality Act 2010 replaced the Equal Pay Act 1970, Sex Discrimination Act 1975, Race Relations Act 1976, Disability Discrimination Act 1995, Employment Equality (Religion or Belief) Regulations 2003, Employment Equality (Sexual Orientation) Regulations 2003[5] and the Employment Equality (Age) Regulations 2006. It requires equal treatment in access to employment as well as private and public services. Employers are required to make reasonable adjustments to their workplaces to overcome barriers experienced by disabled people.

Since April 2013 all employment law except discrimination law has been taken out of the scope of Legal Aid. In 2013 individuals deciding to take a claim to an Employment Tribunal have had to pay issue fees and hearing fees which vary for different types of claims. For example, claims for breach of contract, covering redundancy and unauthorised deductions, cost claimants £390 in fees, and discrimination, unfair dismissal, breach of part-time workers regulation attract fees of £1,500<sup>17</sup>. Since April 2014 most claimants have been required to attempt to settle their dispute through ACAS (Advisory, Conciliation and Arbitration Service) before applying to an employment tribunal.

In the 2014 Budget the Coalition Government announced proposals to tackle the activities of employment intermediaries avoiding tax, either by being based offshore, or, of particular relevance to the construction industry, by disguising employment as self-employment. There is no statutory definition of

<sup>16</sup> <http://bis.ecgroup.net/Publications/EmploymentMatters.aspx>

<sup>17</sup> There exists a remission scheme which reduces or removes the fee entirely for some people who are receiving certain benefits or whose income is below a given level.

employment/self-employment status and where classification is challenged it is settled by judicial decisions based on a number of criteria in relation to workers' autonomy and payment for labour services. An assessment of the scale of false definition of self-employment status for the purposes of avoiding tax and national insurance liabilities was undertaken by the Labour Government in 2009. This revealed a continuing problem in the construction sector in particular with employers and intermediaries using false self-employment status for financial gain. Workers lose out in terms of sick pay, holiday pay and redundancy pay and can find that they face a large unexpected income tax bill. While no policies designed to clamp down on such practices were agreed under the Labour Government, the Coalition Government commissioned a further consultation in 2013 to look specifically at the use of intermediaries to facilitate false self-employment in the construction sector and elsewhere (especially driving, catering and security). Changes designed to clamp down on the practice were introduced in the Finance Bill 2014.

### Summary

The Coalition government has redesigned welfare to work programmes available through Jobcentre Plus and contracted providers. These providers have been given more freedom in terms of designing the interventions they offer to help job seekers find and remain in work, but these changes can be seen largely as an evolution rather than a revolution. The Work Programme has its roots very firmly in the recommendations made by the Freud Review, commissioned by the Labour government in 2007, which were picked up in the 2008 White Paper and to a large part incorporated in the design of the Flexible New Deal. This continuity can be seen by the appointment of Lord Freud as Minister for Welfare Reform by the Coalition government in 2010. The emphasis on longer term provision and a payment and incentive structure that provides greater rewards for achieving employment retention and helping the most disadvantaged are welcome developments. Some of the changes have not been well received – such as the attempt to make work experience placements mandatory. The process set up to assess and re-assess eligibility for out of work benefits on the basis of limited capability to work has attracted widespread criticisms due to the quality and reliability of assessments, delays and unnecessary stress and anxiety inflicted on claimants. It is clear that the Government over estimated the share of existing IB claimants who are capable of work in a limited capacity.

## 5. Spending

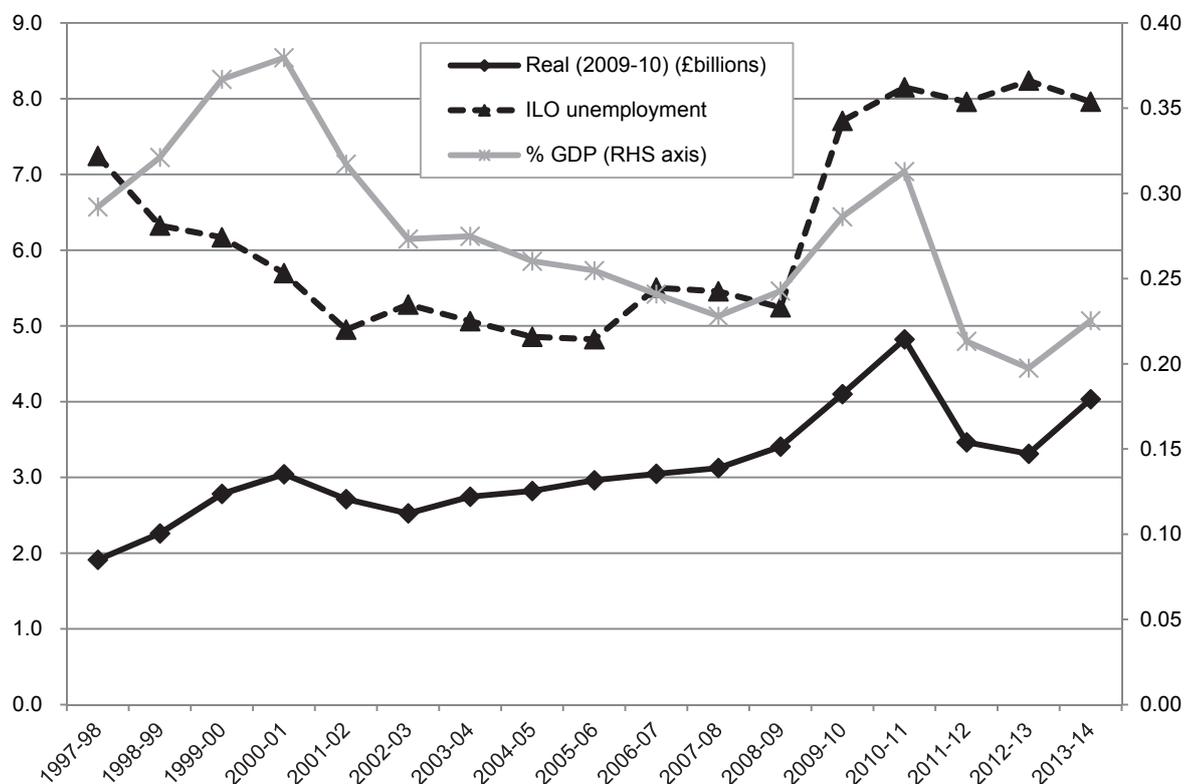
Unlike some of the other policy areas covered in this project, changes over time in expenditure on employment policy either in real terms or as a percentage of GDP cannot be interpreted simply as increases or decreases in provision; at least on a per recipient basis. The reason for this is that spending on employment policy tends to increase when unemployment increases and decline when unemployment declines as most expenditure on employment policy is allocated to active labour market policies. This makes meaningful interpretation of expenditure figures in this policy area more challenging at times because falling expenditure can be due to falling need (unemployment) rather than falling provision for those in need.

Total spending on employment policy reported in the Public Expenditure Statistical Analyses (PESA) data<sup>18</sup> is shown in Figure 1 both in real terms and expressed as a % of GDP. These series show how spending on the New Deal programme boosted expenditure on employment policy in the first three years of the Labour government 1997/98-2001/02 which was initially funded by a one-off £5 billion windfall tax on privatised utility companies. As employment continued to rise and unemployment fell throughout much of Labour's time in government, expenditure on employment policy as a share of GDP fell back to 0.23% in 2007/08. The economic recession led to an increase in expenditure from 2008/09 as unemployment increased reaching a peak of £4.8 billion in 2010/11. The increase in unemployment led to an increase in the share of GDP being spent on employment policy to 0.29% in 2009/10 and 0.31% in 2010/11. Expenditure fell sharply in 2011/12 to £3.3 billion before increasing in 2013/14 to £3.7 billion (0.2% GDP). The fall between 2010/11 and 2011/12 (£1.3 billion, 27%) is associated with the shift to a deferred payment scheme under the Work Programme whereby contracted providers are paid largely on the basis of outcomes, some of which is reflected in the increase in 2013/14. Assuming that the Work Programme delivers expected results, expenditure on employment policy over the next few years will increase.

---

<sup>18</sup> Definition of how expenditure on employment policy is classified in the PESA data according to the UN's Classification of the Functions of Government can be found in Annex 1.

**Figure 1: Spending on employment policy 1997/98 to 2013/14 (real terms 2009/10 price levels (£billions) and % GDP) – unemployment rates (ILO measure)**



Source: Public Expenditure Statistical Analyses (PESA) (2014 and 2011), Tables 4.3 and 4.4; Unemployment Data Table UNEM01, ONS (June, 2014).

Notes: (1) Real terms figures are the nominal figures adjusted to 2009-10 price levels using GDP deflators from the Office for National Statistics (released 9 December 2013). (2) Expenditure 1997/98 cash basis, from 1998/99 onwards accruals basis. (3) ILO unemployment rates UK (16-64 years) from Mar-May quarter LFS (seasonally adjusted) (Table UNEM01, ONS). (4) On advice from HMT the figure for 2007/08 is taken from PESA 2011 series all other figures are from PESA 2014. Figures are likely to be revised in future releases.

## 6. Inputs and outputs

Unlike for some of the other areas covered in this project there is not an official readily available set of statistics on inputs and outputs for employment policy. The Atkinson Review into the measurement of government output and productivity (Atkinson, 2005) advocated the use of direct output indicators rather than the previous convention of measuring the real monetary value of inputs. Ideally the indicators should measure the incremental impact of the services on client outcomes.

For the range of active labour market programmes covered in this paper we would ideally like to have measures of the number of people receiving employment services, the various inputs required to deliver these services such as the time spent by various advisers, support workers, mentors, trainers, etc., and the impact of incremental increases in employment directly resulting from the services provided (this could be measured in a variety of ways such as estimating the impact in terms of savings due to reduced benefit expenditure (current and future) and wider benefits such as health). Many employment services are now contracted out to the private sector (Work Programme) and detailed information on inputs is not available. The DWP published a set of productivity estimates in March 2014 (DWP, 2014a) and although these mainly cover the department as a whole there is some information on inputs and outputs for employment programmes that we will draw on here.

DWP estimates input volume indirectly by deflating expenditure rather than directly measuring inputs. Following the recommendations of the Atkinson Review, only Departmental Expenditure Limit (DEL) spending is included within the inputs for the calculation of productivity (administrative costs and most programme expenditure but benefit expenditure is excluded). DEL spending includes: pay and pensions costs of staff employed; current expenditure on goods and services; and 'consumption' in respect of capital assets (depreciation). It is not clear how the Work Programme funding DEL/AME switch will affect these estimates because instead of funding the programme directly via departmental expenditure (as was the case with past welfare to work programmes), the Work Programme is funded from the money saved from future benefit spending as people find work (the DEL/AME switch). Therefore the funding comes from Annual Managed Expenditure (AME) which is used to pay welfare benefits, instead of the Departmental Expenditure Limit (DEL).

Unfortunately input figures are not published separately for employment programmes although DWP report that the large fall in inputs observed in 2011/12 (27% decrease) was largely driven by a switch to payment by results in many of the employment programmes and therefore this input (expenditure) is effectively being deferred to a later date.

DWP output estimates are available separately for employment programmes. The recession resulted in increasing demand for DWP output as the number of people out of work and claiming JSA increased. The switch to payment by results in many employment programmes 2011/12 also had an impact on DWP output as within the estimates of output the contracts to external providers are treated on an output=inputs basis. This is shown in Table 1 as a fall in the expenditure share on employment programmes from 23.4% in 2010/11 to 14.8% in 2011/12.

Output indices by group are also published by DWP (DWP, 2014a); the output indices are set to 100 in 2007/08 and changes are quantified relative to output in that year. The figures show a steady growth in

output for ‘Operations – labour market’ (delivery of Jobcentre Plus services such as Jobsearch Reviews and interventions delivered by Jobcentre advisers), increasing from 189.6 in 2010/11, 196.1 in 2011/12 and 201.6 in 2012/13. In contrast output measures for ‘Employment programmes’ fell from 235.6 in 2010/11 to 114.3 2011/12 and then to 96.4 in 2012/13, again reflecting deferred payments by switching to the payment by results system to contracted providers.

**Table 1: Expenditure shares by output group, 2007/08 to 2012/13**

	Percentages					
	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Operations – labour market	22.8	25.6	24.5	26.1	26.2	27.2
Employment programmes	11.0	14.2	17.7	23.4	14.8	13.4

Source: Department for Work and Pensions productivity estimates 2012/13 (Table 1; DWP, 2014a)

There is some detailed information on costs of inputs, the volume of people using the services and an estimate of transaction costs for those provided by the DWP but time series are not readily available.

Here we don’t consider costs associated with setting up initial out-of-work benefit claims or the costs in terms of maintaining those claims but show the costs associated with providing direct employment advice services to these claimants. DWP publish information on Jobsearch adviser interventions and Jobsearch Reviews. Without comparable time series it is not possible to assess whether or not productivity has improved or costs have fallen but if this series is continued it should be possible to conduct this type of assessment in the future.

**Table 2: Published inputs and associated costs for DWP provided employment advice services (2012/13)**

	Transactions per year	Total costs	Costs per transactions
Job search adviser interventions	24.7m	£1.26bn	£51.00
Job search reviews	32.4m	£227m	£7.00

Notes on costs: (1) *Job search adviser interventions* - Advisers provide support not just to clients on JSA, but also those in receipt of other benefits like ESA and Income Support. (2) *Job search reviews* - This process is designed to make sure claimants have been looking for work by reviewing their job search activity. The costs exclude any action arising during the review that relates to benefit, like taking signatures or a change in circumstances; these are covered under 'JSA: claims maintained'.

The costs are for the financial year 2012 to 2013. They are aggregated and averaged to give a cost per intervention and this is presented on a fully absorbed basis but excluding investment (change) costs.

Source: <https://www.gov.uk/performance/transactions-explorer/department/dwp/by-transactions-per-year/descending>

Information on outputs is available on the number of people referred to or participating in the range of pre-Work Programme interventions. While official statistics are provided on the outputs for most of the programmes, the period to which they refer varies making it difficult to provide a coherent assessment of outputs across all government funded active labour market programmes. These volumes can be found in Annex 2. Here we focus on the more complete set of statistics available for the Work Programme.

The number of referrals to the Work Programme was high in its first year due to the stock of claimants previously engaged in the Flexible New Deal being referred in large volumes to the Work Programme in June and July 2011 (Table 3), creating challenges for the new Work Programme Providers. Referral volumes have fallen over time as they became aligned with the flows of claimants reaching the qualifying point in their claim. This point varies for different types of claimants (type of benefit, different age groups for JSA claimants, if they are identified as requiring early intervention). Individuals can only be referred to the Work Programme once. These factors along with falling unemployment rates have resulted in falling referrals over time. As the Work Programme is time limited (last cohort of referrals will be made in March 2016) providers have had to manage the bulge of referrals at the start of the programme and during the first two years of their contract for provision and then a fairly long tail as the final cohorts progress through the programme.

**Table 3: Referrals to the Work Programme and attachments**

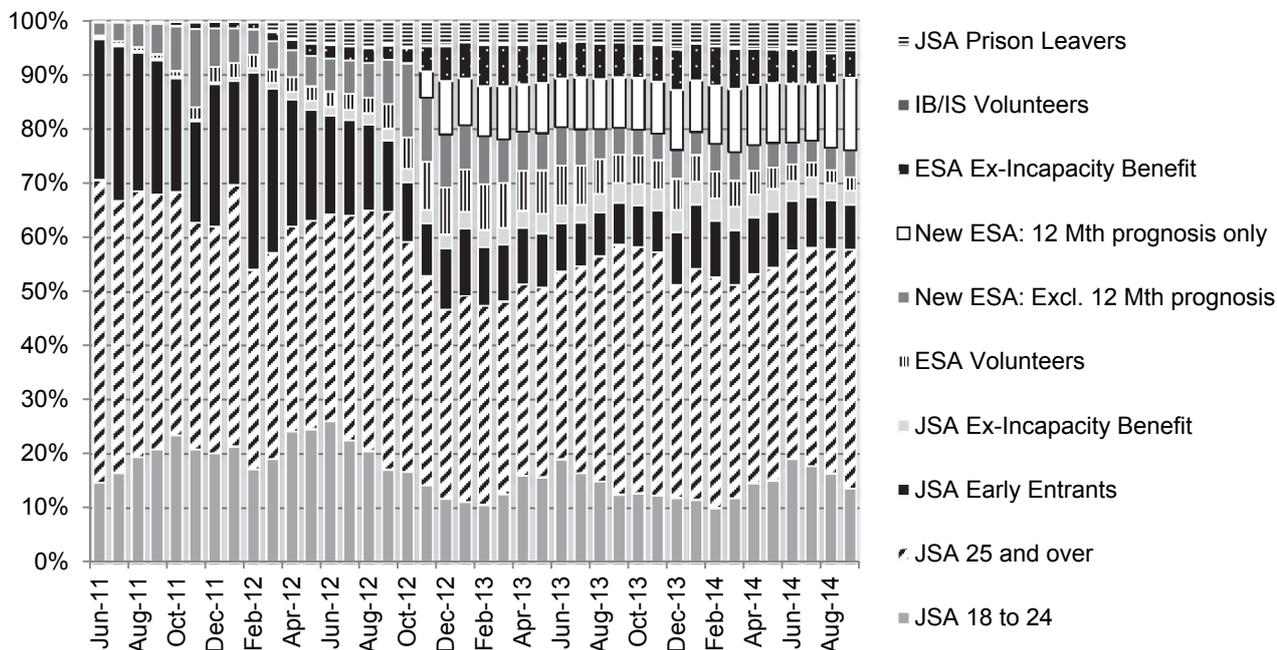
		Thousands	
		Referrals	Attachments
Year 1 total	June 2011-March 2012	687.16	644.17
Year 2 total	April 2012-March 2013	512.27	515.42
Year 3 total	April 2013-March 2014	348.61	354.46
Year 4 (part)	March 2014-Sept 2014	107.12	107.24
<b>Total</b>		<b>1,655.16</b>	<b>1,621.82</b>

Source: DWP Work Programme Official Statistics (December 2014)

Notes: Attachment occurs when providers contact the claimant. Difference between referrals and attachments in any given period can occur due to time lags. Providers are required to contact and engage individuals in attachment activity within 15 working days of a referral.

