Social Policy in a Cold Climate

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

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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 has affected living standards, consumption and tax revenues.

Introduction

The previous Labour Government had, before the financial crisis, achieved record levels of employment. Breaking with the past, it moved away from 'demand side' job-creation programmes toward 'supply side' measures intended to create a more skilled and adaptable workforce. It also sought to re-engage long-term unemployed people, lone parents, disabled people and others in the labour market. Labour politicians repeatedly argued that employment offered the best route out of poverty and used a combination of financial incentives and greater conditionality for benefit eligibility ("carrots" and "sticks").

At the heart of this approach were "New Deal" programmes tailored to different groups – consolidated from October 2009 into the Flexible New Deal. Labour also made growing use of private providers to deliver these programmes.

Unemployment was relatively high and rising when the Coalition came to office following the 2007/08 financial crisis. The proportion of the working-age population actively looking for work was at 8.1 per cent, while 4.93m people were claiming out-of-work benefits, including 1.5m receiving Jobseeker's Allowance (JSA). While these rates were high they were lower than the peaks of the 1980s and 1990s recessions and compared favourably with other European countries. This paper summarises the Government's record on employment, with a focus on its active labour market policies.

What were the Coalition's aims and goals?

The aims for employment policy set out in the Coalition Agreement chiefly concerned changes to increase work compulsion and reforms to active labour market programmes. Building on the approach taken by Labour, it pledged that: "…we will ensure that receipt of benefits for those able to work is conditional on their willingness to work".

Existing welfare-to-work programmes (described by the Conservatives as "failing") were to be replaced by a single programme helping longer-term unemployed people, and those most at risk of long-term unemployment, get back into work. Disabled people claiming Incapacity Benefit would be reassessed with those deemed fully capable for work moved on to JSA. There was also a commitment to provide more support for "would-be entrepreneurs" among the unemployed so they could set themselves up in self-employment. The Coalition promised to realign contracts with welfare-to-work providers so payments more closely reflected their results in getting people back into sustained work.

What did the Coalition do?

The Pre-Work Programme

The Pre-Work Programme was introduced from the autumn of 2010 to enhance the work of Jobcentre Plus advisers in helping unemployed people to find work. It included Work Clubs, providing venues to network and receive support and Enterprise Clubs for those interested in self-employment. New Enterprise Allowances (worth £65 a week and then £33 a week over six months) were made available from 2011 for claimants with viable plans to start their own businesses.

A Work Experience scheme targeted 18 to 24-year olds while they continued to search for paid work and was incorporated into a Youth Contract for 18 to 24-year olds. Sector-based Work Academies provided pre-employment training, work experience and a guaranteed job interview.

Work Together schemes encouraged unemployed people to volunteer. More controversially, those claiming JSA or the Employment and Support Allowance (ESA) for unemployed people with limiting illnesses or disabilities could be required to attend four-week work placements or work-related activity to gain skills. Benefit sanctions were applied to those who did not comply. JSA and ESA claimants could also be asked to undertake activities to increase their employability skills, including training in numeracy and literacy.

The Work Programme

The Government's Work Programme was the largest single change to welfare to work provision. The programme was targeted at longer-term unemployed and those most at risk of long-term unemployment. JSA claimants over 25 were referred after claiming benefit for more than a year; nine months in the case of 18 to 24-year olds. Claimants assessed as particularly disadvantaged and in need of help were referred after three months. ESA claimants were also referred to the Work Programme, depending on their status, and could volunteer to join it.

Delivery of the programme was awarded to 18 prime contractors holding 40 contracts between them, and managing around 700 sub-contracts. Payments from the Department for Work and Pensions (DWP) were "by results". A small fee was initially paid up front followed by a larger payment once a participant found sustained employment (a job outcome) and further sustainment payments if a participant remained in work for up to two years. The timing and value of payments varied between groups, according to whether they were considered easier or harder to help. For example, £3,410 was paid for a JSA claimant aged 18-24 finding work for a minimum of six months, but £13,120 for a former claimant of Incapacity Benefit placed in work for a minimum of three months.

Payment by results meant that few central guidelines were set for the Work Programme's content, since providers were expected to tailor packages of support to local and individual needs ("Black Box"). Participants could remain on the programme for a maximum of two years. From April 2014, all those returning to Jobcentre Plus without finding sustained employment were required to join a Help to Work scheme, including compulsory community work placements (such as clearing litter) and daily signing-on, as well as intensive support with basic skills.

