Every year millions of people in the UK are stuck in vicious cycles, moving from benefits into work and back again. Past experience suggests this problem is set to grow as unemployment rises. These transitory patterns of employment come at huge costs to both individuals and taxpayers. Breaking the cycle has never been more important.

In this report, the authors review a wide range of measures designed to achieve sustained employment. But the evidence suggests that, while there are myriad different approaches, there are few consistently effective interventions across all jobseekers. Despite this, there is a tendency for policymakers centrally to determine what works and ration resources through a range of specialised programmes. They should instead design the structures that allow front-line providers to allocate services according to individual need.

The authors therefore argue that government must go much further in extending the payment-by-results framework to encompass all jobseekers within a single multi-client programme. This would create a simplified, innovative and flexible employment service system. Doing so offers the prospect of substantial improvements in both the cost-effectiveness and fairness of the welfare-to-work system of the future. Over the coming decade tackling high unemployment and improving public sector efficiency will dominate the agenda: this report offers a roadmap to achieving both.
Sustained employment and welfare reform for the next decade

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EXECUTIVE SUMMARY

Between 1997 and the summer of 2008, the Government had considerable success in its efforts to tackle unemployment and reduce the number of people claiming inactive benefits. Increasingly sophisticated active labour market programmes to get workless people to seek employment have been an important element of that success. In the face of rising unemployment, the challenge for such policies is now greater than ever.

From the establishment of the first labour exchanges in 1910, the importance of publicly funded employment services has long been recognised: spells of unemployment are damaging to individuals’ wellbeing and reduce their future employment chances and wages; the social security payments associated with unemployment are highly costly for taxpayers; and productive matches of employee skills and employer needs are beneficial to both parties and society more broadly.

In recent years, active labour market policies have developed to reflect our improved understanding of the importance of better job search efforts in reducing aggregate unemployment. Current policy combines the threat of benefit reductions with the helping hand of employment services to encourage and support people to find work. Services are largely based on the idea of a linear journey through the system: from losing a job, through a spell of unemployment, to finding a new job, at which point the story ends.

But better data on employment patterns of individuals over time has revealed that, for many people of working age in the UK, this is not an accurate representation of their labour market experience. Each year, millions of people make repeat claims on Jobseeker’s Allowance (JSA), Income Support (IS) and the Employment Support Allowance (ESA), demonstrating their weak attachment to the labour market. Known as ‘revolving door’ employment – as it
represents a high frequency cycle into and out of employment – this is a phenomenon which calls for a very different approach to employment services. Revolving door employment and the dynamic nature of the employment challenge mean that, rather than having services aimed at getting someone into work as quickly as possible, a more nuanced definition of employment service success is required: one that is built around achieving sustained employment. With unemployment rising rapidly, revolving door employment is set to become an even bigger problem in the years to come. Tackling it will be the defining challenge of welfare reform over the coming decade, and one that this report seeks to address.

The scale, drivers and costs of revolving door employment

The scale of revolving door employment is difficult accurately to assess. Nevertheless, the best available data suggests that this largely hidden problem is substantial. Administrative data on JSA claims suggests that some 40% of claimants who find work reclaim JSA within six months. In other words, headline claimant count figures mask a huge amount of churn involving millions of repeat claimants from year to year. Evidence for low levels of sustained employment among claimants of other benefits tells a similar story.

Moreover, revolving door employment is not a problem that only appears when unemployment is low. Evidence going back to the late 1980s suggests that the proportion of people reclaiming benefits after a short period in work remains largely constant over the economic cycle. Achieving sustained employment outcomes is therefore not a luxury policy goal meriting attention only when headline unemployment is low, but an essential part of the policy solution in today’s challenging economic climate.

There are a huge range of factors, relating both to the individual and the job at hand, that have an influence on whether a person will sustain employment once in work. For example, job quality and the financial gains from employment are important
factors associated with the job itself. At an individual level, caring responsibilities or recurrent health conditions can also affect sustainability of employment.

But at least some part of the phenomenon stems from the nature of the UK labour market: both temporary jobs and a low level of employment protection can hamper sustainability. For those stuck in revolving door employment, the end of a temporary job is stated as the single most important reason for leaving work. Weaker employment protection legislation in the UK means that, while there are relatively low levels of long-term unemployment, rates of churn in the unemployed population are high.

But this does not mean that the answer to the churn problem is to implement greater employment protection. Evidence suggests that to do so would be to trade revolving door employment for a deeper insider-outsider divide of more long-term unemployment and more protected permanent employment. This would likely lower aggregate labour demand, introduce entrenched labour market inequality and reduce the economy’s capacity to cope with macroeconomic shocks such as the current recession.

Rather, the answer is to develop a welfare-to-work system that places employment sustainability at its centre, instead of focusing on achieving job starts. What is needed is an employment service that is built around an appreciation of the dynamic nature of the UK labour market, and is sufficiently flexible and well-resourced to tailor the help it offers to individuals with unique sets of circumstances. Employment services must be able to help people to navigate the turbulence of the labour market by assisting them to link up spells of temporary work and then move into more stable employment.

**Interventions to promote sustained employment**
The persistence, scale and costs of revolving door employment raise an important question for employment services: what levers
exist to achieve sustained employment and which, if any of them, are effective? There are broadly three types of policy intervention that have been explored, both in the UK and internationally.

First, there are financial incentives offered to individuals who retain their employment. However, evidence from a range of programmes indicates that cash retention incentives are only one possible approach rather than a comprehensive solution. In some cases retention payments appear to have brought forward the employment of eligible groups. But there is little evidence that they increase the long-term employment rates by boosting sustainability.

Second, human capital approaches seek to develop people’s skills, thus enabling them to progress in work and making sustained employment more likely. The effectiveness of human capital approaches varies hugely with the type of intervention, the quality of the provision and the suitability for each individual. Classroom based training is generally not as effective as job search support. In contrast, work trials and intermediate labour markets follow a more praxis-orientated approach and can, in some circumstances, be more successful than pure work search interventions. Across the full range of human capital interventions, tailoring to individual capabilities and labour market needs is essential, as is a clear focus on achieving employment outcomes. But beyond this, evidence on the effectiveness of specific kinds of programmes is thin.