As noted earlier there have been changes to the composition of referrals, including the extension to ESA claimants with a 12 month prognosis (assessed to be work ready in 12 months) while initially only those with a 3 month prognosis were referred. There was a much greater share of JSA claimants in the early cohorts compared to later cohorts (Figure 2). More recent cohorts have higher shares of ‘harder to help’ claimants who attract higher payments for the providers both in terms of attachment fees, during the period that they were payable, and job outcome and sustainment payments but the share of these groups expected to find work is considerably lower.

**Figure 2: Composition of monthly Work Programme referrals by month of attachment and payment group**



Source: DWP Work Programme Statistics to September 2014: author tabulation using DWP tabulation tool.

## Summary

It is difficult to make a meaningful assessment of inputs and outputs for employment policy as the statistics are not readily available. In addition, inputs and outputs are affected by changes in ‘demand’ for employment services – when unemployment increases so too does employment policy provision. Changes in payment models, such as the switch to a deferred method of payment for providers of the Work Programme, mean that a longer span of data is required to assess changes in outputs relative to changes in inputs and therefore how this impacts on productivity.

## 7. Outcomes Part I

In this section we examine employment policy outcomes by looking at the numbers of people or share of participants in active labour market programmes who went on to find/sustain work. We draw on evaluation evidence where this information is available to report estimates of how much can be attributed to the interventions. We also look at broader measures such as flows off out-of-work benefits.

### *The Work Programme*

We begin with the Work Programme. Figure 3 shows the share of Work Programme participants who had spent at least three/six cumulative months in work by the end of the first year on the programme for all claimants starting in a given month and separately for four of the nine “payment groups”. The chart is intentionally drawn on 100% y-axis scale to demonstrate the small proportion of participants who achieve a job outcome over this period. Less than 10% of each cohort entering the programme in its first seven months had achieved a defined job outcome; well below minimum expected levels. Minimum expected levels, set by DWP, vary for different payment groups and some have been revised down over time. The composition of monthly intakes therefore affects DWP’s estimates of minimum expected levels for different cohorts and according to official statistics the Work Programme is achieving slightly above minimum expected levels for more recent cohorts. DWP state that minimum expected levels are based on expected movement into employment in the absence of the Work Programme (DWP, 2014b). In guidance to Work Programme providers, DWP bases minimum performance levels for four payment groups (JSA 18-24, JSA 25+, ESA 3/6 month prognosis, ESA 12 month prognosis) on an estimate of the proportion of claimants who would have achieved a job outcome in the absence of any intervention (based on an analysis of historical data), plus 10%<sup>19</sup>. It is not clear from the documentation if this is the same procedure used for calculating minimum expected levels in DWP Work Programme Official Statistics which simply states that “*Minimum expected level is based on expected movement into work without the programme*” (DWP 2014b), which might or might not include the “plus 10%”. However, the expectation was that providers would significantly exceed minimum levels.

In the latest set of Quarterly Work Programme National Statistics to September 2014 (DWP, 2014b) the Department states that its minimum expectation is that a little over 1 in 9 of all participants will have achieved a job outcome at the 12 month point. Following a slow start, no doubt hindered by the speed at which the programme was introduced and the large stock of claimants referred to providers transferring from the Flexible New Deal in the first couple of months, the share of claimants achieving a job outcome has improved<sup>20</sup> but minimum expected levels are considerably below the level of performance the Government initially expected the programme to achieve. While the share of participants achieving a job outcome at this point have improved over time, outcomes for the highest performing group (JSA claimants aged 18-24) have plateaued since April 2013 (21-22%).

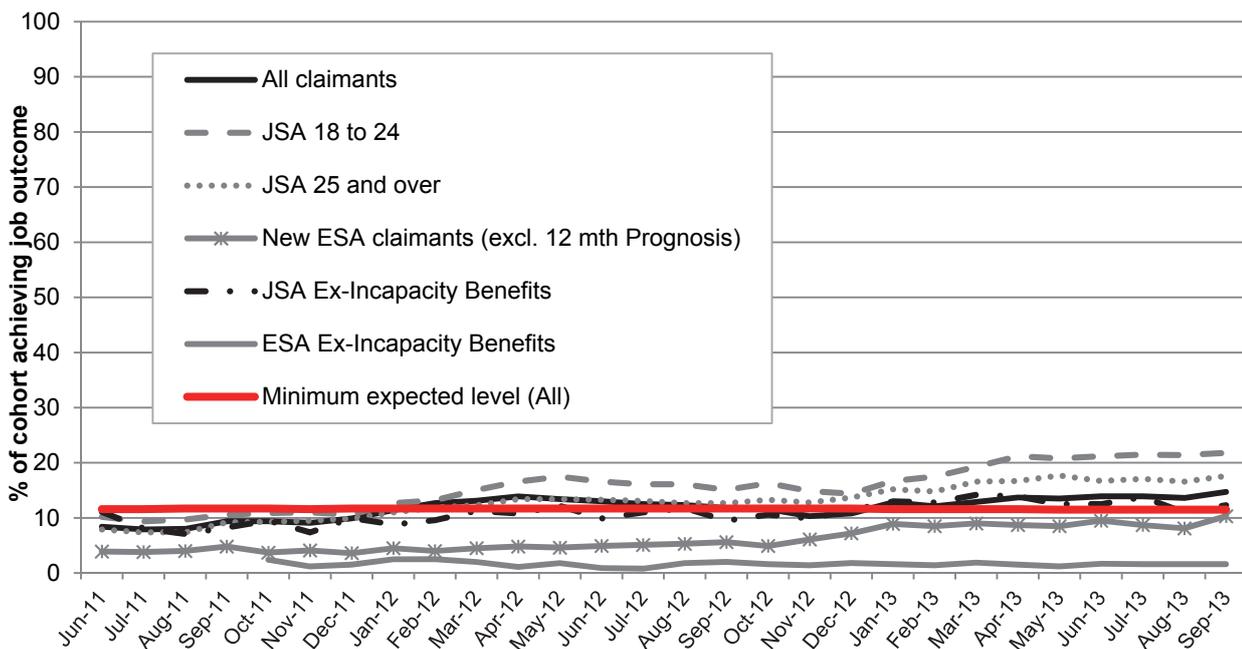
The separate groups identified in Figure 3 shows the higher rates of job outcomes achieved for JSA claimants than for ESA claimants, despite the fact that members of this group are only required to work

<sup>19</sup> *Work Programme: DWP provider guidance*; First published 1 December 2010, last updated 13th January 2015.

<sup>20</sup> DWP attribute the dip in performance in Nov/Dec 2012 to the large bulge of participants stretching the capacity of providers (DWP, 2014b), although it is not clear why this appears to have particularly impacted on JSA claimants aged 18-24.

for at least three months in total to meet this measure of performance, and payment incentives to providers delivering the programme are higher. ESA claimants who had previously been claiming Incapacity Benefit have very low rates and a recent National Audit Office evaluation (NAO, 2014) raised concerns that providers are “parking” some of the hardest to help participants due to low expected outcomes while focusing resources on easier to help individuals (“creaming”). The first component of DWP’s official evaluation of the Work Programme (Newton et al., 2012), while stating that it was too early to draw firm conclusions on the issue of “parking” did record evidence that some providers were engaging in this practice. The second DWP commissioned evaluation report (Lane et al., 2013) found that the differential pricing model was not sufficiently encouraging providers to support the most disadvantaged customers. Providers acknowledged that they were spending considerably less (an estimated 54% less) on this harder to help group than they initially intended (NAO, 2014) and less than they spend on JSA claimants. This could be seen as evidence that the financial incentives are considered to be too low for providers to spend resources on this group. For example, only 6.6% of new ESA claimants with a 12 month prognosis (assessed to be work ready in 12 months at the point that they are referred) who complete the Work Programme are expected to achieve a job outcome (Work Programme: DWP provider guidance) and therefore providers could well consider that the expected return on investments for this group is simply not high enough. More recent cohorts of new ESA claimants with a short prognosis in terms of the time in which they are expected to be work-ready (3 months or 6 months prognosis) are achieving higher levels of job outcomes after a year and DWP expects this to be sustained. The most recent cohort for which outcome information is available started the Work Programme in September 2013 and after a year 10.3% had achieved a job outcome, up from 5.6% for those who started the Work Programme a year earlier. This is above the minimum expected level of 7.2% for this group. However, the gap between JSA claimants and new ESA claimants (excl. 12 month prognosis group) has widened since the start of the programme.

**Figure 3: The share of each monthly intake into the Work Programme with at least three/six months in work after a year – All claimants and for four of the nine payment groups**



Source: DWP Work Programme Official Statistics to September 2014.

If we look at outcomes after 2 years when participants have completed the active stage of the Work Programme (Table 4) we can see that many more participants go on to achieve job outcomes. These rates have also improved for later cohorts but for early cohorts were well below minimum expected levels. The recent NAO evaluation concluded that up to March 2014 the Work Programme, after a poor start, helped JSA claimants get into work and stay in work at about the same rate as previous welfare-to-work schemes but this was well below the Department’s and contractor’s initial expectations when the programme was designed and when contractor’s submitted their bids (NAO, 2014). This should be evaluated in the context that the Coalition government introduced the Work Programme because it believed that existing welfare to work schemes performed poorly (described as “failing” in the Conservative Manifesto) and therefore the Work Programme needs to deliver results that are much better than *minimum* expected levels for it to be deemed a success against its objective.

**Table 4: Share of monthly intake into the Work Programme with at least three/six cumulative months in work after 2 years on the programme, and DWP’s minimum expected levels**

	Actual	Min. expected
June 2011	22.3	26.2
July 2011	21.4	26.2
August 2011	21.6	26.2
September 2011	22.2	26.3
October 2011	22.4	26.3
November 2011	21.6	26.2
December 2011	22.7	26.1
January 2012	25.1	26.2
February 2012	27.0	26.1
March 2012	27.5	26.1
April 2012	28.7	26.1
May 2012	28.2	26.2
June 2012	28.6	26.2
July 2012	27.9	26.2
August 2012	28.2	26.2
September 2012	27.9	26.2

Source: DWP Work Programme Official Statistics to September 2014.

DWP accepts that initial performance expectations were set too high for some groups of ‘harder to help’ participants, overestimating the likely impact of the programme, and minimum expected performance levels have been reduced. The NAO evaluation found that up to March 2014 the Work Programme had not improved job outcomes for ESA claimants despite the fact that a key objective was to narrow the gap in job outcomes between easier and harder to help groups. ESA claimants who have completed the programme achieved job outcomes comparable with previous programmes (11%; compared to 12% under Pathways to Work) but considerably below initial expectations (22%) (NAO, 2014). At the time of the NAO evaluation DWP forecast that performance would rise to 14% by the end of the programme.

The Work Programme was introduced not just to increase job outcomes but to increase the length of time participants spend in work and off benefits. Providers are paid for achieving job outcomes but also claim Sustainment payments for each period of four weeks that participants are continuously employed beyond the job outcome period. A maximum of 20 Sustainment payments can be claimed (13 for JSA claimants). This payment structure is designed to create an incentive for providers to find good job matches and provide in-work support to participants. Official DWP statistics show that 954,040 participants had completed the active stage of the Work Programme by the end of September 2014. Of these participants:

- 130,260 (13.7%) had entered employment and achieved the maximum number of sustainment payments.
  - 90,220 (9.5%) had entered work and payments were still being made to the provider.
  - 647,660 (67.9%) had returned to Jobcentre Plus; of whom 12.5% had managed to achieve a job outcome payment at some point during their period of participating in the programme.
- (DWP, 2014b)

In total 63.7% of participants who achieved a job outcome went on to achieve the maximum number of sustainment payments out of those who were in a position to achieve this maximum (DWP 2014b). With 28% of recent cohorts achieving a job outcome this means that we could expect that around 18% of participants will go on to find long term sustainable employment. If we assume that the sustainment rate can be applied across different payment groups (this is unlikely) and use these figures along with DWP's minimum expected outcomes for different payment groups and the maximum payments shown in Box 3 (above) we estimate that providers would have on average £719 to spend on an Employment and Support Allowance (ex Incapacity Benefit) participant and an average of £685 on a Jobseeker's Allowance participant over the two years of the programme and during continuing support while in work. These figures would be a little higher because some of the remaining 10% will achieve some sustainment payments. However, once a reasonable degree of profit is factored in it is clear that providers have very limited funds available to assist participants back into work and it is hard to see how this would be sufficient to provide the level of assistance required particularly for those with the greatest need for assistance. It is perhaps not surprising that providers are looking to cross subsidise between groups and to engage in "parking" and "creaming".

It is not easy to draw any firm conclusion from the official published Work Programme statistics on employment sustainment without a quantitative evaluation. The NAO evaluation concludes that the Work Programme appears to be as effective as previous programmes in keeping people in work for a sustained period but outperforms previous programmes for JSA claimants aged 18-24.

The Government has been criticised for flaws in the design of measures of Providers' performance used to establish incentive payments to reward high performance (NAO, 2014). It is estimated that in 2014-15 £13 million will be paid out in incentive payments; a more accurate measure of high performance would have resulted in a payment of £6 million. Even the worst performing providers qualify for a high performance incentive payment due to flaws in the measure. DWP estimate that its total potential exposure up to the end of the programme is almost £61 million instead of £17 million that would be due if a more accurate measure had been defined, representing financial waste of £44 million. However, the Work Programme design has meant that there is lower financial risk for government due to the payment-by-results model. The lower than expected performance has reduced the cost of the programme due to

fewer outcome and sustainment payments, lowering contractors' profits relative to what they expected. Cost per outcome (based on attachment, job outcome and sustainment payments but excluding high performance incentive payments) between June 2011 and March 2014 is in line with what the Department expected at the start of the programme. The DWP releases some financial information on the Work Programme but states that: "*It is not yet possible to assess the value for money of the Work Programme as it has been designed as a 5 year programme. A full evaluation of the programme will be completed, including value for money, with the analysis expected to be completed by the end of 2014.*" (DWP, 2013a); but not published at the time of writing this paper. In the interim, the NAO report that based on DWP's own modelling the total costs of the Work Programme (June 2011 to March 2020) will be around 2% less than for previous schemes delivering roughly similar levels of performance (NAO, 2014).