The Youth Contract

Seeking to curb stubbornly high youth unemployment and a rising number of 16 to 18-year olds not in education, employment or training (NEET), the Government introduced a Youth Contract from April 2012. This included existing Jobcentre Plus programmes, with funding earmarked for an extra 250,000 work experience placements or Sector Based Academy places. Apprenticeship grants for employers running small and medium-sized businesses were offered over and above existing training subsidies.

A wage subsidy of £2,275 was also paid to employers hiring 18 to 24-year olds who had been claiming JSA for more than six months provided they were retained in full-time work for at least 26 weeks (£1,137.50 for part-time work). Other providers were paid by results to re-engage 16 and 17-year old 'NEETs' in education.

Disabled people

A process reassessing all Incapacity Benefit claimant's capability for work got underway but many have been highly critical about the quality, reliability and delays in the Work Capability Assessments. The Coalition retained Access to Work grants for disabled people about to start work. However, from October 2010, Work Choice replaced other employment preparation schemes, targeting disabled people whose needs could not be met through the new Work Programme. This provided up to six months help with personal skills and work-related advice and up to two years' support in starting and then keeping a paid job. Contracted providers were paid by results.

How much did the Coalition spend?

Expenditure on active labour market policies tends to increase as unemployment rises and decrease when it falls. This means spending reductions can be an indication of change for the better, rather than inability to meet continuing needs. Spending on the New Deal programmes under Labour increased between 1997/98 and 2001/02 both in real terms and as a proportion of GDP (partly funded by a windfall tax on privatized utilities). Expenditure rose steeply as the economic crisis took grip. A peak of £4.8bn was reached as the Coalition took power in 2010/11. Expenditure fell sharply in 2011/12 to £3.5bn, before rising in 2013/14 to £3.4bn. This trend might seem counter-intuitive, given unemployment trends. But it can be explained by the introduction of payment by results under the new Work Programme, which had the effect of deferring expenditure.

What was achieved?

Unemployment fell steeply from 2013, while self-employment expanded and overall employment reached a new peak

Overall UK employment peaked under Labour at 28.9m in the spring of 2008, before falling to 28m in early 2010. Under the Coalition, it continued to decline, but by autumn of 2014 it had recovered to a new peak of 30.8m (73 per cent of the working age population). A notably larger share of total employment was accounted for by part-time working than before the economic crisis (32.2 per cent compared with 25.3 per cent in autumn 2007). Public sector employment fell under the Coalition from 19.4 per cent of all jobs to 17.2 per cent (after taking account of employment reclassification) due to spending cuts and an explicit policy to reduce the size of the public sector.

