



Centre for Local  
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# bulletin

## Welfare reform – A new deal, but is it a fair deal?

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### Introduction

The Welfare Reform agenda was a focus of much policy attention from the previous Labour administration. The Coalition has placed continued attention on this agenda through the reforms outlined in the Welfare Reform Bill which was introduced to parliament on 16<sup>th</sup> February 2011. The Bill was based upon the proposals outlined in 'Universal Credit: welfare that works'<sup>1</sup>. Launching the Welfare Reform Bill, David Cameron commented:

*'It brings the most ambitious, fundamental and radical changes to the welfare system since it began. At the heart of this Bill is a simple idea. Never again will work be the wrong financial choice. Never again will we waste opportunity. We're finally going to make work pay – especially for the poorest people in society. And we're going to provide much greater support for unemployed people to find work – and stay in work'.*

The Bill therefore proposes to build upon previous policy changes introduced by Labour, while also introducing a step change in the scale of reform. It takes a more radical approach to tackling the welfare reform agenda by seeking to reduce the complexity of the system; ensuring work pays for residents who are out of work; and increasing the level of sanctions which can be placed upon jobseekers. At the same time, the Coalition is currently reforming welfare to work support services through the introduction of the Work Programme.

This Bulletin examines the core elements of the Coalition's proposals for tackling the Welfare Reform agenda through the Welfare Reform Bill and the introduction of the Work Programme. The Bulletin then highlights some of the key opportunities for the Bill to tackle worklessness but also some of the main areas of concern.

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<sup>1</sup> *Universal Credit: welfare that works* DWP (2010)

<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/universal-credit/>

## The Coalition's main proposals to the challenge of welfare reform

The Welfare Reform Bill is underpinned by research by the Centre for Social Justice<sup>2</sup> which identified several issues with the current welfare to work system – primarily that the benefits system is too complicated and often provides limited financial incentives for claimants that enter work. CLES' own research has come to similar conclusions. The Welfare Reform Bill therefore has a dual aim of helping people to progress into work, while supporting the most vulnerable in society. The Bill seeks to achieve these aims by introducing the following policy changes:

- **Introduction of a 'Universal Credit' from 2013** to simplify, and provide an integrated benefit system in place of Income Support, Jobseeker's Allowance, Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit;
- **Introduction of a single benefits 'taper rate'**, replacing the current system of varying taper rates for benefits and Tax Credits, and ensuring claimants keep at least 35p of every £1 earned when they enter work;
- **A new regime of conditionality** meaning that payments to jobseekers will be withheld, possibly for as much as three years in the most extreme cases, if appropriate efforts are not made to progress towards work;
- **Introduction of Mandatory Work Activity** for jobseekers who will benefit from 'experiencing the habits and routines of working life'. The work activity will provide up to four weeks of work experience. Failure to attend without good reason could result in benefit payments being withheld.

## The Work Programme

Operating alongside welfare reform proposals, the Work Programme represents a radical new approach to the delivery of services designed to tackle worklessness. Adopting the principles outlined in the Green Paper<sup>3</sup>, and confirmed in the October 2010 Spending Review<sup>4</sup>, the Work Programme is the centre piece of plans to reform welfare to work delivery activity by replacing all existing provision (such as for example Pathways and New Deal) into a single integrated programme by the summer of 2011. The Work Programme places a particular emphasis upon a partnership approach using 'prime contractors' from the private sector and Voluntary and Community sector (VCS) 'sub contractors'. The Work Programme is designed to be flexible enough to meet the needs of individual claimants and as a result, contractors have only been required to outline a 'minimum service offer' for supporting jobseekers back to work.

A key element of the Work Programme is the 'payment by results' funding mechanism which uses future benefit savings to fund delivery activity. This means that providers will be paid an initial 'attachment fee' for providing support; followed by a much larger 'job outcome fee' once a jobseeker has been placed into work for either 13 or 26 weeks depending on the client group. Additional 'sustainment payments' will also be provided for every four weeks a jobseeker continues to be in employment after the job outcome fee is paid.

All fees are paid at different rates depending upon the customer groups, with the aim of reflecting those in need of greater support. An example is provided in the table below which shows the

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<sup>2</sup> *Dynamic Benefits: Towards Welfare that Work*, Centre for Social Justice, 2010  
<http://www.centreforsocialjustice.org.uk/client/downloads/csj%20dynamic%20benefits%20exec%20web%20new.pdf>

<sup>3</sup> *Work for Welfare – A real plan for welfare reform* Conservative Party (2008)

<sup>4</sup> [http://www.hm-treasury.gov.uk/spend\\_index.htm](http://www.hm-treasury.gov.uk/spend_index.htm)

payment rates for a young Job Seeker's Allowance claimant and a claimant of Employment Support Allowance<sup>5</sup>.