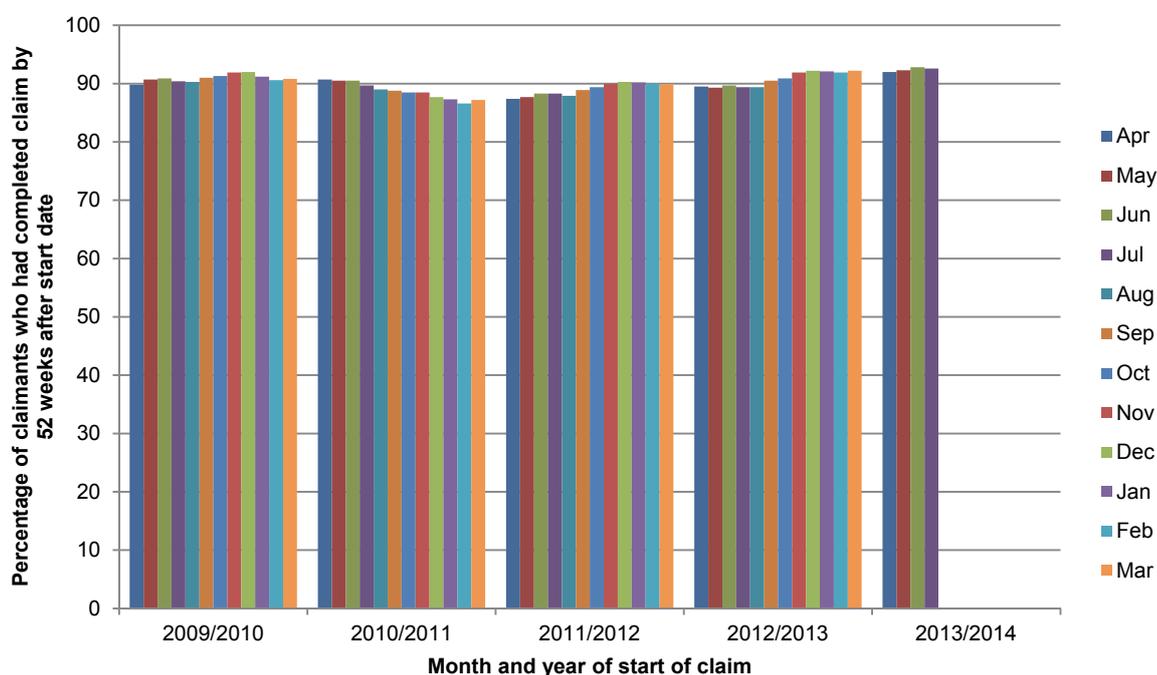
### *Rates of moving off JSA and ESA*

Taking a broader look at JSA and ESA we reproduce some of the statistics that DWP publish as part of their transparency measures (DWP 2014c), to assess DWP performance. We look at rates of people moving off benefits, JSA and ESA; computed as the share of a cohort of people starting a claim for benefit in the same month who had stopped receiving the benefit so many weeks later<sup>21</sup>. For JSA the cut-off is 52 weeks, for ESA the cut-off is 65 weeks (16 months). The vast majority of JSA claimants (around 90 per cent) were no longer receiving JSA a year after starting their claim (Figure 4). This compares with 94% of JSA claimants who started a claim for JSA before the crisis in April 2007 (Hills, 2014). The share falls for claims starting between August 2010 and September 2011; 86.6 per cent of JSA claimants starting their claim in February 2011 had left JSA by February 2012. As we shall see in the next section their claims span part of the period of the downturn when unemployment was at its peak. A higher share of claimants had left JSA by 12 months after the claim start date for those starting their claim after September 2012. How much of this increase is due to the upturn in the economy and how much can be attributable to welfare to work programmes is difficult to judge. Some of these claimants will have entered the Work Programme before reaching 52 weeks either if they were aged 18-24 years (after 9 months) or considered to be 'harder to help' (at any point). Anyone remaining on JSA after 12 months will have been referred to the Work Programme after June 2011 (for the cohorts in this figure that means all of those starting a claim in June 2010 who had not left JSA within 52 weeks). The 'dip' does also span the first year of the Work Programme and is consistent with the evidence shown above of reduced performance of welfare to work provision for JSA 18-24 year olds over this period.

---

<sup>21</sup> DWP presents the series in a slightly different way showing the end month rather than the start month.

Figure 4: Share of JSA claimants who had left JSA by 52 weeks from month of claim start



Source: DWP 2014c <https://www.gov.uk/government/publications/dwp-business-plan-transparency-measures/dwp-business-plan-transparency-measures>

A different picture emerges for ESA claimants, for whom outcomes are measured after 65 weeks (16 months) (DWP, 2014c). Even with an additional 13 weeks a much lower share of ESA claimants had left ESA within the allotted time period; around 73 per cent for cohorts starting their claim for ESA between September 2009 and April 2011. There is a substantial fall with only around 50 per cent of ESA claimants leaving ESA for those who started their claim for ESA from around August 2011 onwards (43% for the most recent cohort for which outcome information is available who started their claim for ESA in March 2013). This would suggest that government policy had become less effective at helping ESA claimants but the difficulty with using these statistics to assess performance of government policy is that there have been changes over time in the composition of claimants flowing onto ESA. ESA was introduced in October 2008 for all new claims for out-of-work benefit made by disabled people and from April 2011 a rolling programme began under which existing Incapacity Benefit claimants are being reassessed using a Work Capability Assessment (WCA). The outcome of a WCA assessment leads to IB claimants being moved either onto JSA or ESA for those assessed to have a limited capability to work. There has been much controversy around WCAs and criticism from claimants, the media, the British Medical Association and the Public Accounts Committee (as described in Section 4 above).

Due to the reassessment of existing IB claims some of the group classified as new ESA claimants will have been claiming disability related out-of-work benefit for some time. This means that the composition of later cohorts is likely to be very different from that of earlier cohorts of ESA entrants in terms of severity of disability and prospects of finding work. The fact that ESA claimants include both those in the work-activity group (limited capability to work) and those in the support group also affects the ability to use these statistics to assess government performance. It does not appear to be a transparent statistics

and should at the very least be published alongside outcomes for entry cohorts making a fresh claim for benefit and excluding those transferring from another benefit.

### *New Enterprise Allowance*

By the end of September 2014 60,480 out of the 115,750 people who have received mentoring through the New Enterprise Allowance programme commenced trading and started receiving a weekly allowance (Annex 1, table A3). DWP has published an analysis of the benefit status of the first cohort of people starting NEA between April and December 2011 (3,200 JSA claimants aged 18 and over who had been claiming JSA for 26 weeks) (DWP, 2013b). Their analysis of administrative data which tracked individual's benefit status for 52 weeks following the start of receiving an allowance (ie commencing trading) found that 78% of this cohort remained continuously off benefit for 52 weeks<sup>22</sup>. Due to lack of more detailed information it is not possible to say if these people remained self-employed over this period as they could be off benefit for a variety of reasons including finding work as an employee and therefore this should be considered an upper limit estimate (in week 52 15% of the cohort were claiming an out-of-work benefit). It is also not possible to interpret this figure as a true assessment of the effectiveness of NEA as there will be a large degree of self-selection into the programme and no counterfactual estimates are available.

A qualitative evaluation of NEA reported positive overall views of the programme among providers (LAB staff), Jobcentre Plus representatives and mentors but more varied views, although 'often' favourable, reported by participants. The evaluation found that the most common type of enterprise being supported by NEA was a 'sole trader' set up to provide services such as gardening, hairdressing, or building. Participants were generally seeking to sustain themselves and their families rather than seeking to expand or grow a business; some notable exceptions of businesses that had grown significantly were also found (Atkinson et al., 2013).

### *Mandatory Work Activity and Skills Conditionality*

An early impact analysis of Mandatory Work Activity (MWA) by the DWP, covering the first cohort of referrals between May 2011 and July 2011, estimated that MWA reduced the likelihood of claiming out-of-work benefit in the following 3 months by up to 5 percentage points (77% among referrals compared to 82% for non-referrals) but by 21 weeks there was no difference between the referral group and the non-referral group (74%); suggesting that a higher rate of MWA participants subsequently returned to out-of-work benefits. Although DWP stress that the impacts are likely to be underestimates due to issues in relation to selection (which could not be sufficiently controlled for in the methodology employed – propensity score matching) (DWP, 2012a). No quantitative evaluation is available for later cohorts to assess whether MWA has become effective.

An evaluation of the Skills Conditionality pilot found no evidence of an impact on training, sanctions and early labour market outcomes for individuals who were identified through basic skills screening as having a potential skills need (Dorsett et al., 2011). However, the authors stress that there were serious

---

<sup>22</sup> DWP estimates that 35% of all individuals who had been claiming JSA for six months or more and finished a claim for JSA in the same period were continuously off benefit for the following 52 weeks, and 43% were claiming an out-of-work benefit in week 52. There are no details on whether this cohort was aged 25 or over.

implementation issues with the pilot which meant that the findings may not be a reliable indication of the success of Skills Conditionality implemented as intended.

### *Youth Contract*

The three main interventions available to support young people into work under the Youth Contract include the Work Experience scheme, a Wage Subsidy scheme and an Apprenticeship incentive scheme. In addition, the DfE funded a component designed to re-engage young people aged 16/17 who were either not in education, employment or training or at high risk of entering this state on leaving education, through a system of intensive support delivered by contracted providers. The Government expects to spend £1 billion over the lifetime of the programme 2012/13-2014/15. Evaluation evidence of the DfE component found that the NEET rate was reduced by 1.8 percentage points as a direct result of the intervention and cost benefit analysis estimated that the intervention was cost effective with a net benefit of £12,900 for each sustained re-engagement (Newton et al., 2013).

Qualitative research conducted on the wage incentive scheme covering the views and experience of a sample of Work Programme providers, Jobcentre Plus staff and employers, found a generally positive response to the scheme (Jordan et al. 2013).. As stated in the evaluation report the aim of the wage incentive scheme was not to create new jobs but to give young people a better chance of being recruited to an existing vacancy (p3). Work Programme providers and Jobcentre Plus staff mainly reported that they did not believe wage incentives were creating new jobs nor encouraging employers to retain young employees who had qualified for the incentives but felt it made an important contribution to helping young people secure employment. However, 28% of employers interviewed reported that retention decisions had been influenced by the scheme. Nine percent of employers interviewed said they had created an extra vacancy and a further seven percent said that they wouldn't have taken on a young person without the incentive. Without good quantitative evaluation evidence it is impossible to know whether or not the incentive changed the fortunes of the young people involved and if they simply displaced other equally disadvantaged job seekers.

### **Summary**

The evaluation evidence for pre-Work Programme support which is delivered through Jobcentre Plus is very piecemeal and largely lacking. While these programme interventions are inherently difficult to evaluate due to the lack of good counterfactual estimates – what outcomes would have been achieved in the absence of the programme or under a different regime – this lack of evidence makes it difficult to assess how successful these initiatives have been either as a way of assessing the Coalition government's performance or to help guide future policy interventions in this area. Arguably the government was too hasty in terminating the Future Jobs Fund before the positive evaluation evidence was available (DWP, 2012b). More information is available on the performance of the Work Programme. This evidence suggests that performance was initially low, outcomes were not as good as the DWP or providers expected and below what was achieved under the Flexible New Deal. Since then performance has improved (although evidence suggests that it has plateaued for JSA 18-24 year old claimants) and DWP anticipates that this higher level of performance will continue. A number of concerns have been raised about the poor performance of the Work Programme in terms of helping those most disadvantaged and the gap between JSA and new ESA claimants (excl. 12 month prognosis) has widened. Incentive payments do not appear to be high enough for providers to invest sufficiently in this

group of participants given the very low levels of expected outcomes and therefore very low rates of return. A recent NAO report concludes that the Work Programme has not managed to produce results better than the programmes that it replaced but they report that although there has been some financial waste, DWP estimate that overall the programme is expected to produce results on a lower cost basis and with a lower financial risk as a greater share of the risk is borne by providers.

## 8. Outcomes - Part II

### General labour market assessment

In Outcomes - Part I we focused on an assessment of outcomes in relation to direct policy interventions and against defined aims set out by the Coalition government, but no review of a government's labour market policy would be complete without a broader assessment of trends in employment, unemployment and earnings. This section is therefore devoted to examining the wider performance of the labour market and the evidence on how different groups have fared. Where appropriate these are linked to a discussion of relevant policy and interventions. It also takes a longer run view than the analysis in some of the other papers which are able to build on specific papers covering Labour's term in office.

To conduct this analysis we draw on statistics published by the ONS and supplement these with primary analysis of longitudinal information from the Labour Force Survey which provide a different perspective in terms of looking at labour market dynamics.

### *Employment*

Employment among the working age population increased under the Labour government on a headcount basis from a little over 26 million (71%) in April-June 1997 to peak at around 29 million (73%) in April-June 2008, falling back to just over 28 million (70%) January-March 2010 (ONS Labour Market Statistics, January 2015). Despite falling over the recession, by September-November 2014 employment under the Coalition government had increased to 30.8 million (73%). As the size of the working age population varied over this period the peaks and troughs in terms of the share of the working age population in employment occurred at slightly different times, with the lowest point occurring in July-September 2011 (70.2%) and a peak of 73.1% occurring in January-March 2005. A larger share of total employment (population aged 16 or over) is now made up of people working part-time (self-defined) than before the recession; increasing from 24.8% July-September 2007 to 26.5% January-March 2014 (26.9% September-November 2014). Although average weekly hours of work<sup>23</sup> have recovered since the recession; 32.1 prior to the recession (July-September 2007), 31.6 as the Coalition government took office (April-June 2010) and 32.2 in the latest figures (September-November 2014). The total amount of actual hours worked in a week across all workers in the UK (aged 16+) has increased from 943.1 million prior to the recession (July-September 2007) to 992.6 million in the latest figures (September-November 2014)<sup>24</sup>.

These figures show that employment in the UK has been remarkably resilient over the recession; in fact the main concern has been in terms of productivity levels rather than employment levels with output per hour remaining below pre-recession levels (ONS 2014a).

One type of employment growth that has been causing concern among many is the use of zero-hours contracts. These are contracts of employment that do not guarantee any hours of work and can be accompanied by an exclusivity clause ensuring that these employees are available whenever and for the

<sup>23</sup> Actual hours of work including paid and unpaid overtime in main and any second job.

<sup>24</sup> All employment statistics taken from ONS Labour Market Statistics, January 2015

<http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/january-2015/index.html> (last accessed 22 January 2015).

number of hours the employer requires. The latest official estimates made by ONS based on the Labour Force Survey suggest that around 600,000 employees (around 2% of the workforce) have zero-hours contracts (April-June 1014) (ONS, 2014b). They also report that estimates from the ONS business survey suggest that in January 2014 there were 1.4 million employee contracts with no guaranteed hours of work. These different estimates arise due to differences in definitions, the fact that employees can hold more than one job (the LFS estimates are based on the status of employee's main job) and the inherent difficulties in measuring these types of jobs. Recent studies have shown that zero-hours contracts have increased with some estimates suggesting that these types of contracts doubled between 2012 and 2013 but some of this increase may be due to a greater awareness of these types of contract and therefore an increase in survey respondents reporting (Alakeson and D'Arcy, 2014). Zero-hours contracts are more prevalent among younger and older workers, although most concentrated among younger age groups, for those working in low and middle skilled occupations and within the hospitality sector, although across all sectors the highest number of workers with zero hours contracts are working in the health and social work sector. On average these employees earn less on an hourly basis (ONS, 2014b; Alakeson and D'Arcy, 2014). No information seems to be available on the variability of hours of work for these workers and whether or not they differ substantially from similar workers holding a more traditional form of contract with at least some hours of work guaranteed.

### *Unemployment and economic inactivity*

Prior to the economic crisis unemployment (ILO measure) had been fairly stable at around 5% of the working age population from about 2000 (Figure 5). The recession resulted in a sharp increase in unemployment from 5.2% in April 2008 to a peak of 8.5% in August and September 2011. From the summer of 2013 unemployment has been falling steeply and the most recent unemployment figure is 6% (September – November 2014).

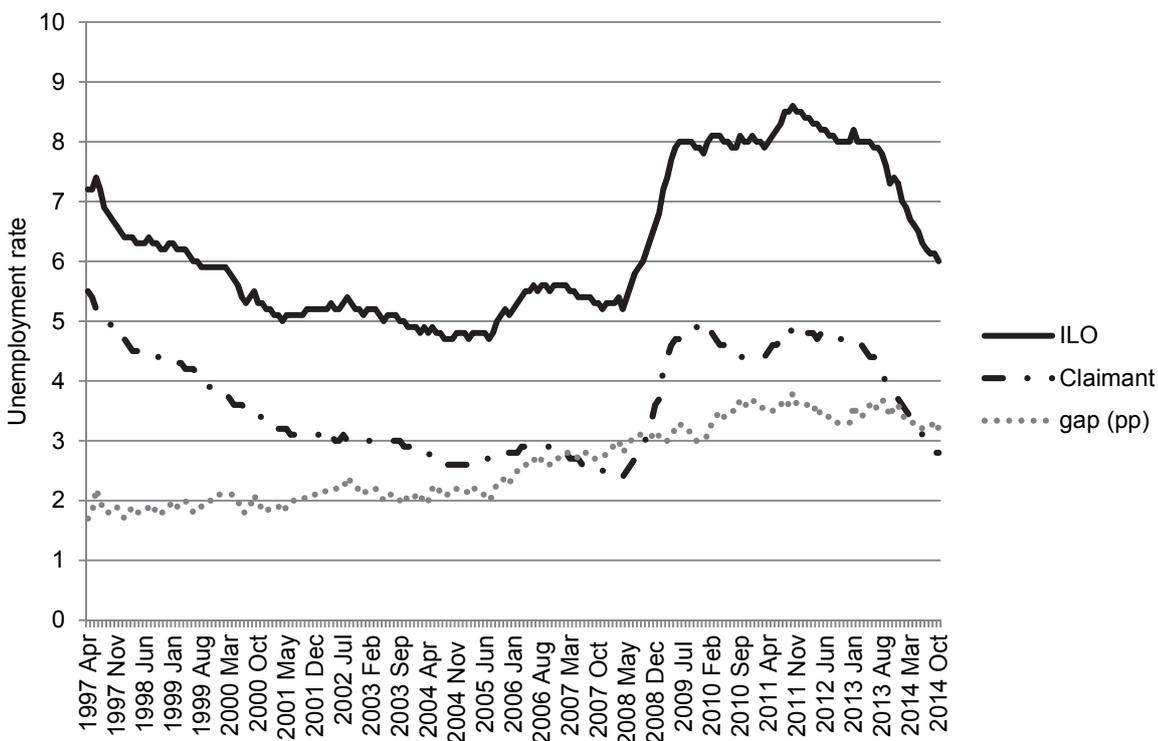
A comparison between ILO and claimant count measures of unemployment show that these two rates have diverged<sup>25</sup>. This divergence starting before the economic crisis, from the middle of 2005, and was noted in McKnight (2009) and McKnight and Tsang (2013) where a much longer time series compared trends dating back to the early 1970s. The longer run series showed that a significant gap also opened up during the early 1980s recession but the more recent gap is even greater; although the gap between the two measures has not widened under the Coalition government. Not all unemployed people qualify for unemployment benefits and, as noted earlier, there had been a concern that there was an incentive for governments to move people onto benefits that don't count towards the claimant count measure. However, as the claimant count is no longer the official measure of unemployment, and the focus of recent policy has been to try and move IS and IB claimants onto JSA, this is unlikely to be an explanation and, as we will see below, inactivity rates did not change very much over the recession.