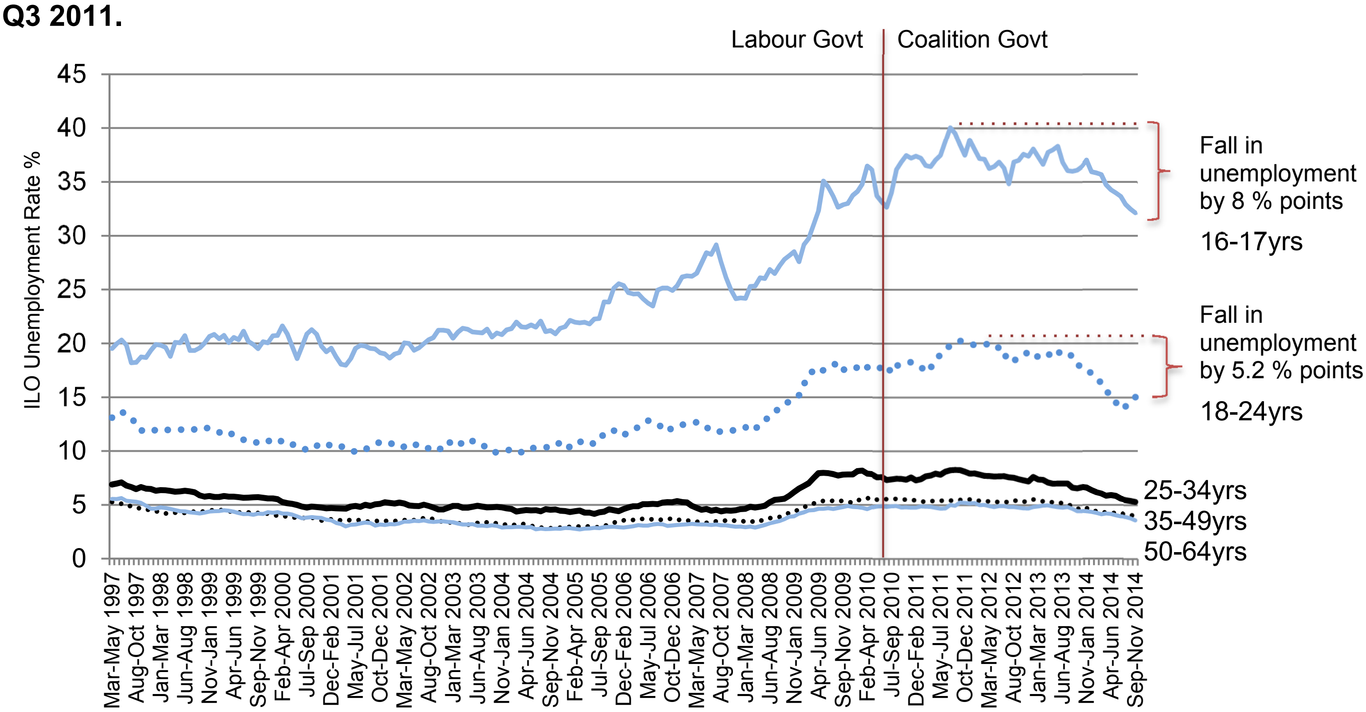
Another significant feature of the economic recovery was growth in self-employment which drove the recovery in the labour market. By 2014, the number of self-employed people (4.6m) and their contribution to total employment (15 per cent) were at their highest for 40 years or more. Data also showed self-employment being increasingly adopted by older workers as a gateway to 'semi-retirement'. However, real average earnings of the self-employed sank (22 per cent reduction since 2008/09), productivity rates were low, tax receipts were low and there was evidence of false employment being used by employers to avoid payment of income tax and National Insurance contribution, rather taking the shine off this story of growth.

The Work Programme disappointed government expectations, although outcomes improved over time

Unemployment peaked at 8.5 per cent in the autumn of 2011. From mid-2013, it fell steeply, reaching 6 per cent in September-November 2014. Unemployment among young people rose especially rapidly following the economic crisis (Figure 1). However, from a peak of 40 per cent in 2011, unemployment among 16 and 17-year olds fell to 32.1 per cent – coinciding with an increase in the education leaving age. Unemployment rates for 18 to 24-year olds also fell from 20 per cent in 2011 to 14.2 per cent (July-September 2014) but then increased to 15.1 per cent (September-November 2014).

While the Coalition's Work Programme set out to reduce longer-term unemployment, it was bound to have had a modest effect. Referrals to the Work Programme were high when it started in mid-2011 as claimants transferred from the Flexible New Deal that it replaced. From a peak of 687,000 in the first nine months, they declined to 349,000 in 2013/14, further assisted by falling unemployment and rules preventing re-referrals. But while JSA claimants predominated to begin with, Work Programme providers were expected to support an increasing proportion of disabled people and 'harder to place' referrals as it progressed.

Figure 1: Recovering unemployment rates for young age groups (16-17, 18-24) since the peak of Q3 2011.



Source: ONS (2015)