Customer Group	Year 1 Attachment fee	Maximum job outcome fee	Sustainment payment
Job Seeker's Allowance aged 18-24	£400	£1,200 (paid after 26 weeks of employment)	£170 (maximum of 13 payments)
Employment Support Allowance Claimant – Work Activity Group	£600	£3,500 (paid after 13 weeks of employment)	£370 (maximum of 26 payments)

The Welfare Reform Bill and the Work Programme clearly signify a change in emphasis for welfare policy and delivery activity. This Bulletin goes on to discuss how these proposals differ from Labour's approach and some of the key questions these policy developments raise.

### **Are the proposals really radically different from Labour's approach?**

The previous Labour Government paid much policy attention to the Welfare Reform agenda emphasising the key role that tackling worklessness can play in achieving 'full employment in our generation' through an 80% employment rate. They also made clear links between welfare reform and social justice with their White Paper<sup>6</sup>, outlining the need to create an environment where 'children don't grow up in poverty, where disabled people enjoy real equality, and everyone is given help to overcome the barriers to achieving their full potential'.

In many aspects, the Welfare Reform Bill appears to continue on from reforms initiated by the previous Labour administration. For instance, Labour placed great emphasis upon a system of 'rights and responsibilities' which has largely been maintained by the Coalition. This means individuals will continue to have a right to claim welfare benefits while also having a responsibility to progress towards work. This system of conditionality is particularly relevant to the replacement of Incapacity Benefit with Employment and Support Allowance (ESA). As part of these changes, claimants are undergoing Work Capability Assessments to determine whether they are 'fit for work', can be supported back to work with support, or have a health condition that means they are unable to work. The reform of this system has been retained the Coalition, as has the tightening of eligibility for Income Support claims requiring lone parents with children over one year of age to attend 'work focused interviews'.

Other areas of emerging policy proposed by the Labour Government have also been adopted by the Coalition. For instance, Labour's White Paper also proposed the adoption of an 'invest to save' model of support services where 'where private and voluntary providers use future benefit spending to fund more up-front investment to get more people back to work'. This is clearly a similar idea to the Work Programme which is to replace existing packages of support such as Pathways to Work and the various New Deal programmes. In addition, a 'work for dole' scheme was also mooted, similar in design to the mandatory work activity outlined in the Welfare Reform Bill.

However, other aspects of the Welfare Reform Bill are more radical, such as the attempt to make work pay by adjusting benefit taper rates. CLES welcomes this element of the Welfare Reform Bill, as our experience of evaluating worklessness projects has highlighted that work often doesn't bring

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<sup>5</sup> DWP (2010) The Work Programme. Invitation to Tender. Specification and Supporting Information.  
<http://www.dwp.gov.uk/docs/work-prog-itt.pdf>

<sup>6</sup> DWP (2008) Raising expectations and increasing support: reforming welfare for the future.  
<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/raising-expectations/>

sufficient financial reward to encourage some claimants to actively seek work. This is especially the case for claimants that have caring responsibilities for family members and left many individuals feeling exasperated with their circumstances. As a result, remaining unemployed seemed to be a rational decision compared to entering the uncertain world of work for limited short term financial gain. However, this potential incentive may prove to be undermined by wider implications of the Bill and the Work Programme. Indeed, for CLES, a number of important questions remain, as set out below:

### **Mandatory Work Activity – not enough carrot, too much stick?**

The headline grabbing centre-piece of the Coalition's Welfare Reform Bill is the introduction of Mandatory Work Activity, which appears similar in design to Australia's Work for Dole scheme which has been in operation since 1997.

Mandatory Work Activity will mean Jobcentre Plus Advisors can refer claimants to up to four week of compulsory work as a condition of their benefit payments. The language used to describe the Mandatory Work Activity highlights a change in tone for welfare support – being designed to 'develop labour market discipline' and demonstrate 'compliance with the jobseekers regime'. This language raises concerns, appearing to focus upon the negative perception of job seekers and misses the opportunity for a more positively framed approach offering practical employment support, skills development, work experience and mentoring. The nature of the language used raises two particular concerns about Mandatory Work Activity. Firstly, compulsory attendance is at the discretion of employment advisors. This could threaten the development of a trusting relationship between the claimant and their advisor which is often critical to encouraging progression and finding work. Secondly, such language could stigmatise participation and potentially create further barriers to work if future employers realise applicants have been previously sent to demonstrate 'labour market discipline' and 'compliance with the jobseekers regime'.