Third, job search support and advice is a major area of innovation among employment service providers. Dedicated advisers aim to achieve the best employee-employer match before the person starts work, and in some cases also provide support once they return to work, for example by offering helpline or mediation services for employees and employers. But, here again, the range of approaches is many and varied, with little clear evidence to isolate the cost-effectiveness of any one intervention.
This lack of conclusive evidence on the superiority of any one intervention partly reflects the fact that the various approaches have rarely been isolated and reliably evaluated, but also indicates that what works can vary hugely from person to person. This is particularly true for those jobseekers facing severe or multiple barriers to employment and implies that, to be successful, employment services need to make use of a wide range of possible interventions tailored to individual needs.

This conclusion clearly demonstrates the fundamental problem with trying centrally to determine how employment services should operate. The package of interventions that works for a given person is unique to them, so support needs to be personalised to be effective. Decisions about how to ration support between jobseekers need to be taken by the people with the necessary information to do so, on the basis of individual needs: by frontline providers rather than Whitehall policymakers. Aside from the intrinsic benefits of flexibility, the complexity of the welfare-to-work challenge implies that a pluralistic approach is needed. Since evidence on effective interventions is so incomplete, innovation is essential. In other words, there is a clear need for wider application of market principles.

What does this mean for policymakers? It implies that the question of how to configure employment services becomes less about seeking and implementing from the centre specific interventions that appear to lead to sustained employment, and more about creating a system within which providers work to achieve flexibility, accountability and innovation. Policy attention should focus on how these structures operate, rather than targeting specific kinds of intervention at broad categories of jobseekers determined in Whitehall. Currently, a number of systemic problems limit the ability of UK employment service providers to deliver sustained outcomes.
The current employment services system - how does it measure up?

The evidence suggests that an employment service system able to achieve sustained employment must succeed in three broad areas:

1. Classification: It must be able to identify jobseekers with weak attachment to the labour market.
2. Resource allocation: It must provide the flexibility and incentives to allow service providers to tailor their support and engage jobseekers.
3. Outcomes: It must drive service providers’ performance on the basis of carefully defined sustained employment outcomes rather than simple proxies, which can lead to unintended consequences.

Classification. Under the current system jobseekers on the main programmes of ESA and JSA are classified according to two key characteristics: whether or not the person has a work-limiting disability, and the length of their current benefit claim. This classification policy effectively hides from the system those people who are caught in revolving door employment, by failing to take account of people’s differing labour market attachment in any systematic way.

Resource allocation. The successful allocation of resources to those who need the most support is an important principle for any cost-effective and fair employment service system. Rationing is desirable and necessary, but the relevant question is about how it is done. The current crude categorisation described above creates four related problems for the effectiveness of the existing welfare system.

- First, categorisation by personal characteristics, such as disability, is often unhelpful. Evidence suggests there is substantial variation in job-readiness within both the
JSA and ESA groups and the intensive support regimes for the two programmes are increasingly similar. Further, the determining characteristic for ESA – the existence of a health condition – is not necessarily any more important a characteristic in determining employability than are some others. For these reasons, the continued separation between employment services for these two client groups looks somewhat anomalous.

• Second, excessive reliance on categorising jobseekers by the length of their benefit claim can exacerbate the labour market disengagement of those who need help immediately. The rationale for this lies in the need to avoid the substantial deadweight costs associated with directing unnecessary support at the majority of jobseekers who move back into work quickly. But crude categorisation based on centrally determined rules about claim length risks compounding the problems of those who need the most help, either because they face substantial barriers to work or because they have a patchy work history. The challenge is therefore to identify those in need of greater support at an earlier stage, but under the current system there is limited scope to do so, and little freedom to explore ways in which this might be done without increasing deadweight costs.

• Third, categorisation tends to distort decisions about resource allocation. Central allocation of both employment programmes and expenditure means that service delivery agencies can face perverse incentives to minimise programme spend, rather than overall cost to taxpayers, when it comes to allocating support. Jobcentre Plus staff have, in the past, reported that they are discouraged from fast-tracking too many jobseekers onto more specialised programmes for reasons of cost. An excessive focus on departmental expenditure, rather than the significant
overall costs for the taxpayer, can therefore lead to ineffective use of resources.

- Fourth, the categorisation of jobseekers creates multiple overlapping employment service contracts. Under the main parts of the welfare-to-work system from October 2009, three separate programmes - Jobcentre Plus core services, Pathways to Work, and the Flexible New Deal - operate in the same geographical areas, often duplicating the infrastructure necessary to deliver employment services. Massive overlap in contracting creates a costly administrative burden both for the Department for Work and Pensions (DWP) and for the private and third sector providers bidding for contracts. In some cases, smaller organisations may be excluded from involvement in the market by the current costly bidding process. Multiple contracts also deny economies of scale, which many recognise to be crucial to delivering effective employment services, particularly for the hardest to help.

**Outcomes.** Finally, the existing system provides a poorly coordinated patchwork of outcome targets across the different programmes. A major contributory factor to the revolving door employment problem is that length of employment spell does not form a significant part of Jobcentre Plus’s Job Outcome Targets. Yet, with the ending of temporary employment the single most common reason for returning to JSA, existing incentives are clearly inadequate to facilitate the transition from temporary employment opportunities into more permanent work. Instead, the cycle is re-enforced as claimants dropping out of work return to Jobcentre Plus and begin the whole costly and time-consuming process over again.

While longer-range outcome targets are in place for private providers operating Pathways and Flexible New Deal contracts,
these targets are also problematic. Evaluation evidence suggests that, while providers are generally highly effective at hitting the targets they are set, the sustainability rates of their clients after the target date are no better than those for clients on other programmes. It is clear that, if their outcomes are to be both beneficial and cost-effective, providers’ incentives should be recast to encourage them to take a longer-term view of sustainability objectives.

Overall, while the current welfare-to-work system proceeds from a top-down approach to resource allocation, there are still many ways in which it tries to build in flexibility and target more sustained employment outcomes. Nevertheless, there are numerous bottlenecks, inconsistencies and inefficiencies in the approach. The key question for policymakers is: how can they create a system that uses resources efficiently while also tailoring support to very specific individual needs?

**THE DIRECTION OF WELFARE REFORM FOR THE NEXT DECADE**

Over the coming decade, in the wake of a severe recession, re-engaging large numbers of people in the labour market will be a defining challenge. Simultaneously, the squeeze on public spending will necessitate radical improvements to value for money in all aspects of government spending, including welfare-to-work. The danger is that an obsessive focus on reducing departmental programme expenditure may frustrate efforts at reducing overall costs to the taxpayer by re-engaging people in sustained employment.