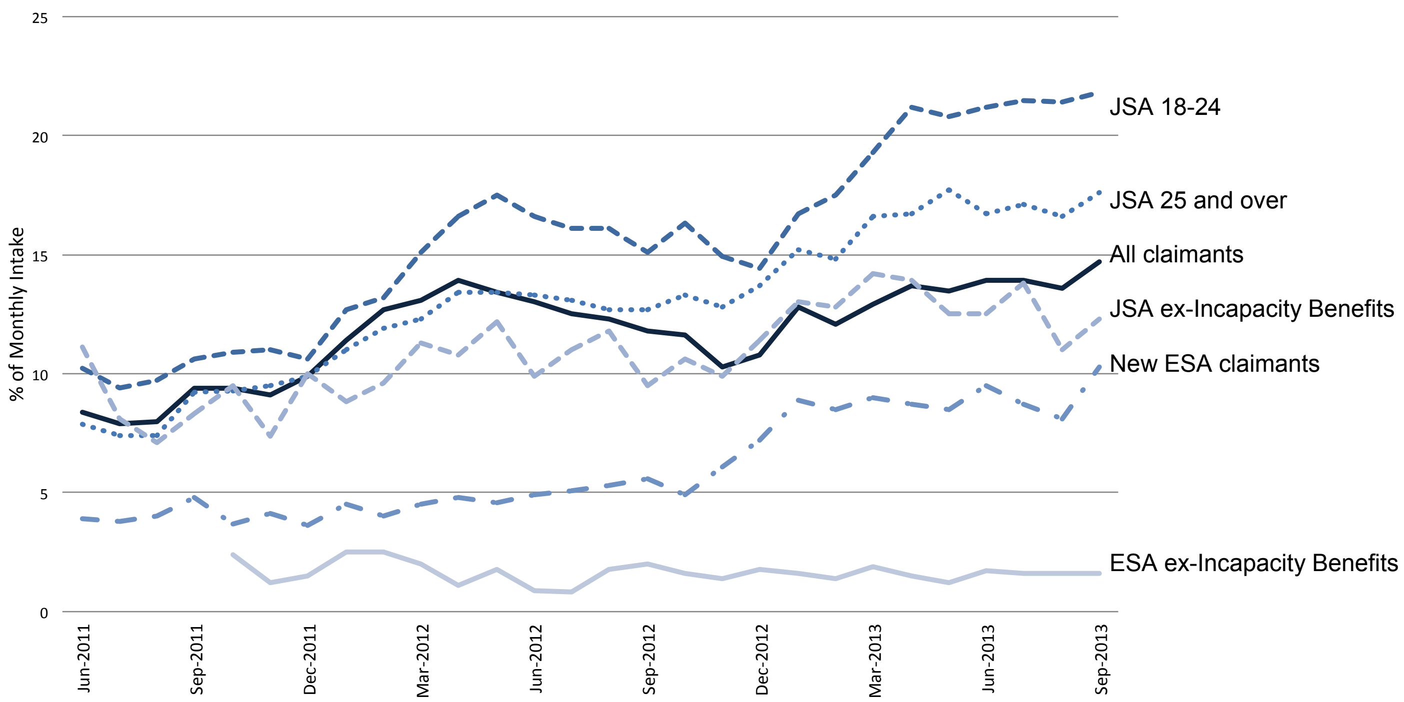
The Work Programme made a slow start. Less than 10 per cent who entered during the first seven months achieved a job outcome by the end of their first year. The Government's targets for different groups of claimants varied, but the initial results fell well below expectations and below the programme it replaced. Figure 2 shows that outcomes mostly did improve over time. Minimum expectation levels were mostly met, although some groups still fell well short of the DWP's expected levels of performance and the vast majority of participants did not achieve this outcome. JSA claimants achieved better outcomes than for people claiming ESA (especially former Incapacity Benefit claimants) and the gap widened over time. This was despite a job outcome being defined as only three cumulative months in work for ESA claimants, as opposed to six months for JSA recipients.

The data so far available on outcomes after two years is necessarily limited, but shows more Work Programme participants achieving a sustained period in employment. From 22 per cent of those referred to the programme in June 2011, the proportion rose to 29 per cent a year later. A 2014 report from the National Audit Office concluded that the Work Programme had not produced better results than the programmes it replaced. It, nevertheless, acknowledged that, despite some financial waste, DWP estimates that it will achieve results at lower cost (2 per cent), with more of the financial risk borne by contracted providers. It will be sometime before this can be verified.

Evidence concerning the Pre-Work Programme is piecemeal, but more than 60,000 claimants were helped to start their own businesses

Available evaluation evidence on outcomes from the Pre-Work Programme is too piecemeal to reach firm conclusions about its effectiveness. However, an early DWP assessment of the controversial Mandatory Work Activity scheme showed disappointing outcomes. The proportion of participants claiming out-of-work benefits during the next 13 weeks was 77 per cent compared with 82 per cent of similar claimants who were not referred. Yet after 21 weeks the proportion of claimants was the same for both groups (74 per cent).

Figure 2: Slow but steady rates of improvement seen in proportions of different claimant groups achieving a job outcome after a year.