---

<sup>25</sup> There are technical differences in both the numerator and the denominators of these two measures of unemployment. For the ILO measure individuals are counted as unemployed if they are out of work but (i) have been looking for work in the past four weeks and (ii) are available to start work in the next two weeks. The rate is computed by dividing this number by the economically active working age population (in work or unemployed). The Claimant Count measure counts individuals who are claiming JSA on the second Thursday of each month (the "count date") and the rate is computed by dividing this number by the claimant count plus total workforce jobs. Total workforce jobs (TWJ) series is mainly compiled from surveys of businesses. TWJ series estimates a higher number of jobs than are estimated using the LFS (not all of which can be explained – see Chandler, 2014). As the number of people in work is likely to be lower than the total number of jobs (multiple job holding), these two factors alone will mean that the claimant count measure will estimate a lower rate of unemployment than the ILO measure.

What it does tell us is that a growing share of the unemployed are not in receipt of unemployment benefits which is likely to have had a negative impact on household income. Possible explanations are that there is an increasing share of unemployed people who are not able to claim contribution-based JSA<sup>26</sup> and do not qualify for income-based JSA as a result of other sources of household income (such as having a partner in work) or that unemployment increased by more among young people who do not qualify for JSA (16-17 year olds) or those who do not qualify due to migration status. We will examine this further below when we look at trends in workless households and unemployment rates for different age groups.

**Figure 5: ILO and claimant unemployment rates (%) and the percentage point (pp) gap between the two rates**

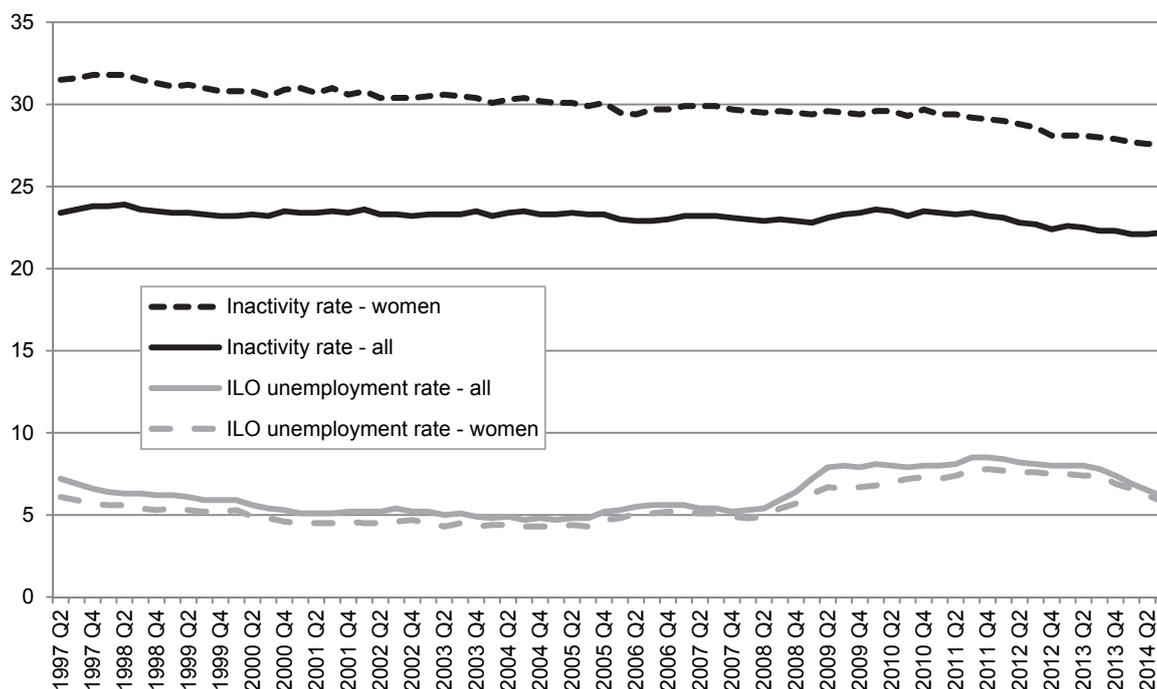


Source: ONS Labour Market Statistics, January 2015 (Tables A02 and CLA01)

Male inactivity also increased a little (particularly October 2008-October 2009) (not shown) while inactivity rates among women continued to follow their historical downward trend throughout the period (Figure 6). The overall rates of unemployment were lower than many anticipated given the severity of the recession and on the basis of previous recessions (peak of early 90s recession 10.8% (1993:Q1); peak of early 80s recession 12% (1984:Q2/Q3)) (McKnight, 2009). And one of the puzzles of the recent recession is why inactivity rates increased in the US but remained largely unchanged in the UK. As we will see later, part of the explanation is that wages fell, allowing employers to reduce the cost of labour by reducing the price of labour rather than the quantity.

<sup>26</sup> Either because their National Insurance contributions are not sufficient for them to qualify for this element of JSA or they have exhausted their six month entitlement.

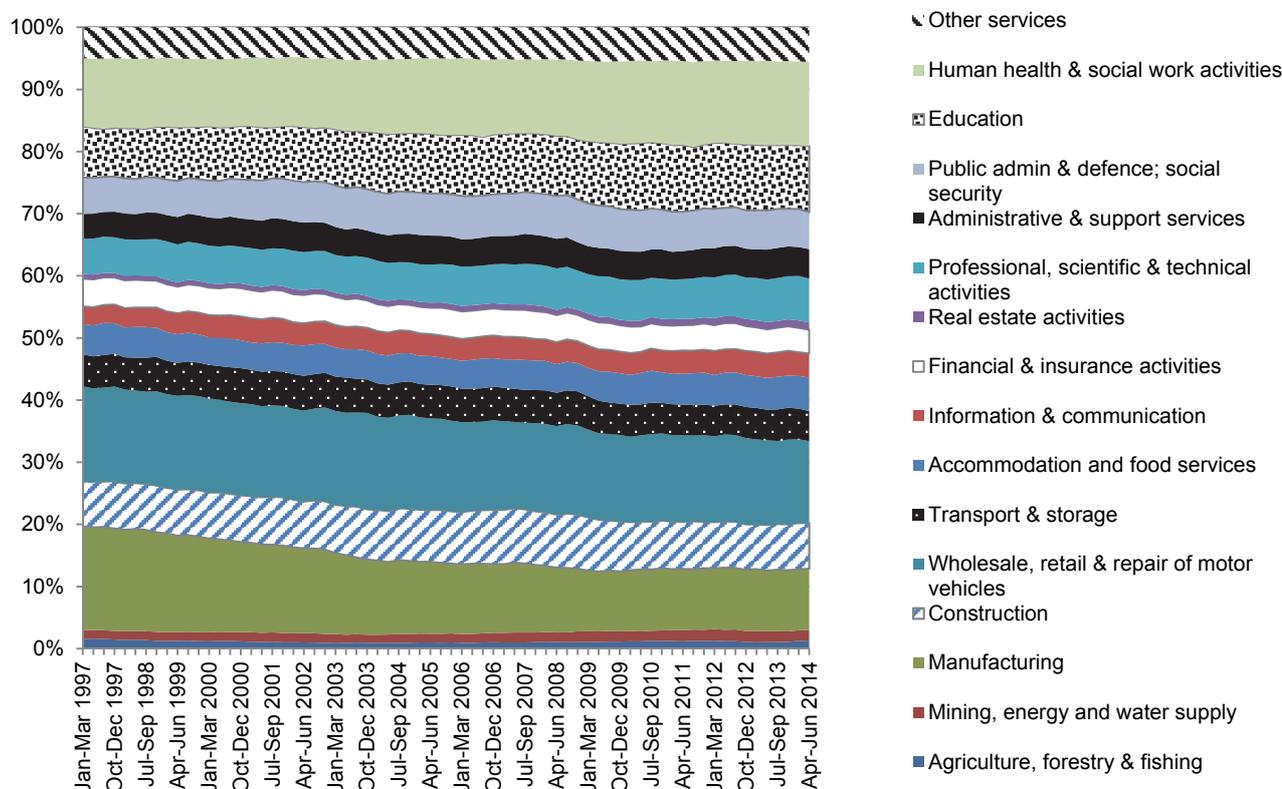
Figure 6: Trends in unemployment and inactivity rates (%) – working age population



Source: Data from ONS Labour Market Statistics, December 2014 <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/december-2014/index.html> (last accessed 8 January 2015), based on Labour Force Survey.

Another explanation is that, unlike in the previous two major recessions, there has not been large scale sectoral restructuring. Recessions typically accelerate the rate of restructuring and sectoral change. A simple look at the distribution of employment across sectors (Figure 7) shows no dramatic restructuring although there were changes in the share of workers employed across sectors over the recession; in fact the greatest changes occurred in the 10 years preceding the recession. For example, an increase in the share of workers in education, human health and social work activities (areas partly protected from public expenditure cuts) with declines in construction and manufacturing; although manufacturing employment stabilised soon after the recession (see also, Plunkett and Pessoa (2013 p10) for an analysis of winners and losers among UK industries over the crisis). In the early 1980s recession there was a large shift in the industrial structure away from manufacturing, large scale industry and mining towards service sectors, and this process continued in the early 1990s recession. The economy was in good shape in the run up to the 2007/08 crisis and arguably this was an important contributory factor in explaining the resilience of employment over the recession. The labour force is also better qualified, arguably more flexible and adaptable (including as we shall be able to pursue self-employment options where employment opportunities are reduced) and labour market institutions are weaker. That is not to say that change and restructuring has not occurred and it might be some time before a proper assessment can be made.

Figure 7: Trends in the UK distribution of employment by industry sector – 1997-2014



Source: ONS EMP13: Employment by Industry (Labour Force Survey) – Reference Tables

Notes: The breakdown by industry sector for Q1 2009 onwards is not entirely consistent with those of previous quarters. This is because: (a) LFS data on industrial activity were coded directly to SIC 1992 for all quarters up to and including Q4 2008 and then mapped to the new industrial classification, SIC 2007, according to the assumed relationship between the two classifications; (b) data for Q1 2009 onwards have been coded directly to SIC 2007; and (c) a new, automatic coding tool was introduced in January 2009. The effect of these changes on the time series was significant for some of the industry sectors shown. Consequently some adjustments have been made to the pre-2009 estimates to account for the estimated combined effects of the new classification and the new coding tool. This also means that the pre-2009 estimates in this table are not the same as those obtained from LFS microdata.

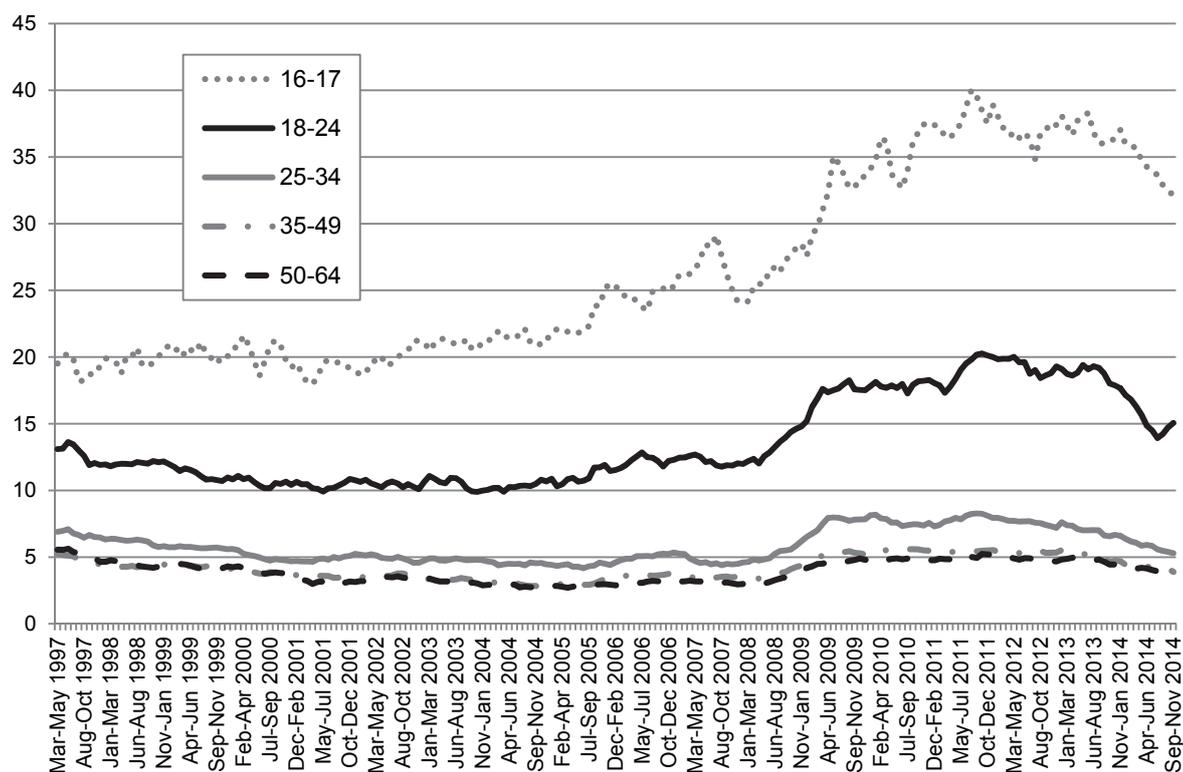
Despite this fairly rosy overall picture, the impact of the recession was far from even. One of the groups that suffered most was young people who experienced a contraction in employment. This could be due to the fact that there was less opportunity to reduce their wages, as wages are typically lower among young people and employers are able to choose more experienced workers for the same rate of pay in a slack labour market. It is also harder for this group to pursue self-employment opportunities with more limited access to capital, less experience of work and life more broadly.

Youth unemployment among economically active 16-17 year olds had already started increasing prior to the recession; increasing from around 20% (up to 2003) to around 29% just prior to the economic crisis (July-September 2007) (Figure 8). Some of this is linked to the fact that most 16 and 17 year olds are in some form of education or training and it is those who are most disadvantaged and facing the greatest challenges to securing employment who are searching for work. The problem is made worse by the fact

that apart from in exceptional circumstances these young people don't qualify for out-of-work benefits and don't qualify for active labour market programmes. Youth unemployment climbed steeply, reaching nearly 40% at its peak in 2011, by September-November 2014 the rate had fallen back to 32.1% but still higher than pre-recession rates. The evaluation of the Youth Contract shows that some of this fall can be attributed to the success of the DfE component re-engaging young people NEET back into education; the programme was found to reduce the NEET rate by 1.8 percentage points (Newton et al., 2013). Raising the education leaving age to 17 from September 2013 coincides with the steep fall in unemployment rates for 16-17 year olds. A further increase to age 18 from 2015 should also have an effect on keeping down future rates.

18-24 year olds also suffered during the recession. Their unemployment rates had fallen back since the high levels seen in the early 1990s recession (previously at 17.8% in 1993); rates had been fairly stable at around 10% from the turn of the century but had also started increasing to reach 12% on the eve of the recession. Unemployment rates among 18-24 year olds increased steeply, first to around 18% in 2009/10 and then increasing from the second half of 2011 to reach 20%. A steep decline in the unemployment rate followed for this age group between July-September 2013 and May-July 2014 (14.5%); although the rate has started increasing again up to 15.1% September-November 2014.