The finer details of the Mandatory Work Activity are yet to be outlined but evidence from Australia's Work for Dole scheme provide an indication of some potential success factors. Studies into the Australian model have provided differing findings, suggesting mandatory work provides both positive and negative outcomes. Evaluations of the Work for Dole Pilot Programme provided the following conclusions:

- *'the majority of participants...appreciated the opportunity to gain valuable work experience in a work environment'*<sup>7</sup>
- *'not only does the programme seem to deliver projects that benefit the community, it helps job seekers become more employable through employment experience'*<sup>8</sup>

However, other studies noted less positive findings:

*'participation in Work for Dole programme is found to be associated with a large and significant adverse effect on the likelihood of exiting unemployment payments. The main potential explanation is existence of a 'lock-in' effect whereby programme participants reduce job search activity'*<sup>9</sup>

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<sup>7</sup> *Evaluation of the Work for the Dole pilot programme* Department of Employment, Workplace Relations & Small Business (DEWRSB) (1999a) Evaluation and Monitoring Branch.

<sup>8</sup> *Customised Assistance, Job Search Training, Work for Dole and Mutual Obligation – A net Impact study.* Department of Employment and Workplace Relations (2006)

<sup>9</sup> *Does Work for the Dole work?* Borland, J. & Tseng, Y. (2004) Melbourne Institute of Applied Economic and Social Research, University of Melbourne.

[http://www.melbourneinstitute.com/labour/Social%20Policy%20Contract/6\\_wfd\\_WP.pdf](http://www.melbourneinstitute.com/labour/Social%20Policy%20Contract/6_wfd_WP.pdf)

It is important that the development of Mandatory Work Activity learns from Australia's experience. This would mean offering supported job search activity and employability skills development as well as work experience. A wide variety of positive, community based, work experience opportunities should be offered which are relevant to the interests of the individual. The provision of training is also important to develop 'softer skills' while experience from Australia also suggests the role of the supervisor is critically important, with participants benefitting from a relationship that supports, mentors and coaches individuals back towards work. CLES' research<sup>10</sup> looking at successful worklessness interventions in the UK also found a supportive and mentoring relationship between the employment advisor and the claimant was instrumental in supporting individuals back to work. Importantly, participants in Australia also received payments in addition to their benefits for participation, providing a key difference to the approach adopted in the Bill.

We believe the Mandatory Work Activity should consider the lessons learnt in Australia to provide a system that offers valuable, and positively focused work experience opportunities. These lessons could also provide the opportunity to re-brand the Mandatory Work Activity initiative, based on this more positive outlook and approach.

### **Have links to localism been overlooked?**

Many aspects of the Welfare Reform Bill are welcome, however we believe the Bill also raises some concerns such as raising questions on government's commitment to the localism agenda. Proposals to introduce a Universal Credit to simplify the welfare benefits system are welcome, however we believe this provides something of a missed opportunity for a more localist approach. The inclusion of Housing Benefit means that a locally administered benefit will now become part of the centrally administered Universal Credit system by DWP. This solves the issue of confusion in term of receiving benefits from both DWP and the local authority but contradicts the Government's commitment to a localist agenda by not passing administrative responsibility for the Universal Credit down to local authorities. Local authorities would be ideally placed to deliver a more localist approach. This could build upon their strengths of administering benefit payments and possibly make the system more responsive to local circumstances, representing something of a missed opportunity to provide the localism agenda with financial powers.

Questions about the links between welfare to work policy and localism are not just concerned with the Welfare Reform Bill. The DWP's recent Co-design<sup>11</sup> report outlines the Department's approach to localism which balances the national benefit system with individualised support shaped 'around individuals wherever they live'. This approach is proposing to utilise the knowledge of front line staff and local partnerships via Work Programme providers, who can pool resources at a local level. It remains to be seen whether the Work Programme, using a system of regionally let contracts to private sector organisations, and third sector sub contractors, provides the financial flexibility to ensure support is truly localised or whether, in reality, generic support is actually offered that stifles the development of innovative approaches.

### **Will the Work Programme actually work?**

The Work Programme constitutes a significant overhaul of support services for individuals seeking work using a system of private sector contractors and voluntary sector sub contractors. Aiming to provide personalised and individualised support at an appropriate stage in a persons' claim, the Work

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<sup>10</sup> *Making it Work. Analysing different ways of tackling worklessness* CLES (2009)  
<http://www.cles.org.uk/publications/making-it-work-analysing-different-ways-of-tackling-worklessness/>

<sup>11</sup> *Worklessness co-design* Interim report DWP (2011)  
<http://www.dwp.gov.uk/publications/policy-publications/worklessness-codesign.shtml>

Programme will support key groups such as long term claimants of Job Seeker's Allowance and those claiming Employment and Support Allowance (ESA) to find work. Work Programme providers will be encouraged to support claimants through a payment mechanism that rewards the delivery of outcomes, and particularly sustainable employment, while providing differential pricing which is designed to reflect the intensity of support an individual will require to gain employment.