Source: DWP

* Monthly intake with at least three/six months in work after a year
**Excluding 12 month prognosis claimants

Unemployed people wanting to become self-employed benefited from the New Enterprise Allowance. By the end of September 2014, 60,480 out of the 115,750 people who had received mentoring through the scheme had begun self-employment and received the weekly support allowance. The proportion of previously unemployed people moving into self-employment rose from an estimated 8 per cent before the recession to 11 per cent. A report on 3,200 longer-term JSA claimants who took part in the scheme found that 78 per cent remained continuously off benefit for at least a year. Another evaluation suggested that participants most commonly became sole traders, and that most aspired to earn themselves a living wage, rather than build an expanding business. There is no evaluation evidence available to judge the independent impact of this intervention.

Nine out of ten Jobseeker's Allowance recipients stopped claiming within a year, but Employment and Support Allowance claimants left at a much slower rate

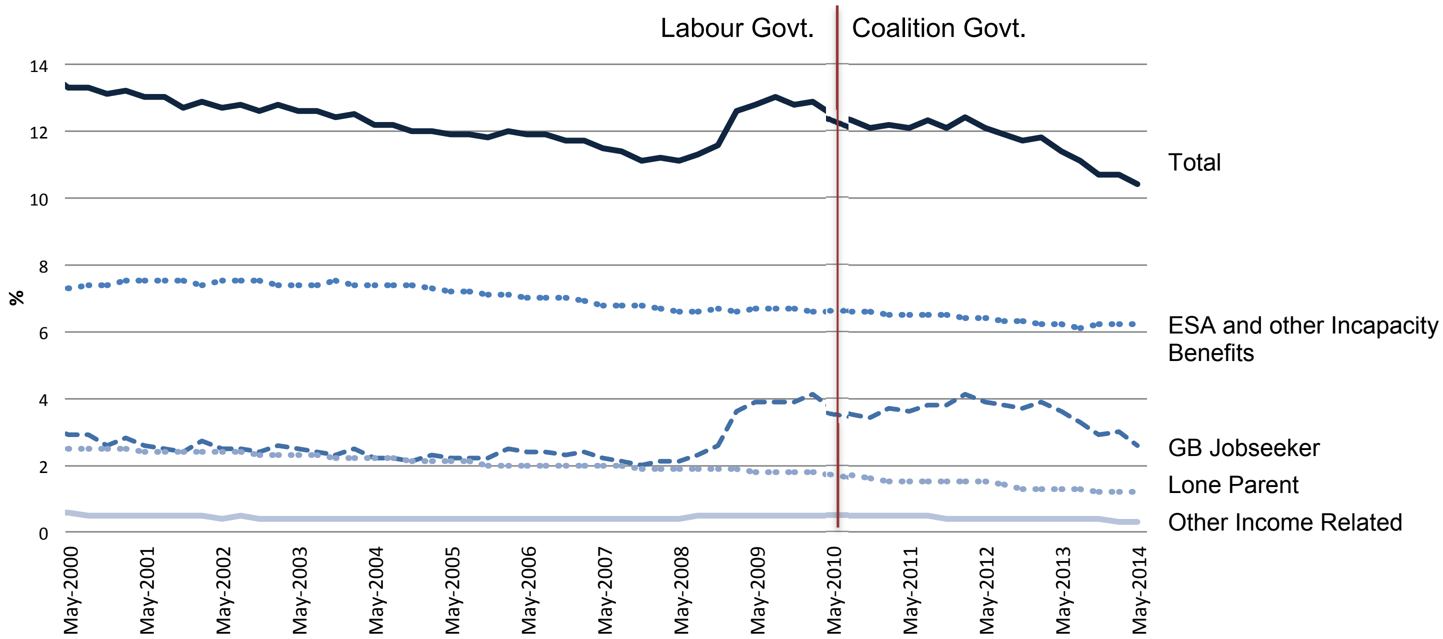
Current statistics for the rate at which unemployed people stop claiming JSA show around 90 per cent no longer receive it after a year. Following a dip between 2010/11 and 2011/12, the proportion recovered between 2012/13 and 2013/14. This compared to a pre-Crisis rate of 94 per cent.