**Figure 8: Unemployment rates (ILO) by age – March 1992-October 2014**



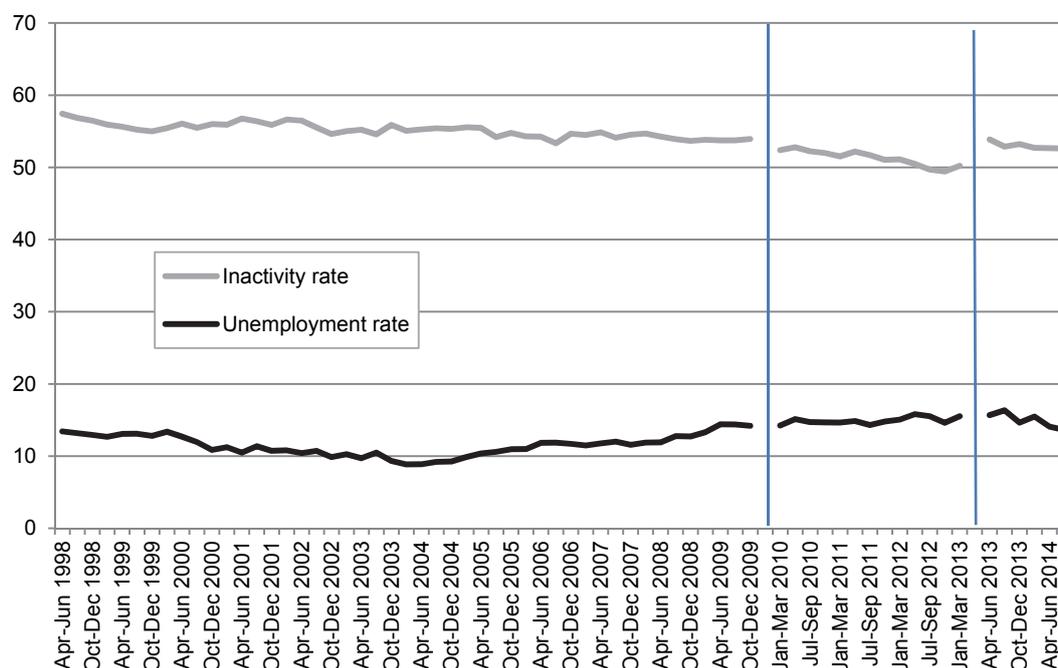
Source: Statistics are taken from ONS Labour Market Statistics, January 2015 <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/september-2014/index.html> (last accessed 22 January 2015).

As noted earlier a lot of focus has been on trying to increase employment rates among disabled people. Some of the changes introduced have been in terms of tightening eligibility to, what are deemed, 'inactive' out of work benefits (benefits without active job seeking conditionality) with the movement away from Income Support/Incapacity Benefit claims to Employment and Support Allowance (and in some cases JSA) and dividing ESA claimants according to assessed capability to work. Although as noted earlier a much smaller share of existing claimants for disability related out of work benefits are found to be fit-for-work than the Government expected. People with disabilities who are assessed to be capable of work and qualify for ESA are fast tracked onto the Work Programme and, as noted earlier, even those considered not to be work ready for another 12 months have been referred to the Programme since October 2012. Here we look for evidence that these changes have had an effect on unemployment and inactivity rates. The period covered in Figure 9 spans April 1998 through to September but there have been a number of breaks in the series as indicated due to changes in the questionnaire design (See Figure notes) therefore this series has a number of discontinuities.

Unemployment rates among this group are higher than average unemployment rates across the economically active working age population (Figure 5 above). These rates increased from the beginning of 2008 (12%) through to the end of 2009 (14.4%) and continued to increase gradually over the next three years (14-16% - although rates not strictly comparable due to discontinuity) and then declined since the Autumn of 2013. Inactivity rates have declined since the late 1990s. The rates are not comparable across the three time periods but within each time period the trend is downwards and the latest evidence suggests that they still stand at more than double the rates found among the working age population as a whole (52.6% compared with 22.2% in July-September 2014). There isn't any strong evidence that inactivity rates increased among this group over the recent recession but this is difficult to say conclusively due to the break in the series. It is evident that they didn't increase during 2009 when unemployment rates went up and there is some evidence to suggest in the second and third sub-period that inactivity rates among people with work limiting disabilities have fallen under the Coalition government (rates not comparable between periods). These population statistics cannot reveal the level of inactivity and unemployment that would have prevailed in the absence of policy changes made.

Although there has been a major reassessment of long term sick and disabled people's claims for out of work benefits with some being moving onto JSA and into the work related activity group of ESA this does not seem to have had a discernible effect on these trends.

**Figure 9: Unemployment and inactivity rates (%) for people with work limiting disabilities**



Source: ONS; Table A08: Economic activity of people with disabilities (December 2014).

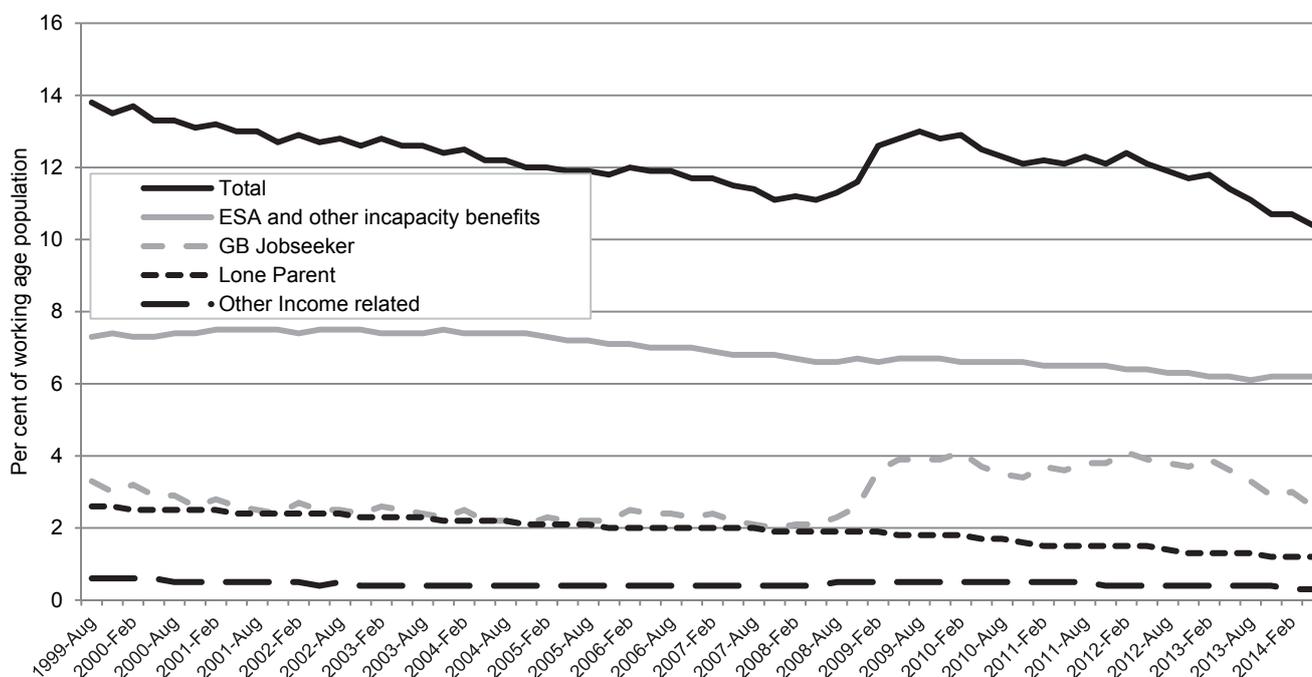
Notes: (1) All people with a long-term health problem or disability that affects the kind and/or amount of work they do. Includes those people whose day-to-day activities are also limited. (2) Unemployed as a percentage of economically active. (3) In January 2010 a rewording of the section of the LFS covering disabilities resulted in an increase in the number of people estimated to have a disability or long-term health problem. (4) In April 2013 the wording of the questionnaire was changed to bring it into line with the Government Statistical Services Harmonised Standards and allow definitions to be consistent with the 2010 Equality Act.

We complete this part by looking at the share of the working age population claiming various out of work benefits (Figure 10). There has been an overall decline in the total share of the working age population claiming out of work benefits over the period covered by these series; from August 1999 to May 2014. As the recession took hold the increase in the total share of the working age population claiming out of work benefits increased from 11% to 13%, driven by increases in the share of people claiming JSA. The share of the working age population claiming ESA and other Incapacity Benefits continued a declining trend that pre-dated the recession (starting from around 2004).

The fall in the share of the working population claiming Income Support (IS) on the basis of being a lone parent has fallen over time and much of this fall is to do with changes in entitlement. From November 2008 once their youngest child turned 12 lone parents were no longer entitled to claim IS instead they could apply for JSA. Prior to this change they were entitled to claim IS until their youngest child left compulsory schooling at age 16. In October 2009 the age limit was lowered to 10, then to 7 in October 2010 and finally to 5 in May 2012. Since 2001 lone parents claiming IS have been required to attend regular Work Focused Interviews (WFIs); although there has been some variation over time in the requirements (see details in DWP (2014d)). Lone parents can be sanctioned for not attending mandatory WFIs (5.6% were sanctioned at least once in the year 2013/14 – DWP, 2014d). The other driving factor is that the employment rate for lone mothers has been rising over time and while it remains below the employment rate for mothers in a couple or cohabiting (60% compared to 72% in 2013); in

2013 a larger share of lone mothers were in employment than at any time since 1996, when comparable statistics began (ONS, 2013).

**Figure 10: Share of the working age population claiming out of work benefits (GB)**



Source: ONS Labour market statistics, December 2014

Notes:

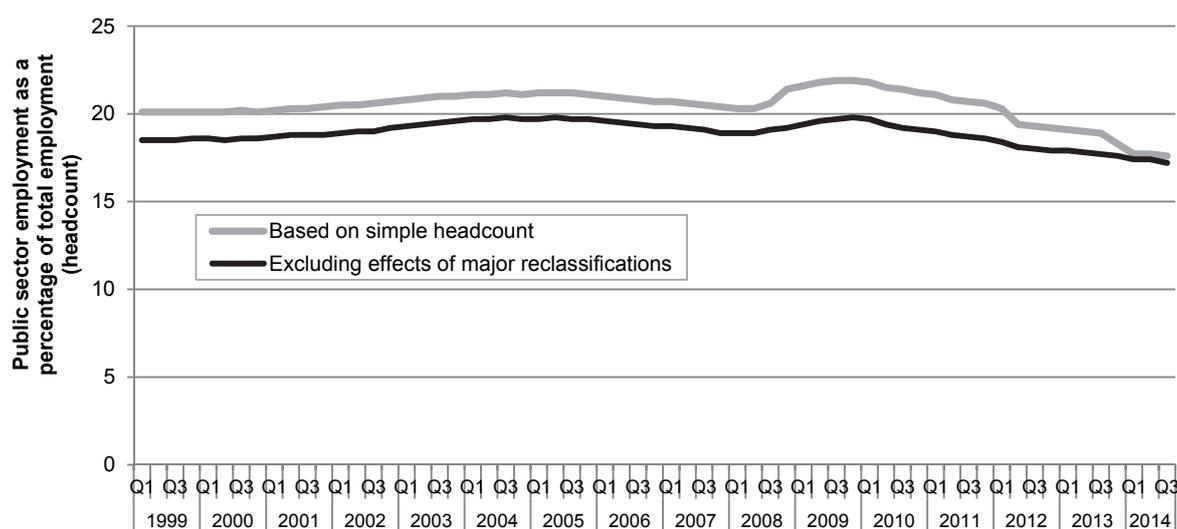
1. These figures includes all claimants of out of work benefits excluding carers (as they are not generally subject to labour market activation policies), and people claiming Universal Credit. While most people claiming these benefits will be out of work a small number will be in employment. The figure shows the most up to date National Statistics currently available for claimants of incapacity benefits, lone parent and "other income related" benefits. More up to date early estimates of incapacity and lone parent benefits, which are not currently designated as National Statistics, have been published by the DWP at: <https://www.gov.uk/government/publications/dwp-statistical-summaries-2014>.
2. Each claimant is assigned to a statistical group to avoid double counting. There is a hierarchy as shown in the figure (ie, jobseeker followed by incapacity benefits, etc.). For example, a person claiming incapacity benefit and lone parent benefit is recorded in the former.
3. JSA claimants for GB. Due to methodological differences, these figures differ slightly from estimates of jobseekers claimants shown at Table 1.1 of the DWP Quarterly Statistical Summary. More up to date estimates for claimants of JSA for the UK are available at reference table CLA01.
4. ESA and other Incapacity Benefits include claimants of ESA, Incapacity Benefit and Severe Disablement Allowance.
5. Lone parents include single recipients of Income Support with a child under qualifying age.
6. Claimants of Income Support or Pension Credit not included in the incapacity benefits or lone parent categories.
7. Proportions of population receiving state benefits have been calculated using residence based populations for those aged from 16 to 64. The jobseeker proportions differ from the claimant count rates shown at reference table CLA01 as the denominator for the latter is workforce jobs plus claimant count.

We now look at two areas of employment that warrant special attention: public sector employment and self-employment. The public sector deserves special attention because the government explicitly set out to reduce the size of the public sector. This was partly to make savings in public expenditure, a direct result of the cuts and also an ideological belief that the public sector should be reduced in size and this included reducing the size of the Civil Service. The Civil Service Reform Plan, published in 2012, stated that estimates based on departmental change programmes, would mean that by 2015 the Civil Service will be around 23% smaller than it was in March 2010, operating with around 380,000 staff – the lowest since the Second World War (HM Government, 2012). The government believed that cuts in public sector employment would be balanced by expansion of the private sector in the belief that the public sector was effectively “crowding out” private sector employment<sup>27</sup>.

Public sector employment<sup>28</sup> as a share of total employment fell under the Coalition government from 21.5 per cent to 17.6 per cent but the fall is much less dramatic when major reclassifications are taken into account (19.4 per cent to 17.2 per cent) (Figure 11). These reclassifications are the ‘nationalisation’ of the Royal Bank of Scotland Group plc and Lloyds Banking Group plc and its subsidiaries in 2008 Q4 due to both banks getting into difficulty during the financial crisis, and the subsequent return of Lloyds Banking Group to the private sector in 2014 Q1, and the privatisation of Royal Mail in 2013 Q4. In April 2012 ONS reclassified Sixth Form Colleges and Further Education Colleges in England into the private sector (affecting 196,000 employees) reversing an earlier decision in October 2010.

The final figure represents the lowest share since a consistent series has been computed from 1999. ONS estimates that public sector employment based on a headcount measure fell from around 6 million in 2007 (4.8 million FTE) to 5.4 million (4.4 million FTE) in the second quarter of 2014 (or 5.6 million to 5.3 million excluding effects of reclassification based on a simple headcount) (ONS, 2014c).

**Figure 11: Trends in the share of public sector employment**



Source: ONS Public Sector Employment, Q3 2014

<sup>27</sup> There is some evidence that supports the view that public sector employment crowds out private sector employment (Behar and Mok, 2013).

<sup>28</sup> Public sector employment figures are ONS estimates based on LFS measures of total employment and directly collated public sector employment estimates – see ONS Public Sector Employment, Q2 2014 for details.

Before turning to earnings we take a closer look at changes to self-employment over the recession as this holds an important key to understanding the overall trends in employment and unemployment (and probably also changes to public sector employment).

Figure 12 shows the difference in the number of people in employment and self-employment relative to that observed in Jan-Mar 2008. This shows that in the first three quarters the number of people in both forms of employment declined. However, after September 2009 the number of people in self-employment started to increase above the pre-recession level<sup>29</sup>. This was not the case for employees; the number of people in employment did not exceed the Jan-Mar 2008 level until Jul-Sept 2013, demonstrating very clearly the key role of self-employment which largely accounts for the recovery in the labour market.

Self-employment not only played a key role in the recovery but by 2014 both the number of self-employed people (4.6 million<sup>30</sup>) and the share of total employment made up of self-employment (15 per cent, up from 8.7 per cent in 1975) were higher than at any point over the past 40 years (ONS, 2014d).

More detailed statistical analysis shows that the change in the stock of self-employed people has been driven by a fall in the outflow rate (36 per cent of people entering self-employment in 2004 had left within five years compared with 23 per cent of people entering self-employment in 2009) rather than an increase in the inflow rate (which has remained largely stable at around 37 per cent<sup>31</sup>) (ONS, 2014d). One estimate shows that 28 per cent of the overall growth of self-employment is due to a decline in the rate at which people leave self-employment (D'Arcy and Gardiner, 2014).