In addressing the problems described above – classification, resource allocation, and outcomes – the move towards outcome-based commissioning in some areas of the welfare system is the right one. But the Government is implementing these insights neither quickly nor radically enough. The following
recommendations provide a blueprint for an employment service system capable of addressing the sustained employment challenge over the next decade.

**Classification.** An important principle that underpins the recommendations made here is that a particular characteristic may be relevant to, but should not solely determine, the level of support an individual receives. But one glaring omission in the way support is currently allocated is the lack of any information on a jobseeker’s past attachment to the labour market. This is a major cause of the invisibility of the revolving door employment problem from the system’s perspective. A cumulative measure of recent unemployment – an ‘attachment indicator’ – would make revolving door employment visible within the system and allow advisers to respond appropriately to the challenge of managing the jobseeker’s case over time.

**Recommendation 1:** DWP should use administrative data to create a labour market ‘attachment indicator’ for all claimants to identify and support jobseekers with broken work histories.

**Resource allocation.** Rather than trying to figure out what works for broad groups of jobseekers and determining the necessary interventions centrally, policymakers should instead set a framework within which intervention decisions can be devolved right down to the adviser level. This would allow the information available to the adviser – but invisible to the system – to be brought to bear in decisions about the appropriate support for individual jobseekers. The challenge lies in administering such devolution without losing accountability or control of costs.

While the outcome-based commissioning framework of the Flexible New Deal and Pathways to Work represents a
powerful tool to square this circle, the approach is not reflected in the system as a whole. This means that much of the power of outcome-based commissioning is lost, since most claimants have to wait until late in their claim to receive the support they need. But flexibility over the timing of an intervention to support a jobseeker, just as much as flexibility over the nature of that intervention, is crucial to achieving cost-effective and sustained employment outcomes. Similarly, the distinctions between the employment support programmes offered to claimants of different benefits should end.

Therefore, employment support for all ESA and JSA recipients at all stages of their claim should be delivered by the same providers. Under this plan, individuals would be supported from the first day of their claim to the last by the same employment service provider in multi-client groups. The resulting higher caseloads would allow contracts to cover smaller geographical areas, while benefiting from the same economies of scale as currently exist. This would increase the scope for the system to leverage the greater local knowledge of some service providers. Alternatively, intra-regional competition between providers, driven by jobseeker choice, could be introduced more widely without creating unviable caseloads. A payment-by-results approach throughout the system would ensure that providers have the necessary flexibility to tailor interventions, incentives to innovate, and accountability to ensure taxpayer value for money.

**Recommendation 2:** DWP should introduce multi-client group employment services to allow support to be directed according to individual need from the first day of benefit claims. These should be operated on a payment-by-results basis, with contracts allocated by competitive tender.
There is significant evidence that non-state contractors operating under a payment-by-results system can achieve more effective results at lower cost than can Jobcentre Plus operating under centrally driven resource allocation. But it is less clear whether the success of payment-by-results derives from the involvement of private or third sector contractors themselves, or is simply related to the greater flexibility that these providers enjoy compared to Jobcentre Plus. It seems likely that the legal form of the delivery organisations is less important to the system’s success than the fact that organisations are embedded in a framework that clearly rewards the achievement of job outcomes and encourages pluralism, flexibility and innovation. In fact, there is good reason to retain some public sector delivery within the proposed system.

**Recommendation 3:** All sectors should be involved in a mixed market of provision to facilitate richer choice for jobseekers and allow government to identify and close loopholes for gaming the system.

**Outcomes.** To support jobseekers beyond the first day of employment, providers need to have clear sustainability targets that are consistent for all employment services. Longer-range sustainability targets, beyond the six months currently stipulated under the Flexible New Deal, are desirable if the more expensive employment support programmes are to be cost-effective. Such targets, by encouraging better-quality job matches rather than the attainment of quick outcomes, would also help to ensure that providers focus more closely on achieving sustained employment over a significant time-frame. As with the payment structure for achieving job outcomes, sustainability payments should be based on an escalator payment structure, to reflect the varying difficulties of achieving sustained employment for different jobseekers. UK
employment law affords employees greater rights after the first year of employment. Targets for providers should work with the grain of this legislation and be set at just over one year, or 53 weeks.

**Recommendation 4:** DWP should introduce 53-week sustainability targets across all employment services, including Jobcentre Plus, matched by an escalator payment.

One obvious danger with strong cash incentives for achieving sustained job outcomes is that they can bias providers against helping those jobseekers they consider least likely to stick at the new job. They also risk making providers averse to promoting temporary employment at all, when in fact temporary jobs are an important part of the UK labour market and, ultimately, of the sustained employment solution. The real challenge, therefore, is to structure incentives in a way to ensure that service providers turn temporary jobs into stepping stones to permanent employment.

Rather than jobseekers returning to the start of the JSA regime on leaving employment, as they currently do, there is a clear need to create incentives for providers to take on more of a brokerage approach to employment support. To encourage them to strike the right balance between the opportunities and risks of temporary employment, providers should be paid on a cumulative basis for the time their clients spend in work over a given period. This would give service providers strong incentives to manage the next steps for a client coming to the end of a temporary employment spell.

**Recommendation 5:** Providers should receive an outcome payment that is proportional to the amount of time their client spends in employment over a given period, rather than based on snapshot assessments.
Recent innovations have established the building blocks for a modern employment service. The proposals of this report provide a blueprint for the direction of reform over the next decade. A focus on sustained employment offers the prospect of delivering a step-change to the fairness and efficiency in the welfare-to-work system of the future.
CHAPTER 1: A HIDDEN PROBLEM

Since 1997, the Government has had considerable success in its efforts to tackle unemployment and reduce the number of people claiming inactive benefits. There have been three main pillars of this success: a long period of benign macroeconomic conditions, which ended in late 2007; policies to make work pay; and increasingly sophisticated active labour market programmes to get workless people to seek employment. During 2007, International Labour Organisation (ILO) unemployment was at record lows of around 5% and workless benefit claim numbers were also falling.¹

Indeed, active labour market policies that have been designed around Jobseeker’s Allowance (JSA) claimants are now being extended to claimants of Incapacity Benefit/Employment and Support Allowance (IB/ESA), previously known as ‘inactive’ benefits. Activation involves two key elements: the introduction of ‘conditionality’ to benefit receipt, whereby benefits can be withdrawn if the recipient is unable to demonstrate that they are trying to find work; and work search support to assist jobseekers through employment services.