Moreover, only 50 per cent of people who started claiming ESA from August 2011 had left the benefit 16 months later (DWP assessment period). This suggests Coalition policies were less effective at moving disabled people deemed capable of work (in a limited capacity) into jobs, but the composition of people making a claim for ESA changed over time as Incapacity Benefit claimants were reassessed and therefore it is not possible to compare entry cohorts in a meaningful way.

Jobseeker's Allowance claims rose and fell with unemployment, but the proportion of lone parents claiming Income Support kept falling

Increased claims for JSA after 2007 saw the proportion of the working age population claiming out-of-work benefits rise sharply up to the start of 2010. Yet the proportion claiming ESA and other incapacity benefits (Figure 3) continued a slow, but striking decline that had begun under Labour and continued under the Coalition. The proportion of lone parents claiming Income Support also went on falling as the level of employment among lone mothers reached a record 60 per cent in 2013 and lone parents with younger children were increasingly moved from IS to JSA.

Figure 3: A slow but striking long term decline seen across different groups of the working-age population claiming out of work benefits.



Source: ONS (2014)

Real earnings continued to fall as the recovery gathered pace

Fall in real average weekly earnings and hourly wages was another striking feature of the recession and its aftermath. So much so that by mid-2014, average wages were lower in real terms than they had been before the economic crisis. Between 2009 and 2013 cuts in real hourly wages were felt across the age distribution, but particularly among younger workers age 25 to 35. Analyses suggest that while younger, lower-skilled and lower-paid workers were more likely to be laid off during the recession, firms did more to retain older, higher skilled workers, though at reduced cost in terms of real pay. This had a moderating effect on aggregate real wage falls. Those who remained in employment were less likely to experience real wage cuts.

The UK continued to have one of highest incidences of low pay among the OECD member nations. The Coalition parties endorsed the National Minimum Wage (NMW) introduced by Labour, but its value declined. By October 2014 – despite a real terms increase to £6.50 an hour for adults – it was worth no more in real terms than in 2005. A cross-party consensus has emerged supporting further real terms increases to at least restore the real value of the NMW but as the Low Pay Commission points out government policy can both help and hinder such increases. One of the largest sectors employing minimum wage workers is social care and the LPC highlights that local authority spending on social care reduces the scope for higher minimum wages.

Conclusions

The Coalition inherited high and rising levels of unemployment following the 2007/08 financial crisis. But from the summer of 2013 unemployment fell quite sharply. Youth unemployment, having risen dramatically during the recession, stabilised under the Coalition and then started to fall. A number of factors appear to explain these trends, which differ from those observed over previous recessions. The labour market was in good shape prior to the recession and the New Deal policies were already in place to tackle structural unemployment. Real wages fell during the recession and continued falling thereafter, holding down costs for employers. Self-employment growth drove the recovery in the labour market and provided a more prominent route out of unemployment (as well as a bridge into retirement). In addition, the economic crisis was not accompanied by any major industrial re-structuring. All this helped to avoid more extensive redundancies, especially among older lower skilled workers.

Falling real wages may have helped reduce the impact of the recession on unemployment but they fed through to falling real incomes and living standards with knock-on effects on tax receipts and the government's deficit reduction plans. Without a significant and sustained recovery in productivity it could be sometime before the recovery in employment translates into households feeling and enjoying the benefit.

The Coalition's reforms to welfare-to-work programmes can, meanwhile, be viewed more as evolution than revolution. The shift to "payment by results" with a greater emphasis on sustained employment, nevertheless, added an important new dimension but differential rates don't appear to have been enough for providers to invest sufficiently in interventions to improve outcomes for participants with limited capability for work due to illness or disability. 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 the highly discredited Work Capability Assessments) and the extent to which those who were assessed to be capable of work would secure employment (just 12 weeks over 2 years) with the assistance provided by the Work Programme. All told the Coalition's Work Programme has struggled to achieve better outcomes than the so-called "failing" programmes it replaced.

Further information

The full version of this paper *The Coalition's Record on Employment: Policy, Spending and Outcomes 2010-2015* is available at http://sticerd.lse.ac.uk/dps/case/spcc/WP15.pdf This is one of a series of papers produced as part of CASE's research programme *Social Policy in a Cold Climate* (SPCC). The research, concluded in 2015, examines the effects of the major economic and political changes in the UK since 2007, focusing on the distribution of wealth, poverty, inequality and social mobility.

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