The increase in self-employment may be due to the lack of other work options, particularly over the recession, and while this route into self-employment accounts for a minority, recent research estimates that it increased from 10 per cent to 27 per cent pre and post-recession (D'Arcy and Gardiner, 2014). There is also evidence that people are using self-employment as a means to extend reduced levels of work into older age (semi-retirement). Policy initiatives, such as the New Enterprise Allowance have increased the financial incentive to pursue this form of work and active labour market programmes are encouraging job seekers to actively pursue self-employment options. D'Arcy and Gardiner (2014) estimate that while prior to the recession 8 per cent of unemployed people moved into self-employment, the figure in the post-recession period had increased to 11 per cent. DWP estimates show that up to June 2014 some 53,350 people were helped to move off out-of-work benefits into self-employment through the NEA programme; although not all are able to sustain their businesses and some will choose to move into employment (DWP, 2014e). There are no counterfactual estimates available.

Despite the very positive role that self-employment has played in the recovery there is a downside and that is the evidence of considerable underemployment and a sharp fall in self-employment income since the crisis. ONS estimate that average income from self-employment fell by 22 per cent since 2008/09 (ONS, 2014d) and another recent study found that average weekly earnings of self-employed people in 2014 were 20 per cent lower than they were in 2006/07 with people of prime age (35-50 years)

<sup>29</sup> The first quarter of positive growth in GDP after the recession was 2009 Q3.

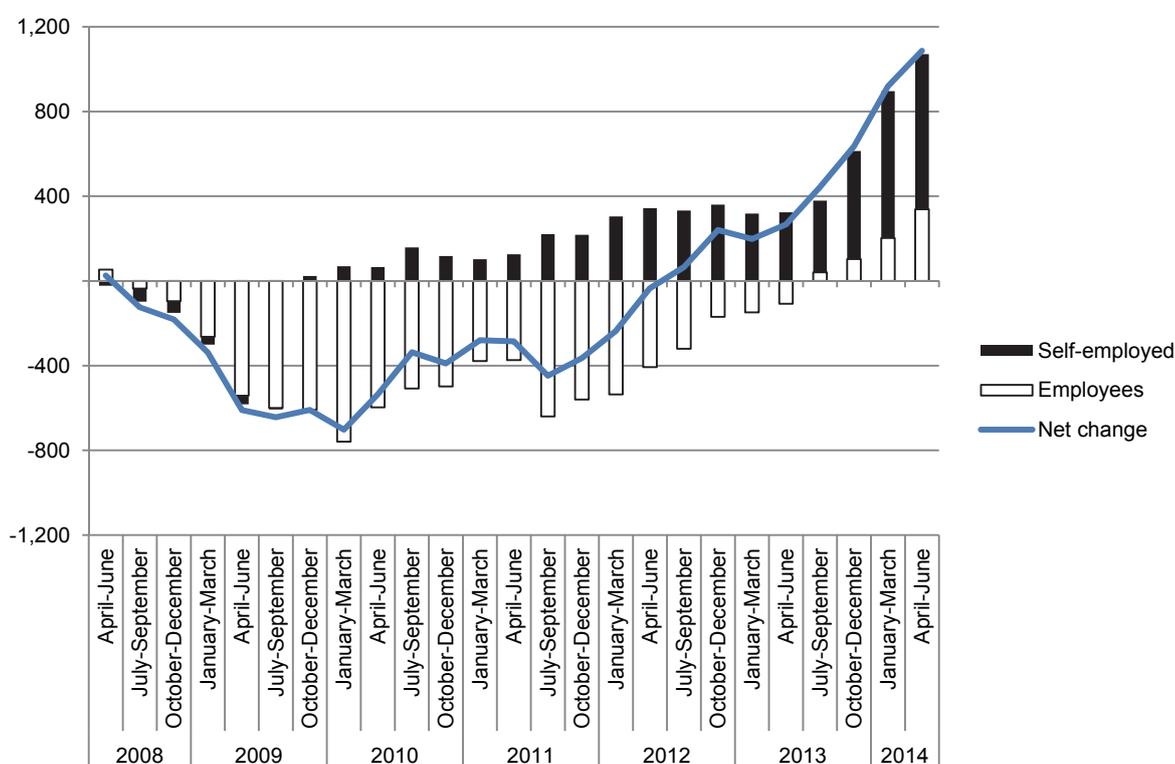
<sup>30</sup> This figure refers to those who report self-employment as their main job, a further 356,000 employees report a second job in which they are self-employed (ONS, 2014d).

<sup>31</sup> The inflow rate is defined as the share of the stock of self-employed people who entered self-employment in the previous five years.

experiencing the greatest average falls (26 per cent) (D'Arcy and Gardiner, 2014)<sup>32</sup>. Some of this fall appears to be due to a reduction in hours of work and some due to a change in the composition of self-employed people.

There has been a longstanding concern that employers and employment intermediaries have been falsely declaring workers as self-employed to avoid payment of income tax and National Insurance Contributions, holiday pay and sick pay. As noted in Section 4 this has been more problematic in some sectors than others with evidence that this practice was more commonplace in construction, security, cleaning and driving. While some policy changes, designed to tackle this problem, were introduced in 2014 it is still too early to tell if they have had an impact on reducing this negative form of self-employment.

**Figure 12: The number of individuals working as employees or in self-employment relative to Jan-March 2008 levels (thousands)**



Source: ONS Self-employed workers in the UK - 2014; based on Labour Force Survey.

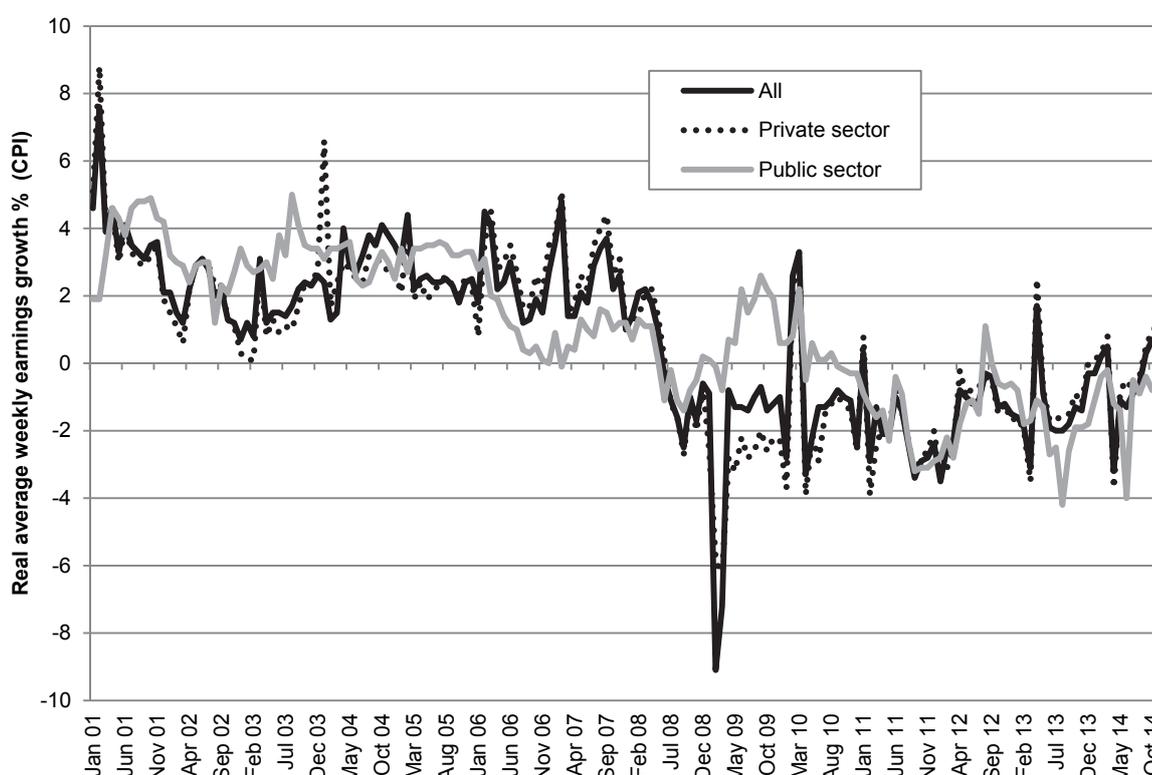
### Earnings

Falling real average earnings has been one of the most striking features of the recent recession. Figure 13 charts real average weekly earnings growth from January 2001, demonstrating how average weekly earnings grew by less than prices (CPI index) from May 2008 with the sharpest decline occurring in

<sup>32</sup> This study estimates that a typical self-employed person had earnings 40 per cent lower than a typical employed person in 2014.

February 2009. Positive real average earnings growth occurring in March 2010 and April 2013 reflects the large fall in earnings 12 month previously. Small positive real increases in average weekly earnings are observed in the private sector between January and March 2014 and between September and November 2014 but the overall picture is largely one of falling real average weekly earnings. Initially those working in the public sector didn't fare as badly as private sector workers due to pay deals which had been negotiated prior to the recession but latterly average public sector workers' pay has been falling further than the pay of private sector workers.

**Figure 13: Changes in real average weekly earnings – annual percentage change (single month)**



Source: ONS based on Monthly Wages and Salary Survey figures (EARN01), January 2015. Growth is calculated as the change in total average weekly pay (including bonus payments). The figures relate to Great Britain. Growth rates are deflated by the CPI.

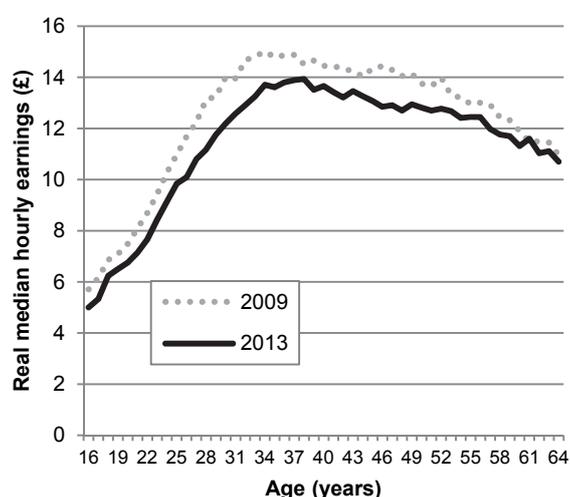
Overall, average hourly wages are now lower in real terms than they were prior to the recession (Bovill, 2014). Gregg et al. (2014) document how the fall in real wages started prior to the recent recession and raise the possibility that this is part of a longer term trend which may continue even when the economy has recovered. Taylor et al. (2014) show that part of the fall in average wages can be explained by changes in the composition of those in work and changes in their hours of work. Detailed examination over the recession suggest that lower skilled lower paid workers were more likely to be laid off during the recession while firms were more likely to retain higher skilled higher paid workers but reduced costs by cutting real wages (CBI, 2014). In fact in the first period lower paid, lower skilled workers were disproportionately laid-off and this moderated the fall in average wages. More recently the growth in jobs has been relatively greater for lower skilled, lower paid workers which has had the effect of reducing average real wages. However, Taylor et al. (2014) concludes that while changes in labour force

composition explains some of the changes in real wages, the key driver to falling real wages is likely to have been the fall in productivity in 2008 and 2009, and its subsequent weakness.

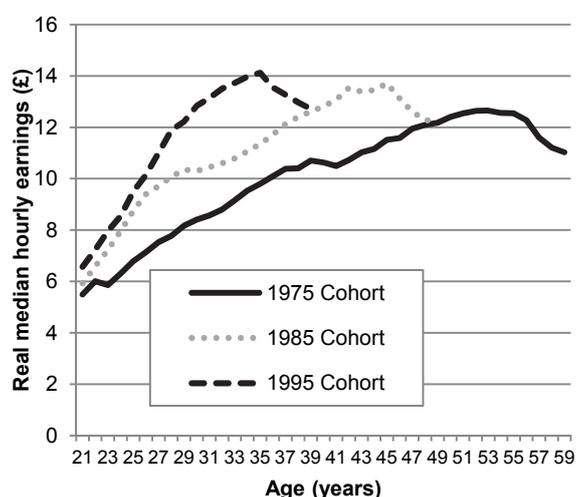
Figure 14, which compares average real hourly wages in 2013 with employees of the same age in 2009, shows that cuts in real average hourly wages have been felt across the age distribution but particularly so among those aged 25-35 (in 2013). ONS has recently conducted cohort analysis which demonstrates that the falls in real average wages wiped out earlier relative wage gains among younger age cohorts, despite the fact that these younger cohorts are more highly qualified than older cohorts (ONS, 2014e). Time will tell if their wages recover and if they are able to make up the lost ground over the next ten years or so.

**Figure 14: Median real hourly earnings (2013 prices)**

**a) Age-earnings profiles**



**b) Lifetime profiles by age cohort**



Source: New Earnings Survey/Annual Survey of Hours and Earnings Panel Dataset 2013

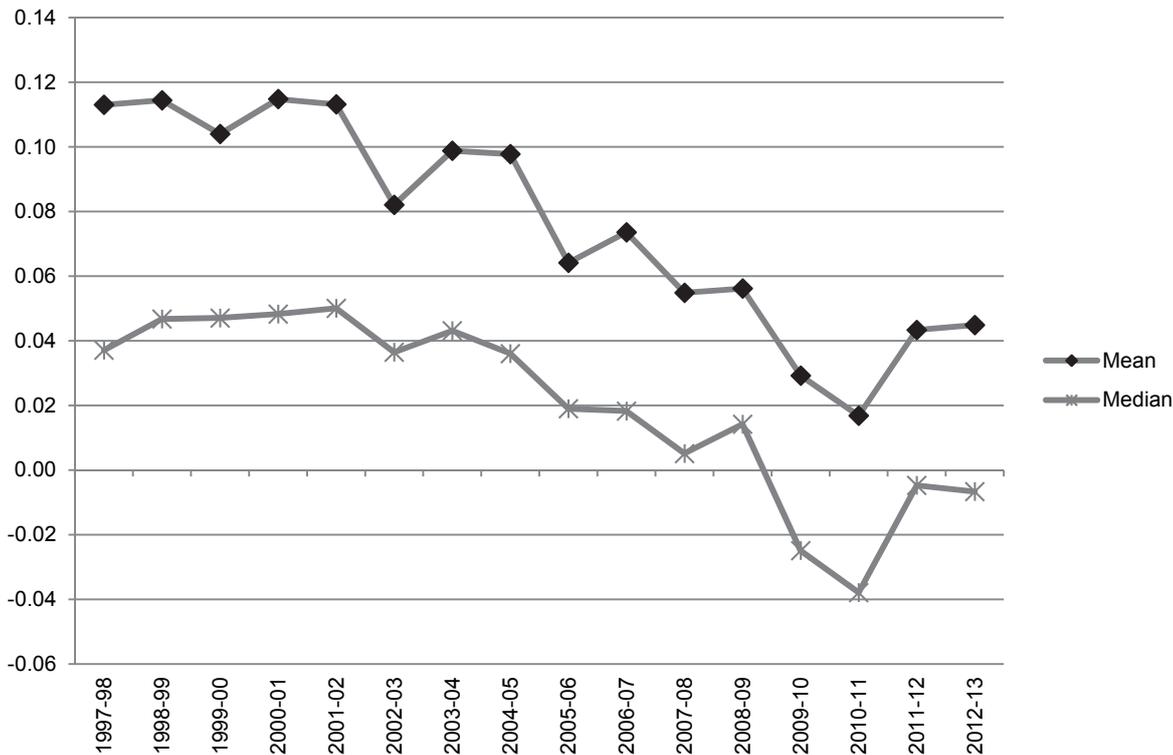
An alternative way to examine wage growth is through the use of longitudinal data tracking the same people over a period of time and measuring the change in their actual wages rather than examining aggregate average wages. Figure 15 shows trends in real annual average hourly wage growth for employees. These observations are taken from Spring quarters (March-May) of the LFS. So for example, employees who were observed in employment in Spring 2010 and Spring 2011 had an average (mean) real hourly pay rise of 1.7%. However the median hourly pay fell among these employees by 3.8%, highlighting the fact that mean wage growth tends to overstate pay rises of typical employees due to the fact that some employees experience very large increases in pay from one year to the next. A comparison with Figure 13 also demonstrates how workers who remain in work<sup>33</sup> enjoy higher real increases in pay than the average measured across all employees, which includes new entrants to the labour market<sup>34</sup>. In addition, mean wage growth among those who remained in employment stayed positive over the recession although at the median real wage growth was negative

<sup>33</sup> Strictly speaking it is employees who are observed in work in both Spring quarters (12 months apart) and some will have experienced time out of work in the intervening months.

<sup>34</sup> These figures are not directly comparable as they are derived from different data sources and the LFS and definitions of earnings vary.

showing that at least 50 per cent of employees experienced real cuts in their wages despite the fact that they remained in employment and that clearly some employees continue to see large wage gains (pulling up the mean measure). This suggests that entry wages have been hardest hit by the recession.