The role of both benefit conditionality and employment services is usually seen as being to reduce ‘frictional’ unemployment – the search time it takes for workers with the right skills and employers with the right needs to find one another. As Layard et al. have argued, from the macroeconomic perspective, the equilibrium rate of unemployment depends partly on what they term the ‘search effectiveness’ of the unemployed.² The threat of benefit reduction is therefore supposed to encourage recipients to search harder, while employment services are supposed to help by facilitating exchange

¹ This is based on the ILO definition of unemployment, “International Labour Organization”, http://laborsta.ilo.org/STP/guest.
of information between employers and would-be employees. This report focuses on the design and nature of employment services in this endeavour.

The importance of the state’s role in subsidising and improving job search is clear.

- First, not finding work quickly is costly on many fronts. For an unemployed person, long periods of unemployment are damaging in terms of their own wellbeing, but they also reduce future employment chances and earning power, as skills depreciate. The financial costs to the Exchequer of prolonged unemployment are substantial, and come in the form of benefit payments and reduced tax revenues.

- Second, productive matches of employee and employer have significant returns for both, as well as for society more broadly. Giving people a wider range of vacancies to choose from, and employers a wider range of candidates, improves the chances that the job found will involve a better match of employee skills to employer needs. Yet the information networks, which allow for good job matches for higher occupational groups, are far less developed within low-skill sectors for a variety of reasons.

Since 1910 in the UK, employment services such as the early labour exchanges, have sought to address these issues. As our understanding of the dynamics of the labour market has improved, however, it has become apparent that seeing the role of employment services as glorified vacancy listings is insufficient. Were people to use employment services very infrequently to find permanent employment, this basic provision might be appropriate. But better data on employment patterns of individuals over time have revealed that, for many people of working age in the UK, this is not an appropriate representation of their labour market
experience. Millions of people each year, make repeated claims on JSA, Income Support (IS) and ESA, demonstrating their weak attachment to the labour market. Known as ‘revolving door’ employment – as it represents a high frequency cycle into and out of employment - this is a phenomenon for which a very different approach to employment services is required.

While recessions increase the policy focus on the issue of long-term unemployment, revolving door employment should not solely be viewed as an issue of concern in times of low unemployment and strong economic growth. National Audit Office (NAO) analysis of Department for Work and Pensions (DWP) administrative data going back to the 1980s shows that unemployment benefit repeat claimants, as a proportion of all claimants, remained largely constant over the economic cycle.³ This emphasises that the problem is not an ‘extra’, to be dealt with only when the currently rising tide of unemployment abates, but one that must be addressed now if that rise is to be limited.

In recent years, Government policy has begun to recognise the problem of revolving door employment. The introduction of sustained employment targets for some jobseekers, for example, has contributed to some of the progress made in addressing the issue. But the design of the overall system still strongly reflects a static, short-term interpretation of the employment problem. For the early period of an unemployment benefit claim getting a workless person into employment for just one day is defined as success. But from what is known about the dynamic nature of the employment challenge, it is clear that a more nuanced definition of employment service success is required: one that is built around achieving sustained employment.

Since June 2008 unemployment has been rising sharply.⁴ The claimant count rose from 835,317 then, to 1,564,978 at the time of

writing in May 2009. But the employment crisis does not diminish the relevance of a sustained employment agenda. Indeed, as described below, the evidence suggests that re-engineering the employment services system to achieve sustained employment outcomes – rather than the huge proportion of transitory ones currently attained – would help to bring unemployment down. In reality, the recommendations that follow from the analysis of this report would take time to implement. But they nevertheless represent the elements of the system that need to be in place to support people into sustained employment once economic recovery comes.

This chapter seeks to address three questions which motivate the analysis of this report:

- What is the scale of the revolving door employment problem?
- What are the causes of this phenomenon in the UK?
- What are the costs associated with it for individuals and for the taxpayer?

The chapter concludes by considering the broad implications of the answers to these questions for the design of the appropriate kind of employment services system.

Chapter 2 looks at the evidence for the kind of employment service interventions that can be successful in helping people into sustained employment. Chapter 3 then considers the state of the current employment service system, showing the ways in which policy has tried to achieve value for money, and where the current regime fails to achieve an effective sustained employment focus. Finally, Chapter 4 outlines what a re-engineered system should look like, extrapolating to the entire system some of the principles that already underpin the most innovative parts of the current employment services system.

5 Nomis*, https://www.nomisweb.co.uk/Default.asp
As well as providing employment services, Jobcentre Plus also administers benefits. Although this is an important role, the issue of benefit administration is not addressed in this research. While the arguments of the report have wide-ranging implications for employment support services, they do not necessarily imply alterations to the administration of benefits, the successful delivery of which is widely credited to Jobcentre Plus. Nor do the recommendations here necessarily imply an end to the co-location of employment and benefit administration services. But they do point the way to a fairer and more efficient use of resources, which will be vital over the next ten years.

In the wake of the current recession, public spending is set to face a decade of retrenchment. The Institute for Fiscal Studies has suggested that departmental expenditure is likely to face a squeeze of some 2.3% per year in real terms from 2011 to 2014, with further punishing cuts likely to be necessary thereafter. A re-engineered employment service can ultimately save the Exchequer a huge amount of money, by supporting all jobseekers to sustain employment, rather than allowing them to cycle in and out of unemployment. While the changes suggested here are not necessarily compatible with reduced departmental programme costs, they have great potential to achieve much better value for money and reduce expenditure on benefits and credits. The need for a step change in performance over the next decade is clear, and the opportunity to do so should not be missed.

1. WHAT IS THE SCALE OF THE REVOLVING DOOR EMPLOYMENT PROBLEM?

The scale of revolving door employment is complicated to determine for a range of reasons. First, administrative benefit data - the best available information tracking people’s employment patterns over time - only

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captures claimants of unemployment benefits, rather than all unemployed people. Second, claimants of different types of benefits (such as JSA and ESA) are categorised differently – according to their support needs – even though claimants of either benefit may be seeking work. Third, administrative quirks, such as benefit claim appeals, or a recipient’s failure to sign on, can lead to apparent repeat claims when jobseekers re-apply. This gives the impression of revolving door employment, when in fact no employment spell occurred. Finally there are questions around the necessary length of time between claims for a person to be described as cycling between employment and unemployment.