The attempt to design a pricing model that encourages sustainable employment should be commended. However, CLES has concerns about the payment by results system in terms of whether support for those furthest away from the labour market is adequately incentivised; and the financial challenges this system provides for third sector organisations.

### **Does the Work Programme sufficiently incentivise the support for claimants further away from the labour market?**

The intention to incentivise support for claimants furthest away from the labour market is clearly a welcome one. However, this raises questions about whether the Work Programme has been designed correctly in terms of the financial incentives available to providers supporting claimants requiring intensive and longer terms support. The Work Programme clearly recognises this need for longer term support as it anticipates that ESA claimants may require up to three months support. CLES would argue this time frame is likely to under-estimate the support required for those having to overcome multiple barriers to work such as behavioural issues and a lack of recent work experience. This will mean providers have to fund support services themselves for a significant period of time before and any potential 'job outcome' fee will be paid.

Perhaps greater financial incentives should be available to encourage providers to support those furthest away from the labour market. The current Work Programme only offers a real difference in payment levels once a claimant is placed into employment for 13 weeks, something which might be difficult given the current job market and the complexity of health related barriers that ESA claimants will need support to overcome. The current system may therefore mean 'cherry picking' still takes place while truly individualised support is unaffordable.

### **The financial challenges faced by voluntary and community organisation in delivering work programme activity**

Voluntary and community (VCS) organisations have an important role to play in tackling worklessness. They are often responsive to the needs of local areas and individuals, while often delivering truly outcome based services which could contribute to the Big Society agenda. However, despite this, the Work Programme may provide significant financial challenges for VCS sub contractors seeking to support workless residents for a number of reasons.

Firstly, the system of payment by results means providers will need to invest their own resources into allocating support until claimants enter sustainable employment and 'job outcome' payments are triggered. Many smaller VCS organisations are unlikely to have significant financial reserves and so will either be deterred from offering services; exposed to significant financial risk by investing in support services; or in the most extreme cases, could potentially go out of business if support is provided and sustainable jobs fail to be secured by those supported. This is increasingly likely at a time when sustainable employment is particularly hard to find due to stagnant economic conditions.

Secondly, it is unclear how much of the attachment and job outcome fees will flow down from the prime contractors to their sub contractors, something which they are left to negotiate between themselves. Anecdotal feedback suggests prime contractors are proposing to withhold up to 20% of

payments, which obviously squeezes the level of financial support available to sub contractors making support for those with multiple barriers even more unaffordable.

These two factors may actually mean that VCS sector sub contractors could be shouldering the greatest risk within the Work Programme and not the private sector prime contractors as expected. This means links between the Work Programme and the Big Society could be under developed as VCS organisations cannot play an effective and leading role delivering these positive work experience opportunities on community based projects. A more constructive approach could have seen DWP guarantee a minimum fee for sub contractors, and a more realistic job attachment fee, which truly reflects the investment they will make in support services.

## Summary

Worklessness is clearly a significant social, economic and political issue which is reflected in the level of policy attention the agenda has received in recent years. The publication of the Welfare Reform Bill and the introduction of the Work Programme certainly signify a step change in the direction, approach and language used to tackle worklessness. The introduction of more severe financial penalties for those not considered to be complying with the system, and the prospect of mandatory work activity, are both seeking to encourage work claimants to find work. We welcome the more positively focused reforms that have been introduced, particularly the attempts to make work pay by adjusting benefit taper rates which is clearly a step in the right direction. CLES would like to see other reforms such as Mandatory Work Activity also take a more positive focus which makes work a positive experience by promoting increased skills, constructive work experience, and progression as opposed to having a focus upon 'compliance'.

CLES also believes the Work Programme provides a mixed picture of both positive and negative developments. Greater involvement of VCS providers is clearly positive, however, questions remain as to whether the design of the Work Programme is correct, particularly in terms of adequately incentivising support for claimants with multiple barriers to employment and ensuring third sector organisations are not exposed to excessive financial risk when delivering support services by their prime contractors. Time will tell whether the Welfare Reform Bill and Work Programme are a success, however CLES will continue to monitor the implementation of the Welfare Reform Bill and the Work Programme through our research and consultancy activity.

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