**Figure 15: Actual annual growth rates in real hourly wages among employees who remain in employment**



Source: Labour Force Survey 5 quarter panels (author’s calculations)

Finally we focus on the lowest paid workers. Conservative and Liberal Democrat parties both pledged support for the National Minimum Wage (NMW) in their manifestos and also in the Coalition Agreement “because of the protection it gives low-income workers and the incentive it provides”. Despite this the real value of the NMW declined under the Coalition government and in October 2014 the minimum wage was no higher than its real terms level in 2005 (Resolution Foundation, 2014) even accounting for the first post-recession real terms increase in October 2014 (increasing to £6.50 (adults), up 1.3% in real terms from £6.31). Research by the Resolution Foundation’s expert panel review into the Future of the National Minimum Wage highlighted the fact that while the NMW had effectively eradicated extreme low pay in the UK, the UK still has one of the highest incidences of low pay in the OECD. This was due in part to the cautious level of the NMW when it was introduced in 1999 and the fact that in many low paying sectors the NMW had effectively been adopted as a “going-rate” by employers. This can be seen very clearly as a spike in the wage distribution at the value of the minimum wage (Resolution Foundation, 2014). The panel recommended, among other things, that the Low Pay Commission<sup>35</sup> should broaden its approach to tackling low pay and set an explicit long term ambition to reduce the incidence of low pay,

<sup>35</sup> The Low Pay Commission independently makes a recommendation to the Government every year, advising them of what rate the minimum wage should be set at.

set a recovery path for the NMW to restore the value it lost in real terms during the down-turn and that the government should routinely set out its views on how the NMW can contribute to its wider goal of reducing the incidence of low pay (expressed as a proportion of median pay).

All three political parties have now called for an increase in the real value of the NMW. The Chancellor of the Exchequer George Osborne made the unprecedented move of publically calling for the Low Pay Commission (LPC) to restore the value of the NMW, recommend real terms increases in the NMW in 2014 and 2015 (up to £7) to return to the pre-recession value. This echoed Vince Cable's call for a similar restoration at the Liberal Democrat 2013 party conference. Alan Buckle led a review on behalf of the Labour Party in 2013/14 and also recommended that rates should be restored to pre-recession levels as soon as possible and increased further in the future (Buckle, 2014). However, the LPC has outlined areas where government policy helps and hinders the scope for increasing minimum wage rates without having a negative impact on employment. In particular the LPC highlighted local authority spending on social care as an area where government policy limits the scope for higher minimum wages.

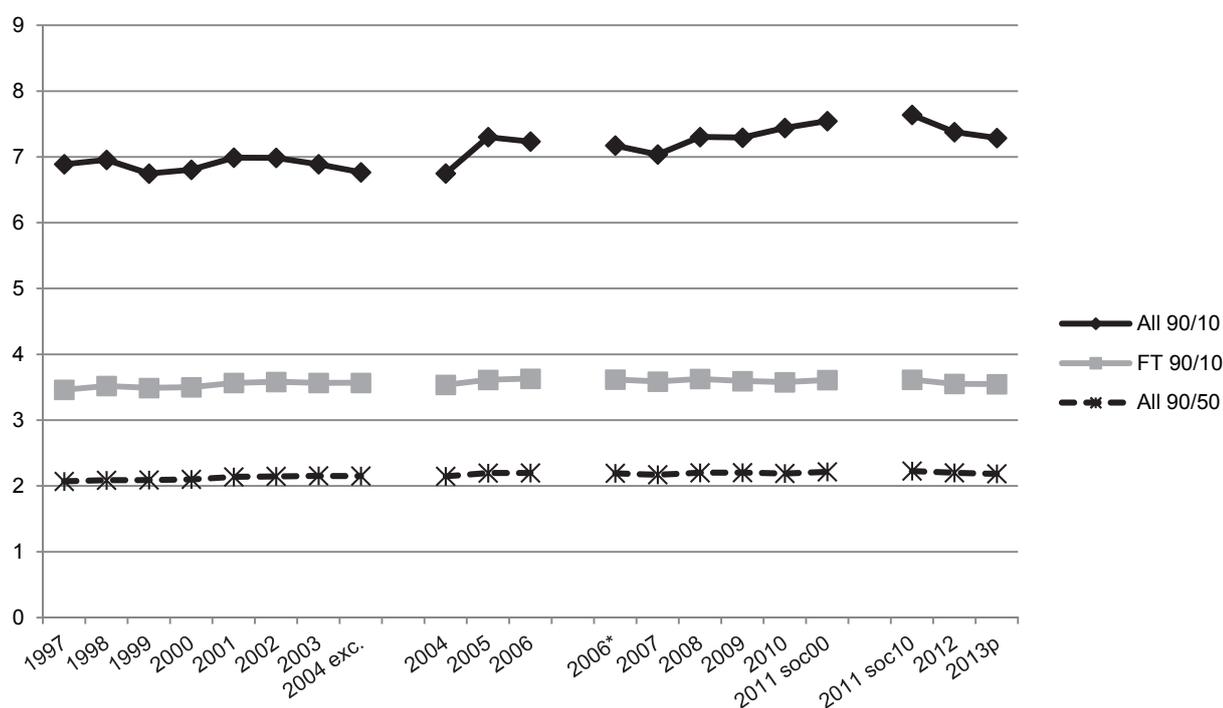
The change in attitude to the NMW has been influenced by the evidence that the NMW has had very little, if any, negative effects on employment either when it was first introduced or in relation to uprating, despite alarmist warnings prior to the NMW being introduced in 1999. There is also a general unease about the way in which tax credits are effectively subsidising many low paid jobs and universal agreement across the parties that employers should be paying more of their share.

How does all of this translate to changes in earnings inequality? Inequality in gross weekly earnings among employees measured by the 90:10 ratio (the ratio that compares the earnings above which 10% of the highest paid earn to the earnings below which 10% of the lowest paid earn) shows that earnings inequality increased over the recession (7.04 to 7.55) but remained fairly stable among full time employees showing that changes in the distribution of hours of work drove this increase (Figure 16). The available evidence suggests that earnings inequality fell among all employees after 2011 but remained stable among full-time employees; again suggesting that this was driven by changes in the distribution of hours of work. Another factor influencing earnings inequality is change to the composition of the workforce. As earlier evidence has shown lower skilled, lower paid workers were more likely to lose their jobs over the recession and this is likely to have had a moderating effect on earnings inequality. Earnings inequality can fall even when the earnings of employees who remain in work are unchanged. For example, earnings at the 10<sup>th</sup> percentile can increase between two time periods when employees with the lowest earnings in the first period lose their jobs. Evidence on hourly earnings inequality from the LFS (measured by the 90:10 ratio) show no discernible trend over the past five years with increases and decreases across different time periods again suggesting that compositional factors are likely to have played a key role<sup>36</sup>.

---

<sup>36</sup> This assessment used ONS published Labour Force Survey data in EARN08: Distribution of gross hourly earnings of employees. Date of Publication 12 November 2014.

Figure 16: Inequality in weekly earnings of employees 1997-2013



Source: ONS (2014) Patterns of Pay: Estimates from the Annual Survey of Hours and Earnings, UK, 1997-2013

Notes: (a) Employees on adult rates, whose pay for the survey period was unaffected by absence; (b) Full-time defined as employees working more than 30 paid hours per week (or 25 or more for the teaching professions). (c) 2013p – 2013 data are provisional; 2011 soc10 - 2011 revised results on a SOC 2010 basis; 2011 - soc00 2011 provisional results on a SOC 2000 basis; 2006\* - 2006 using 2007 methodology; 2004 - exc 2004 results excluding supplementary information; 2004 - 2004 results reworked to be compatible with 2005 and 2006 results.

## Summary

The Coalition government inherited high levels of unemployment resulting from the 2007/08 financial crisis and the following recession but unemployment started to fall quite sharply from Spring 2013. Youth unemployment also dramatically increased during the recession but did not increase further under the Coalition and over the last year has started to fall aided no doubt by an increase in the education leaving age. While there is a gap between the claimant count and the ILO rate measures of unemployment this did not widen further under the Coalition government and inactivity rates have also not increased (even continued falling for women). A number of factors seem to have played a part. The labour market was in good shape prior to the recession and effective active labour market programmes were in place, wages fell during the recession and self-employment expanded (even though self-employment income sank). It is notable that the recession was not accompanied by large scale industrial restructuring. This is likely to have avoided extensive skill redundancy and unemployment among older workers (which have both suffered in previous recessions). Low productivity and a poor recovery in productivity seem to be driving falling real wages and rising low wage employment both of which have implications for living standards and raise concerns about the strength of the recovery.

## 9. Discussion and conclusion

If we compare what the Coalition Government has achieved during its term in office (2010-2015) against commitments outlined in the Coalition Agreement in relation to employment policy it is fair to conclude that with regard to policy changes both in terms of the introduction of new programmes and reforming existing programmes the Coalition Government has largely delivered. Although employment has reached new record levels, the performance of the Coalition Government's active labour market programmes has not met with expectations and for some time and particularly for some groups of job seekers, they have delivered results below those achieved by the programmes that they replaced.

The Government was assisted by a labour market that was in good shape leading into the Crisis, no large scale industrial restructuring over the recession and a well-developed welfare-to-work policy platform on which to build.

A reduction in the size of the public sector was off-set by an increase in the number of people working on a self-employed basis; no doubt some selling their services straight back to the Government or working for private and third sector providers under contract to the Government but the majority are working as sole traders. False definition of self-employment, set up by employers and employment intermediaries to avoid payment of income tax and National Insurance Contributions have recently been tackled to some extent by the Coalition Government but the exploitation of workers through the use of self-employment and the evidence of large falls in average real earnings for self-employed people takes the shine off the growth in this form of employment.

The UK labour market in many ways weathered the recession surprisingly well. Unemployment increased but not by as much as in recent recessions. A number of factors made this possible. Firstly real wages fell, allowing employers to cut labour costs without making large reductions to their workforce. A larger share of the workforce worked on a self-employment basis. The real economy was in good shape leading up to the recession and this meant that it was more resilient than was the case in previous recessions. No large scale industrial restructuring seems to have occurred; although there were inevitably some sectors that contracted more and others that have enjoyed higher growth. This has helped avoid the scenario where large numbers of people find that their skills are redundant and no doubt explains why unemployment and inactivity rates have not grown among older workers. Blundell et al. (2013) show that employment rates among older men remained much stronger during and after the 2008/09 recession than in the 1980s and 1990s recessions, remaining fairly flat, while there is some evidence that employment rates among older women actually increased slightly. On the eve of the recession the workforce was better qualified, flexible, adaptable and more used to coping with change. All of these factors contributed to a remarkably resilient labour market.

However, the consequence of falling real wages, underemployment both among employees and the self-employed is that living standards have fallen. There has been pain and the brunt has still been borne disproportionately by those least advantaged but arguably it has been shared more evenly than if unemployment had increased further instead. In addition, labour hoarding has contributed to falling productivity with output per hour still below pre-recession levels.

These conditions overall mean that firms should be in a strong position to gain from the upturn and the labour market should recover quite quickly but a recovery in real wages seem unlikely without significant increases in productivity.

A detailed examination of the effectiveness of welfare-to-work reform doesn't produce such a rosy picture. Many interventions have not undergone robust evaluation and therefore it is difficult to assess how effective they have been in meeting their aims. Some have been shown to be largely ineffective, such as Mandatory Work Activity. The National Audit Office in a recent assessment, concludes that the Work Programme is producing job outcomes and employment sustainment at rates that are comparable with previous welfare to work schemes for some job seekers, although recognising that more recent cohorts appear to be faring better than early cohorts of job seekers and there is a potential for improvements to continue (NAO, 2014). They also highlight the low performance among some of the hardest to help groups where the Work Programme is judged to be producing results below that of employment programmes that it replaced; programmes described as "failing" in the Conservative 2010 manifesto. The Government was also too hasty in its decision to scrap the Future Jobs Fund – which evaluation evidence has demonstrated produced good results and value for money.

While the majority of unemployment benefit claimants are out of work for short periods of time – around 90% of JSA claimants are no longer claiming after 12 months – those that do go on to experience long term unemployment, despite all of the innovation, are still struggling to move back into employment. Even in the most recent cohorts the majority of those who have benefited from interventions over a period of two years while on the Work Programme are returned to Jobcentre Plus without securing a job; 68% of all those who had completed the programme up to September 2014 returned to Jobcentre Plus. These two years are in addition to the interventions prior to claimants joining the Work Programme which could be for a period of 12 months. The Government's answer – Help to Work – seems unlikely to succeed for this group.

Financial incentives to providers to increase efforts for the "hardest to help", including for those with a disability or long term illness, don't appear to have been enough as there remains evidence of "creaming" and "parking". The Government expects that only 6.7% of ESA claimants with a 12 month prognosis and 8.6% of claimants moving from IB to ESA to secure a job outcome (12 weeks in work) by the time they complete the programme. This raises serious questions about the reliability of the assessments that deem these claimants work-ready, whether the Work Programme is the right intervention for this group and whether the incentive payments are sufficient to motivate rational profit-making providers to invest in these groups with such a low rate of return. The Government both overestimated the share of Incapacity Benefit claimants that would be found to be capable of work in a limited capacity (based on Work Capability Assessments) and the extent to which those who were assessed to be capable of work would secure employment with the assistance of the Work Programme. These findings call into question what the WCA outcomes mean in practice given that only 6-7% of some ESA claimants are expected to have found 12 weeks of work at the end of two years of participating in a welfare to work programme. It does suggest that the Government underestimated the barriers that many of these claimants face and in designing a new programme for this group in particular needs some very careful thought on the type and timing of support.

There are a number of positive features in the way employment policy has evolved under the Coalition Government such as extending the length of time assistance is provided for the long term unemployed

and those facing the greatest challenges to securing work to two years (up from 12 months). The stronger focus on longer term outcomes and employment retention with incentive payments to private providers to back this up is a welcome development. And a system which provides greater incentive to help those hardest to reach and hardest to help has the potential to produce positive results.

The clearest message that can be gleaned from the experience of the last seventeen years, since governments have actively sought to reduce unemployment through active labour market programmes, is that there are no cheap quick fixes. Both the Labour government's New Deal programmes and the Coalition government's Work Programme have struggled to have big net impacts on reducing unemployment, the length of unemployment benefit claims and increasing sustained levels of employment among those who qualify for programme assistance (usually those who experience or are at risk of long term unemployment and/or those who are least job-ready and have low levels of skills). Many of these participants have, over the years, cycled through a variety of active labour market programmes.

What is required for a relatively large hard core of individuals at risk of spending a large proportion of their working lives out of work is a substantial investment programme. These individuals have often left school with very low levels of qualification, have few skills (in terms of those that command a reward in the labour market), and face a number of confounding factors that affect their employability (drug and alcohol dependency, criminal record, etc.), have work limiting health and disability issues.

It was announced from the start that the Work Programme would last for a fixed term (and many of the other interventions such as the Youth Contract were also introduced for a fixed period of time) with the last cohort of participants entering the programme in March 2016. The reason for this no doubt is the fact that the Work Programme is a Coalition government policy and both the Conservative party and the Liberal Democrat party will want to go into the next election with manifesto commitments containing their own design of a welfare to work programme. The 2014 NAO report highlights the problems associated with the rapid introduction of large scale active labour market programme reform both in terms of errors made in contracts with private providers resulting in financial waste and the initial low levels of performance as providers source provision, cope with large numbers of referrals from the stock of unemployed people, and generally sort out teething problems. This is not only wasteful but has a detrimental effect on the very people that the programmes are designed to help. On the current timescale the next Government will have less time to replace the Work Programme (10 months) than the Coalition Government took to introduce it (13 months) and it seems inevitable that this will once again disrupt employment services for jobseekers. One advantage with the next transition is that any new programme will only need to cope with inflows as those who have entered the Work Programme will remain on it for up to two years. This should avoid the 'bulge' and the associated challenges this poses for new providers.

Now that all three main political parties have had direct experience in government of the challenges associated with the design and delivery of employment policy, perhaps, hopefully, we have reached a point where future developments can be tinged with less point scoring and rubbishing what has gone before but an acceptance that difficult policy problems require long-term concerted action that would positively benefit from some degree of cross-party consensus. The experience gained over the past few years hopefully provides an opportunity to build on what has been learnt and to identify what still needs to be done in this critical area of social policy in any climate.