Nevertheless, on most measures, revolving door employment is a substantial problem today, and has been so for some time. Perhaps the most useful picture of pathways from JSA to employment and back again is contained in a study undertaken for DWP which surveyed a sample of new JSA claimants in 2003-04 to better understand patterns of ‘recycling’ amongst claimants. It found that, for those claiming JSA, a pattern of cycling between benefits and work is very common. The authors identified “an increasing concentration of unemployment within a challenging client group who repeatedly claim JSA without finding sustained employment between claims.”7 Indeed, the study found that 54% of JSA recipients were repeat claimants who had claimed at least once before in the last four years. Among this group, the mean number of previous claims was three, averaging a total combined time of one year on JSA.8

A further study of DWP administrative data undertaken by the NAO in 2007 found that, of the 2.4 million JSA claims made in any one pre-recession year, 70% were repeat claims of some kind.9 Based on this study, the House of Commons Public Accounts Committee

8 Ibid., 15.
9 National Audit Office, Sustainable Employment: Supporting People to Stay in Work and Advance.
found that, of those who move from benefits into work, more than a fifth were found to reclaim the benefit within 13 weeks and 40% within six months. But while many unemployed people reclaim JSA reasonably quickly, even these figures may overstate how likely JSA claimants are to sustain their employment. For sub six-month JSA claimants, one recent study analysing data from 2004-05, shows that, regardless of whether or not they reclaimed JSA, around 40% of those who found work had left it again within three months, almost 58% within six months and around 73% in the first year.

But current JSA claimants are not the only group of interest here. The internationally accepted definition of unemployment differs from the JSA claimant count largely because some unemployed people are ineligible to claim JSA due to their partner’s income, or because some of the people looking for work (and therefore unemployed on the International Labour Organization definition) are claiming other benefits such as IB/ESA or IS. While JSA claimants represent the bulk of unemployed people, claimants of other benefits who seek work often demonstrate similarly weak connections to the labour market when they move into and out of employment. In respect of repeated claims for IB, administrative data show that 32% of IB recipients are repeat claimants, with 18% having claimed either IB or JSA at least once before in the previous two years and 13% having claimed before but not in the previous two years. In respect of IS, likewise, according to 2008 figures, around 55% of all IS recipients are repeat claimants.

Among lone parents who enter work, a recent analysis of DWP administrative data from 2004-05 suggests that some 53% have left again within six months. While this is marginally better than the average for all client groups combined (a 58% drop-out rate by month six), it is important to note that these working lone parents were voluntarily seeking employment, in contrast to jobseekers on mandatory programmes such as JSA. Similar figures for people with a health condition or disability show that around 58% have dropped out of work by month six.

The impact of recent reforms
The major changes currently underway in the welfare system mean that those people claiming what used to be labelled ‘inactive benefits’ are set to become a much more significant group for employment services. While voluntary programmes such as the New Deal for Disabled People have been around for some time, active labour market programmes will now become mandatory for the majority of people claiming inactive benefits and questions about how to foster sustained employment will become a growing issue. Box 1.1 outlines some of the key changes that are taking effect and their impact on the composition of the JSA claimant population.

Box 1.1: Recent and forthcoming changes to the JSA population
Since October 2008, people who would have claimed IB or IS on incapacity grounds are now eligible for the Employment and Support Allowance (ESA). Within ESA they are allocated to two programmes. Those who are not expected to work, due to severe disability, form the Support Group, where participation in work programmes is entirely voluntary. All other claimants – anticipated to be 90% of ESA claimants – must attend the Work Related Activity Group, which aims to prepare them to enter employment. Meanwhile a tougher Work Capability Assessment is likely to restrict access to ESA for claimants, turning many more onto JSA than was the case under

15 Department for Work and Pensions, Experience of Work and Job Retention Among Lone Parents: An Evidence Review, 47.
Indeed, off-flows from JSA to ESA/IB, previously standing at around 7-8% of JSA claimants each month, has fallen to 3% since the introduction of ESA, suggesting that a much more stringent work search regime for would-be IB claimants is now in place.

The benefit system for lone parents is also changing radically. Since November 2008 all lone parents whose youngest child is 12-or-older have been moved onto JSA and are required to prepare for employment, adding around 100,000 people to JSA claimant count. By 2010 this will be compulsory for all lone parents whose youngest child is seven-or-older adding a further 100,000 to 150,000 to JSA. These moves are considered vital to ensuring targets for boosting employment rates amongst disabled people and lone parents are met. For families, sustained employment is one of the most effective routes out of poverty. DWP also hopes these changes will empower people who were previously long-term unemployed, giving them the confidence and support to re-enter the labour market.

The Centre for Economic and Social Inclusion has estimated that these changes to benefit qualification rules alone will lead to a total rise in numbers JSA claimants by 160,000 over the next 18 months. These measures to activate large numbers of previously inactive people are very likely to be accompanied by an increase in repeated claims. Individuals who have least experience in the labour market tend to have the weakest connections to employment, and are therefore likely to be at greater risk of losing jobs and moving into revolving door employment. In this context, if reforms are implemented successfully and those further from the labour market make up a greater proportion of jobseekers, so a greater focus on

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sustainability will be crucial to securing positive outcomes for the remainder.

As this section has outlined, revolving door employment is a substantial and largely hidden problem in the current UK benefit system. With the activation of huge numbers of people who were previously left without the support to find work, this problem will grow in size unless the employment services system is re-engineered to address the causes of revolving door employment.

2. WHAT ARE THE DRIVERS OF REVOLVING DOOR EMPLOYMENT?

Transitory or revolving door employment, then, is a significant aspect of the UK labour market. Millions of workers are in unstable employment of one form or another, and this comes at a significant cost both to the people themselves and to the state. But the reasons for that instability are often unclear: is it related to the individual jobseeker, or something to do with the structure of the UK labour market?

At the individual level there are a huge range of factors that have an impact on whether or not a person, once in work, sustains their employment. Those with a significant impact on employment sustainability include:

- the relative financial gains from employment;
- the efficiency and incentive structure of tax and benefit administration;
- the suitability of an employee’s skill levels;
- the presence of recurrent health conditions, or significant caring responsibilities;
- the availability and ease of transportation;
• the quality of the job secured;
• the existence – or lack of – effective management practices; and
• the appropriateness of the job match between employer and employee.

In many of these areas, effective employment services can smooth the way to sustained employment. Interventions that have been deployed to improve sustained employment are discussed in Chapter 2.

But the existence of revolving door employment also has roots in patterns of labour demand. The next section considers the nature of labour demand, placing the UK labour market in international context, to draw out some of the reasons why achieving sustained employment may prove challenging for UK workers.

**Temporary Jobs**

It might be logical to assume that the UK’s flexible labour market manifests itself in a high proportion of temporary jobs in the workforce. On the whole, however, this is not the case. In 2007, temporary jobs made up just 5.8% of UK employment, compared to an OECD average of 14.6%. International comparison of these figures can be misleading, however, since what constitutes a temporary job varies between countries according to legislation and custom.¹⁷ In countries with stricter Employment Protection Legislation (EPL), temporary positions are sometimes used as a type of probation period and often turn into permanent jobs. In other words, their temporary status does not necessarily translate into high job insecurity. But the picture in the UK is different. Here there is much evidence to suggest that people leaving benefits for employment are heavily over-represented.

in temporary jobs – a form of employment associated with low-level occupations. In a survey of those returning to work from JSA, Ashworth and Liu found that 52% of respondents reported that they were entering a temporary job, working under a fixed-term contract or had some other non-permanent arrangement.18

Temporary jobs also appear to be a key factor in the high levels of revolving door employment among this group. A DWP survey reveals that 47% of repeat JSA claimants (those who have claimed at least once before in the last four years) were in a temporary job prior to reclaiming.19 Of those starting a temporary position, 14% resigned and virtually no one was sacked before their contract finished.20 For this group then, the natural end of temporary employment, rather than dismissal or voluntary resignation, is the most common reason for leaving a job and returning to benefits.21 Indeed, even where employment programmes contain an explicit ambition towards sustainability, interviews with service providers confirmed that a significant reason for leaving employment was that the employment was temporary.22 Figure 1.1 provides an overview of the reasons why jobseekers left their last job.

19 Department for Work and Pensions, Repeat Jobseeker’s Allowance Spells.
21 Department for Work and Pensions, Repeat Jobseeker’s Allowance Spells, 27.
22 Interview with employment service providers, 06 January 2009, London.
It is worth noting that temporary employment is rarely the desired outcome for jobseekers: in the DWP study only 56% of employees in temporary jobs reported it was the kind of work they wanted, as opposed to 70% of those in permanent positions. Often jobseekers become stuck in a vicious circle, moving from short-term employment to short-term employment, making it impossible to build up firm-specific skills and hence to achieve permanent employment. Survey results found that 41% of respondents who have claimed JSA three or more times over four years reported that they only could only find temporary work.

Yet the high incidence of temporary employment amongst those leaving benefits is a situation which is unlikely to change. Temporary employment shows little sign of waning in importance as a major part of the labour market: in Q4 of 2007 temporary jobs accounted for 6.0% of the employed workforce; in Q4 2008, this proportion has declined only very slightly to 5.7%.

Source: Department for Work and Pensions, Repeat Jobseeker’s Allowance Spells, 27
But while temporary employment is behind many repeat benefit claims, that fact does not necessarily make them ‘bad’ jobs. There is, instead, a need to change the way we think about the role of this kind of employment. Temporary jobs can be a beneficial aspect of the labour market if employment services are designed to reflect and capitalise on the opportunities they create. The challenge is to find a way to ensure that temporary jobs are used as stepping stones, allowing employees to hone a variety of skills and become accustomed to employment, before gaining more permanent positions.

Flexible labour markets
Intriguingly, the prevalence of temporary employment is lower in countries like the UK, which have more flexible labour markets. This apparent paradox can be explained by the differences in labour market institutions between countries. In less flexible labour markets, with heavier EPL designed to protect permanent employees’ jobs, temporary employment usually constitutes a high proportion of the workforce, satisfying employers’ needs for less costly and risky alternatives. In other words, where it is easier to ‘hire and fire’, employers are more comfortable taking on ‘permanent’ employees since they can shed that labour relatively easily if economic conditions deteriorate. Consequently, while temporary employment is an important part of the explanation for revolving door employment, it is also important to look at the effect of low levels of EPL in the UK on patterns of labour demand.

Box 1.2: Employment Protection Legislation

EPL determines the flexibility of the labour market and the levels of protection available to employees. The Organisation for Economic Cooperation and Development (OECD) uses an index of the stringency of EPL in different countries based on specific requirements for collective dismissals and the level of protection of permanent workers against individual dismissal. This index places the UK as the country with the second weakest levels of EPL in the OECD for permanent employees in 2003, the most recent year the index was updated.a

Arguments about the merits of stronger and weaker EPL have raged back and forth for decades. The main argument in favour of strong EPL is
that it tends to lead to longer job tenure for employees and therefore more stable employment patterns in aggregate. All else equal, in labour markets with weaker EPL, revolving door employment can be expected to be higher. Related to this, EPL is often justified on the grounds that, as discussed above, longer job tenures incentivise investment in human capital. If both the employer and the employee know that the employment relationship cannot be terminated immediately, so the argument goes, they are prepared to invest in general but also in firm-specific training. Indeed, Hall and Soskice argue that this leads political economies with stricter EPL to outdo their liberal counterparts in incremental innovation, since they have institutional comparative advantage in this area.b

Moreover, it is argued that greater job stability means that employees are more prepared to accept changes elsewhere: tolerance for the impact of globalisation in general and technological innovation in particular tends to be higher if employees feel that overall there is income security. Stricter rules on collective dismissal procedures can provide time both for the individual and on a structural level to build contingencies, possibly cushioning downturns.c

But strong EPL is no free lunch. Under such a regime, failing industries are protected, impeding the reallocation of capital and labour to more productive activities by holding both in declining businesses or industries, and raising the risks associated with new investments. This makes the economy vulnerable to competition from elsewhere and reduces its ability to respond to shocks. From a social point of view, strict EPL can also be divisive, protecting those who are in employment and preventing the unemployed from returning to the labour market. This insider-outsider divide is not only a problem for the unemployed, but for new entrants to the labour market and women returning to the labour market after having children.d

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c Trade and Structural Adjustment (Paris: OECD, 2005), 12.
The UK has among the weakest EPL across the OECD. While there are arguments both ways about the efficacy of EPL (for an outline of the issues, see Box 1.2), it is likely to be the case that flexible labour markets are more desirable in times of rapid economic change, such as the current recession. At such times, labour market flexibility is a major advantage, allowing capital to move more easily between contracting and expanding industries, and minimising the ultimate unemployment pain by allowing firms to remain internationally competitive.