## References

- Alakeson, V. and C. D'Arcy (2014) 'Zeroing In: Balancing protection and flexibility in the reform of zero-hours contracts', Resolution Foundation Report, <http://www.resolutionfoundation.org/wp-content/uploads/2014/03/Zeroing-In.pdf>
- Alcock, P., Beatty, C., Fothergill, S., Macmillan, R. and S. Yeandle (2003) *Work to Welfare: how men become detached from the labour market*, Cambridge University Press, Cambridge.
- Atkinson, I., Barham, J. and K. McKenna (2013) 'New Enterprise Allowance: Qualitative evaluation', Department for Work and Pensions Research Report No.836, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/207518/rrep836.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207518/rrep836.pdf)
- Beatty, C. and S. Fothergill (2004) 'The Diversion from 'Unemployment' to 'Sickness' Across British Regions and Districts', CRESR, Sheffield Hallam University
- Behar, A. and J. Mok (2013) 'Does Public-Sector Employment Fully Crowd Out Private-Sector Employment?' IMF Working Paper WP/13/146 <http://www.imf.org/external/pubs/ft/wp/2013/wp13146.pdf>
- Blundell, R., Crawford, C. and W. Jin (2013) 'What can wages and employment tell us about the UK's productivity puzzle?', IFS Working Paper W13/11, <http://www.ifs.org.uk/wps/wp201311.pdf>
- Bovill, D. (2014) 'Patterns of Pay: Estimates from the Annual Survey of Hours and Earnings, UK, 1997 to 2013' Office for National Statistics, February 2014 [http://www.ons.gov.uk/ons/dcp171766\\_353368.pdf](http://www.ons.gov.uk/ons/dcp171766_353368.pdf)
- Buckle, A. (2014) *Low Pay: The nation's challenge*. An independent report by Alan Buckle, [http://www.yourbritain.org.uk/uploads/editor/files/Alan\\_Buckle\\_review\\_FINAL\\_20May20142.pdf](http://www.yourbritain.org.uk/uploads/editor/files/Alan_Buckle_review_FINAL_20May20142.pdf)
- Chandler, M. (2014) *Reconciliation of Estimates of Jobs*, ONS September 2014, [http://www.ons.gov.uk/ons/dcp171766\\_376911.pdf](http://www.ons.gov.uk/ons/dcp171766_376911.pdf)
- Cabinet Office (2010) *The Coalition: our programme for government*, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/78977/coalition\\_programme\\_for\\_government.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf)
- CBI (2014) 'Making Britain Work for Everyone: Facing up to the Challenges in our Labour Market', CBI . <http://www.cbi.org.uk/media/2807886/making-britain-work-for-everyone.pdf>
- Conservative Party (2010) *Invitation to Join the Government of Britain: The Conservative Manifesto 2010* <http://www.conservatives.com/~media/Files/Activist%20Centre/Press%20and%20Policy/Manifestos/Manifesto2010>
- D'Arcy, C. and L. Gardiner (2014) 'Just the Job or a Working Compromise? The changing nature of self-employment', Resolution Foundation Report, <http://www.resolutionfoundation.org/publications/just-the-job-or-a-working-compromise-the-changing-nature-of-self-employment/>
- DCLG (2014) *Local Government Transparency Code 2014*, available at [www.gov.uk/dclg](http://www.gov.uk/dclg)
- Dorsett, R., Rolfe, H. and A. George (2011) 'The Jobseeker's Allowance Skills Conditionality Pilot', Department for Work and Pensions Research Report No 768, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214549/rrep768.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214549/rrep768.pdf)
- DWP (2014a) 'Department for Work and Pensions productivity estimates 2012/13', [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/308751/dwp-productivity-estimates-2012-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/308751/dwp-productivity-estimates-2012-2013.pdf)

- DWP (2014b) 'Work Programme Official Statistics to June 2014'  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/321518/work-programme-statistical-release-june-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/321518/work-programme-statistical-release-june-2014.pdf)
- DWP (2014c) 'DWP business plan transparency measures' Updated 11 December 2014  
<https://www.gov.uk/government/publications/dwp-business-plan-transparency-measures/dwp-business-plan-transparency-measures>
- DWP (2014d) 'Income Support Lone Parents Regime: Official Statistics: Quarterly official statistics bulletin', 13th August 2014  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/343251/islp-regime-august-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/343251/islp-regime-august-2014.pdf)
- DWP (2014e) Great Britain New Enterprise Allowance Quarterly Official Statistics (September 2014), DWP [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/358003/new-enterprise-allowance-official-statistics-september-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358003/new-enterprise-allowance-official-statistics-september-2014.pdf)
- DWP (2013a) 'Work Programme – programme costs to 31 March 2013'  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/209260/wp-costs-to-31-march-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209260/wp-costs-to-31-march-2013.pdf)
- DWP (2013b) 'New Enterprise Allowance – analysis of benefit status of participants'  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225167/NEA\\_benefit\\_status\\_ad-hoc\\_v3.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225167/NEA_benefit_status_ad-hoc_v3.pdf)
- DWP (2012a) 'Evaluation of Mandatory Work Activity' Department for Work and Pensions Research Report 823,  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/193330/rrep823.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193330/rrep823.pdf)
- DWP (2012b) 'Impacts and Costs and Benefits of the Future Jobs Fund' Department for Work and Pensions,  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/223120/impacts\\_costs\\_benefits\\_ffj.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223120/impacts_costs_benefits_ffj.pdf)
- DWP (2008) *Raising expectations and increasing support: reforming welfare for the future*, Department for Work and Pensions, White Paper.
- Freud, D. (2007) *Reducing dependency, increasing opportunity: options for the future of welfare to work*, The Freud Review, Department for Work and Pensions.
- Freud (2009) "Whither welfare-to-work?" Speech given by David Freud Nominated Shadow Minister for Welfare Reform at IES annual public employment policy conference, 12 November 2009  
[http://www.employment-studies.co.uk/policy/resources/121109\\_freud.pdf](http://www.employment-studies.co.uk/policy/resources/121109_freud.pdf)
- Gregg, P., S. Machin and M. Fernandez-Salgado (2014) 'Real Wages and Unemployment in the Big Squeeze', *Economic Journal*, 124, 408-32.
- Gregg P. (2008). *Realising Potential: A Vision for Personalised Conditionality and Support*. The Gregg Review, TSO.
- Gregg, P. and S. Harkness (2003) 'Welfare reform and the employment of lone parents', in R. Dickens, P. Gregg and J. Wadsworth (eds) *The labour market under New Labour*, Basingstoke: Palgrave Macmillan
- Guardian (8<sup>th</sup> November 2014) "*Fitness-to-work assessment backlog could take 18 months to clear*"  
<http://www.theguardian.com/society/2014/nov/08/fitness-to-work-assessment-backlog-maximus-health-services-atos>

- HC 302 (2014) *Employment and Support Allowance and Work Capability Assessments*, Report by the House of Commons Work and Pensions Committee, July 2014, <http://www.publications.parliament.uk/pa/cm201415/cmselect/cmworpen/302/302.pdf>
- Hills, J. (2015) 'The Coalition's record on cash transfers', Social Policy in a Cola Climate Working paper no. 11.
- Hills, J. (2014) *Good times, bad times: The welfare myth of them and us*, Bristol: Policy Press.
- HM Government (2012) *The Civil Service Reform Plan*, June 2012, <http://www.civilservice.gov.uk/wp-content/uploads/2012/06/Civil-Service-Reform-Plan-acc-final.pdf>
- Hutton (2011) *Hutton Review of Fair Pay in the public sector: Final Report*
- Jordan, L., McGinigal, S., Thomas, A. and N. Coleman (2013) *Early evaluation of the Youth Contract wage incentive scheme*, DWP Research Report No. 828.
- Liberal Democrat Party (2010) *Changes that Works for You: Building a Fairer Britain*, Liberal Democrat Party 2010 General Election Manifesto.
- Lane, P., Foster, R., Gardiner, L., Lanceley, L and A. Purvis (2013) *Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model*, DWP Research Report No. 832. [http://www.cesi.org.uk/sites/default/files/publications/WPEvaluation\\_implementation.pdf](http://www.cesi.org.uk/sites/default/files/publications/WPEvaluation_implementation.pdf)
- Layard, R, Nickell, S. J. and R. Jackman (1994) *The unemployment crisis* Oxford University Press, Oxford, UK. ISBN 0198773951
- McKnight. A. (2009) 'More equal working lives? An assessment of New Labour policies', in J. Hills, T. Sefton and K. Stewart (eds.) *Towards a more equal society? Poverty, inequality and policy since 1997*, Policy Press.
- McKnight, A., (2005) 'Employment: Tackling poverty through 'work for those who can'', in J. Hills and K. Stewart (eds.) *A more equal society? New Labour, poverty, inequality and exclusion*, Policy Press.
- McKnight, A. (2000). 'Transitions Off Income Support - Estimating the impact of New Deal for Lone Parents using administrative data'. In C. Hasluck, A. McKnight and P. Elias *Evaluation of the New Deal for Lone Parents Early Lessons from the Phase One Prototype – Cost-benefit and Econometric Analysis*. Department of Social Security Research Report No. 110.
- NAO (2014) *Department for Work and Pensions: The Work Programme*, National Audit Office Report, <http://www.nao.org.uk/wp-content/uploads/2014/07/The-work-programme.pdf>
- Newton, B., Speckesser, S., Nafilyan, V., Maguire, S., Devins, D. and T. Bickerstaffe (2014) 'The Youth Contract for 16-17 year olds not in education, employment or training evaluation' (Revised September 2014). Department for Education Research Report DFE-RR318A, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/354706/RR318A\\_-\\_The\\_youth\\_contract\\_for\\_16-\\_to\\_17-year-olds\\_not\\_in\\_education\\_employment\\_or\\_training\\_evaluation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/354706/RR318A_-_The_youth_contract_for_16-_to_17-year-olds_not_in_education_employment_or_training_evaluation.pdf)
- Newton, B., Meager, N., Bertram, C., Corden, A., George, A., Lalani, M., Metcalf, H., Rolfe, H., Sainsbury, R. and K. Weston (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, DWP Research Report No. 821.
- ONS (2014a) 'GDP and the Labour Market - Q2 2014 August GDP Update', <http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q2-2014--august-quarterly-update/sum-aug-gdp.html>
- ONS (2014b) 'People in employment reporting a zero-hours contract, August 2014' [http://www.ons.gov.uk/ons/dcp171766\\_373757.pdf](http://www.ons.gov.uk/ons/dcp171766_373757.pdf)

- ONS (2014c) 'ONS Public Sector Employment, Q3 2014',  
[http://www.ons.gov.uk/ons/dcp171778\\_387993.pdf](http://www.ons.gov.uk/ons/dcp171778_387993.pdf)
- ONS (2014d) 'ONS Self-employed workers in the UK – 2014',  
[http://www.ons.gov.uk/ons/dcp171776\\_374941.pdf](http://www.ons.gov.uk/ons/dcp171776_374941.pdf)
- ONS (2014e) 'UK Wages Over the Past Four Decades – 2014',  
[http://www.ons.gov.uk/ons/dcp171776\\_368928.pdf](http://www.ons.gov.uk/ons/dcp171776_368928.pdf)
- ONS (2013) 'Full report - Women in the labour market',  
[http://www.ons.gov.uk/ons/dcp171776\\_328352.pdf](http://www.ons.gov.uk/ons/dcp171776_328352.pdf)
- Plunkett, J. and J. P. Pessoa (2013) 'A Polarising Crisis? The changing shape of the UK and US labour markets from 2008 to 2012', Resolution Foundation, London.
- Resolution Foundation (2014) 'More than a Minimum. The Resolution Foundation Review of the Future of the National Minimum Wage: The Final Report'  
<http://www.resolutionfoundation.org/publications/minimum-review-minimum-wage-final-report/>,  
Resolution Foundation, London.
- Smith, A., R. Youngs, K. Ashworth, S. McKay, R. Walker, P. Elias and A. McKnight (2000).  
*Understanding the Impact of JobSeeker's Allowance*. Department of Social Security Research Report No. 111.
- Taylor, C., Jowett, A. and M. Hardie (2014) 'An Examination of Falling Real Wages, 2010 – 2013, ONS,  
[http://www.ons.gov.uk/ons/dcp171766\\_351467.pdf](http://www.ons.gov.uk/ons/dcp171766_351467.pdf)

## Annex 1 – Classification of employment policy expenditure in PESA data

The expenditure figures used in this paper are drawn from Public Expenditure Statistical Analyses (PESA) data which have been classified according to the UN's Classification of the Functions of Government (COFOG). Expenditure on employment policy under this classification scheme comes under Division 4 Economic affairs; Group 4.1 General economic, commercial and labour affairs; Class 4.1.2 General labour affairs (CS). The official documentation provides the following note of what government expenditure should be reported in this class:

- Administration of general labour affairs and services; formulation and implementation of general labour policies; supervision and regulation of labour conditions (hours of work, wages, safety, etc.); liaison among different branches of government and between government and overall industrial, business and labour organizations;
- operation or support of general programmes or schemes to facilitate labour mobility, to reduce sex, race, age and other discrimination, to reduce the rate of unemployment in distressed or underdeveloped regions, to promote the employment of disadvantaged or other groups characterized by high unemployment rates, etc.; operation of labour exchanges; operation or support of arbitration and mediation services;
- production and dissemination of general information, technical documentation and statistics on general labour affairs and services;
- grants, loans or subsidies to promote general labour policies and programmes.
- *Excludes:* labour affairs of a particular industry (classified to (04.2) through (04.7) as appropriate); provision of social protection in the form of cash benefits and benefits in kind to persons who are unemployed (10.5.0). (<http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4> – last accessed 8 September 2014)

## Annex 2 – Outputs

Volume of referrals and participants for various components of pre-work programme interventions.

**Table A1: Participant volumes in Youth Contract provision**

	April 2012 – May 2014
Work Experience starts	147,670
Sector based work academies pre-employment training starts	60,790
Wage incentive job starts	99,110
Individuals for whom a wage incentive payment has been made	20,030

Source: Youth Contract Official Statistics, DWP August 2014

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/347896/OFFICIAL\\_Youth\\_Contract\\_Official\\_Statistics\\_August\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/347896/OFFICIAL_Youth_Contract_Official_Statistics_August_2014.pdf)

Note: Updated Youth Contract statistics due for publication 3<sup>rd</sup> February 2015.

**Table A2: Participant volumes in Mandatory Programmes – May 2011 – August 2014**

	Referrals	Starts
Mandatory Work Activity (GB)	251,200	105,610
Skills Conditionality – Initial provider interview (England)	726,340	420,150
Skills Conditionality – training (GB)	899,760	492,980
Skills Conditionality - National Careers Service (England)	866,230	535,000

Source: Mandatory Programmes Official Statistics, DWP November 2014

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/376547/mandatory-programme-statistics-to-aug-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/376547/mandatory-programme-statistics-to-aug-2014.pdf)

**Table A3: Participant volumes on the Pre Work Programme (Get Britain Working measures)**

Work Experience placement <sup>1</sup>	238,210 (1/2011 - 6/2014)
New Enterprise Allowance business mentor starts <sup>2</sup>	115,750 (4/2011 - 9/2014)
New Enterprise Allowance weekly allowance starts <sup>2</sup>	60,480 (4/2011 - 9/2014)
Sector based work academy pre-employment training starts <sup>1</sup>	128,990 (7/2011 - 5/2014)

Sources: (1) Youth Contract Official Statistics, DWP August 2014 – includes all starts not just those joining under the Youth Contract

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/347896/OFFICIAL\\_Youth\\_Contract\\_Official\\_Statistics\\_August\\_2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/347896/OFFICIAL_Youth_Contract_Official_Statistics_August_2014.pdf)

(2) Great Britain New Enterprise Allowance Quarterly Official Statistics (December 2014), DWP

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/389249/NEA-statistics-apr-to-sept-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389249/NEA-statistics-apr-to-sept-2014.pdf)

**Table A4: Participant volumes for Access to Work by customer type**

	Existing customer	New customer	Total
2010-11	22,490	13,330	35,820
2011-12	20,770	10,010	30,780
2012-13	20,670	10,830	31,510
2013-14	22,820	12,690	35,530
2014-15 (Q1)	21,650	2,890	24,540

Source: Access to Work: Official Statistics October 2014

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/365329/access-to-work-statistics-april-june-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/365329/access-to-work-statistics-april-june-2014.pdf)

**Table A5: Work Choice statistics**

Quarter	Referrals	Starts
Q3 2010-11	17,960	15,970
Q4 2010-11	5,570	4,860
Q1 2011-12	4,050	2,710
Q2 2011-12	3,690	2,820
Q3 2011-12	3,960	3,170
Q4 2011-12	5,500	4,100
Q1 2012-13	4,780	3,520
Q2 2012-13	5,210	3,930
Q3 2012-13	5,310	3,900
Q4 2012-13	6,490	4,750
Q1 2013-14	6,230	4,650
Q2 2013-14	6,880	4,960
Q3 2013-14	6,780	5,130
Q4 2013-14	7,380	5,350
Q1 2014-15	6,460	4,620
Total	96,210	74,440

Notes: (1) Where an individual has both a supported and unsupported outcome, the first outcome is counted here.

Source: Work Choice: Official Statistics November 2014

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/373185/work-choice-official-statistics-nov-2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/373185/work-choice-official-statistics-nov-2014.pdf)

No statistics are made available by DWP on the number of participants who engage with: Work Clubs, Work Together or Enterprise Clubs.