But the UK approach does have implications for sustained employment. Under strong EPL regimes on-flows to unemployment are low, but so are off-flows from it. This tends to lead to positive figures on employment retention and low rates of cycling in and out of employment, but very high rates of long-term unemployment. In weak EPL countries, like the UK, by contrast, the opposite appears to be true. The effect of EPL across the OECD is subject to the idiosyncrasies of domestic policy, industrial structure and social norms. However, there does appear to be a positive correlation between employment tenure and EPL strength, and between unemployment spell length and EPL strength. For example, Blanchard shows that similar unemployment rates in the US and in Portugal were composed of very different groups: unemployment duration in Portugal is three times the figure in the States.

The UK fits this apparent trade-off between high levels of revolving door employment and high levels of long-term unemployment: it faces higher on-flows to unemployment than most other OECD countries, but the incidence of long-term unemployment is lower than most. So while one of the major benefits of weak EPL is that it is associated with reduced likelihood that large proportions of the workforce face long-term unemployment, it is all too easy to imagine that the unemployment

problem has been solved in a flexible labour market. In fact, it appears that a high level of revolving door employment is the price paid for minimising long-term unemployment. Figure 1.2 demonstrates the relationship between strictness of EPL and churn in the labour market across the OECD.

Figure 1.2: Relation between the strictness of EPL and flows into unemployment

![Graph showing the relationship between the strictness of EPL and flows into unemployment. The correlation coefficient is -0.49***.](image)


Indeed, in the available evidence on why JSA claimants left their previous job, there is some circumstantial evidence to support this view. Around half of all claimants were in non-temporary employment, yet most of these claimants had their employment terminated by the employers for one reason or another. This suggests both that employers find it relatively easy to shed labour, and that they will do so when the match between employer and employee is unsatisfactory.

Yet, as with temporary jobs, a flexible labour market can be an asset, particularly in times of economic turbulence. The problems tend to arise only for those on the fringes of the labour market who disproportionately comprise the ‘flexible margin.’ These individuals are
over-represented in temporary and poor quality jobs, associated with low pay, low investment in human capital and a lack of advancement opportunities, trapping them in a self-reinforcing cycle of poorly-paid, short-term employment.\textsuperscript{27} For most jobs, employers can do their share to improve the working environment, career options and employee wellbeing. A prominent example is McDonalds, which has been widely praised for moving from offering low end ‘McJobs’ to creating more jobs with advancement and learning opportunities.\textsuperscript{28}

In addition to action by employers, it is sometimes argued that interventions on the demand side are necessary to resolve this inequality of employment stability by shifting sectors towards higher skill, and therefore higher wage, business models.\textsuperscript{29} These kinds of interventions are, however, beyond the scope of this report. Rather, this situation raises the question of whether it is possible for policy to do more get the best of both worlds: a flexible labour market in which people who would otherwise cycle in and out of employment are supported to remain in work and move between jobs without long and repeated periods of unemployment.

3. WHAT ARE THE COSTS OF REVOLVING DOOR EMPLOYMENT?

Whether it is due to falling out of permanent work or reaching the natural end of a temporary post, revolving door employment brings many negative consequences for individuals, employers and government. The associated costs are substantial, but difficult to measure precisely. They fall into two broad groups: costs to the individual in the form of reduced feelings of self-worth,

\textsuperscript{27} Alison Booth, Marco Francesconi and Jeff Frank, “Temporary Jobs: Stepping Stones or Dead Ends?,” The Economic Journal, 112: June (2002).


\textsuperscript{29} Kayte Lawton, Nice Work If You Can Get It: Achieving a Sustainable Solution to Low Pay and In-Work Poverty (London: IPPR, 2009), 36.
deteriorating health, and damage to future employment chances and earning power; and costs to the taxpayer in the form of increased social security payments and reduced tax revenues. The following section brings together some of the available evidence on what these costs might be.

**Costs to the individual**

Analytically, it can be difficult to distinguish between the impact of repeated experiences of becoming unemployed and the effect of long cumulative experiences of worklessness. But those people experiencing repeated spells of unemployment are, unsurprisingly, also those who have some of the longest cumulative experiences of unemployment, making the distinction somewhat academic from a policy perspective. The costs of long and repeated spells of unemployment can therefore largely be considered to be different sides of the same coin. There are three types of costs that accrue to individuals from long and/or repeated spells of unemployment: deterioration of health and self-confidence; reduction of future earning power; and declining re-employment chances.

The human cost of revolving door employment, such as lower wellbeing, confidence and enthusiasm is substantial, if hard to quantify. By contrast, remaining in work can have positive implications for both physical and mental health.  


Moreover, there is evidence of correlation between employees’ past experiences of unemployment and their current wellbeing,
suggesting that a psychological scarring effect can result. Clark et al. examine whether unemployment leads to lower wellbeing or whether lower wellbeing leads to a lower likelihood of finding a job. For men, the study clearly indicates that unemployment leads to lower wellbeing, rather than the other way round. The results for women are less clear however. The study also finds evidence for a ‘habituation’ effect: the longer an individual spends out of work, the more they get used to unemployment and the smaller is the overall impact on their wellbeing as time goes by.\textsuperscript{32} A smaller drop in wellbeing on becoming unemployed, however, is often associated with less work search effort on the part of the individual, which in turn makes it less likely that they will find work again quickly.

The impact of repeated and long-term unemployment on wages and re-employment chances is linked to ideas of human capital, and its depreciation over time. As people spend time out of work, they gradually lose the skills that might previously have made them more employable or enabled them to command a higher salary. This has a number of consequences in terms of future wages, re-employment chances and sustained future employment.

On wages, Arulampalam et al. explain that “there is considerable evidence, mainly from the United States, that job displacement is followed by a lower trajectory for future earnings after re-engagement.” The authors’ own estimates of the impact of unemployment suggest that a six-month spell reduces future earnings by 5.1\% compared to similar people who were not unemployed, while one year without work reduces future pay by some 11.1\%. This reduced wage appears to be permanent, representing a significant loss of productivity for the economy.\textsuperscript{33}


It is unclear whether this effect cumulates across different unemployment spells, but the persistent nature of the penalty suggests that it does. Other work, which specifically focuses on the impact of repeated experiences of actually becoming unemployed, suggests that after each work ‘interruption’ the pay penalty is around 10% in the first year back in work and 7% in the second year.\textsuperscript{34}

On re-employment chances following an experience of unemployment, Paul Gregg has found that, for men, there is strong evidence that a spell of unemployment before the age of 23 has a negative impact on employment chances over the following ten years.\textsuperscript{35} Paul Gregg and Emma Tominey find that, “[a]lthough multiple spells of unemployment harm individuals, the first spell carries the most significant scar but the impact of longer durations apply to all spells.”\textsuperscript{36}

More generally on the question of how the length of an unemployment spell affects re-employment chances, the evidence is complicated but suggests that a causal link between length of unemployment and lower chances of future re-employment – known as ‘negative duration dependence’ – does exist. Boeheim and Taylor find that the probability of getting work declines rapidly from 17% in month six of an unemployment spell to around 5% after twelve months of unemployment.\textsuperscript{37} Similarly, Van der Berg and Van Ours find that, for British males, there is “strong negative duration dependence” and differences between individuals appear

\textsuperscript{34} Ibid.


not to affect that conclusion. Some argue, however, that such effects are very difficult to isolate because of the unobservable differences – such as motivation – between people of different unemployment lengths.

As well as the negative impacts of longer spells of unemployment, a patchy or broken work history may also lower the likelihood of sustaining employment once in work, reinforcing a drive away from the labour market and creating a ‘no pay-low pay’ cycle. Potential employers may be wary employing those with a patchy work history – interpreting it as revealing an individual’s inability to ‘stick at’ a job, difficulties in getting along with colleagues or superiors, or problems adapting to a new environment. A 2004 review of literature on long and short repeated unemployment spells concluded that “[a]s the number of spells of unemployment increases, so does the probability of returning to unemployment.” A study of the Italian labour market also showed that the time spent unemployed in between temporary employment had scarring effects. Administrative data bears out the idea that a history of short-term jobs – be they temporary positions or permanent jobs which have not been retained – interspersed with periods of unemployment, is associated with a higher likelihood that the next job is not sustained either.

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39 Layard, Nickell and Jackman, Unemployment: Macroeconomic Performance and the Labour Market.
43 Stefano Galgliarducci, The Dynamics of Repeated Temporary Jobs (Firenze: European University Institute, 2005).
It seems likely that there are at least two reinforcing aspects to this problem. First, temporary jobs tend to be associated with low skill levels and, by definition, little firm-specific human capital, hence they command only low rates of pay. Evidence on pay-rates of repeat JSA claimants finding work in 2006 shows that the average take-home pay was £6.36 per hour (with 40% earning less than £5). The lowest pay rates applied for those who had experienced more unemployment spells. The resulting lower financial gains to work, and higher effective tax rates, therefore make it unsurprising that retention is low.

Second, the high-turnover nature of such low-paid employment also contributes to firms’ reluctance to invest in this element of the workforce, making progression and skills acquisition difficult if not impossible. While causality in these cases is notoriously difficult to determine, it is clear that feedback effects operate to make it very hard for people to escape the low pay – no pay trap.

**Costs to the Exchequer**

Many of the above effects on the individual have implications for the Exchequer in the form of either a higher social security bill or lower tax revenues or, in the case of revolving door employment, both. In his 2007 report, David Freud estimated the saving to the Exchequer of each additional person per year in employment to be in the region of £8,100 for a single childless individual. This kind of analysis makes clear just how expensive extended unemployment can be.

In this context it is evident that employment services that simply move people into employment and then forget about them will not solve the problem. Rather, the cost-effectiveness of employment programmes depends on being able to sustain people in employment once they are there. Given the high cost of achieving ‘additional’ job starts - jobs in excess of those that would

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have been found by jobseekers in the absence of any employment programme - it is far from clear that expensive programmes that do not aim for long-term sustainability are cost-effective.

The NAO has estimated that, for jobseekers on the New Deal for Lone Parents (NDLP), the cost to Government for each additional job start on the programme is in the region of £5,000.46 Excluding the cost of tax credits and benefits available to lone parents, both in and out of work, interventions only become cost-effective for the Exchequer if the jobseeker remains in employment for around 12 months; after 12 months in work, Exchequer savings on reduced benefit payments and increased income tax receipts outweigh the cost of the programme that got them back to work. Yet DWP data on revolving door employment among NDLP participants suggests that within 12 months almost 70% of lone parents have fallen out of employment.47 For the vast majority of successful NDLP clients therefore, the scheme is arguably not cost-effective because outcomes are not sustained for anything like the necessary time.

Similar calculations for JSA claimants either on New Deal for Young People or New Deal 25-Plus, suggest that the break-even job tenure for people finding work from these programmes is somewhere between 18 and 24 months.48 But with over 70% failing to sustain employment even to 12 months, the cost-effectiveness of the entire programme is questionable.49 The results from the New Deal for Disabled People, for jobseekers with disabilities, make for similarly grim reading, with the break-even job tenure estimated to be somewhere between 12 and 18 months. Currently some 60% fail to sustain for 12 months.50

49 Ibid, 17.
50 Ibid, 17.
These calculations relate, in the case of lone parents and disabled jobseekers, to voluntary employment programmes. It is therefore likely that the cost-benefit analysis on such programmes will only become more adverse as activation policies are extended to all new ESA claimants and lone parents of younger children. The message is therefore clear: employment sustainability is of paramount importance to the cost-effectiveness of employment programmes.

**CONCLUSION: WHAT ARE THE IMPLICATIONS OF THESE ISSUES FOR WELFARE REFORM?**

A system that focuses no, or very limited, resources on helping people to sustain their employment, is therefore a system that fails both jobseekers and taxpayers. On the other hand, patterns of labour demand in the UK appear to be unfavourable to attempts to achieve sustained employment, to say the least. The relatively low levels of employment protection afforded to permanent employees in the UK, combined with the large proportion of people who find temporary jobs on leaving unemployment, mean that patterns of labour demand don’t help sustainability.

But the answer is not to implement greater employment protection. The international evidence cited above suggests that to do so would be to trade revolving door employment for a deeper insider-outsider divide of more long-term unemployment and more protected permanent employment. This would likely lower aggregate labour demand and reduce the economy’s capacity to cope with macroeconomic shocks such as the current recession.

Nor is the most obvious solution to focus on ways of engineering labour demand to “increase the supply of good quality, well-paid jobs” as some have suggested. But such policies are likely to be...

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51 Lawton, Nice Work If You Can Get It: Achieving a Sustainable Solution to Low Pay and In-Work Poverty, 4.
expensive and ineffective, and put the cart before the horse. Indeed human capital studies have suggested that the premium on skills in the labour market continues to rise, suggesting growing demand for ever-higher skill levels among the workforce. Yet the stagnation of educational attainment at the lower end, in the UK and other developed economies, has left low-skilled workers vulnerable in a labour market that increasingly demands high-skilled labour.\textsuperscript{52}

This implies the need to build human capital through demand-led training and accumulation of firm-specific human capital - both of which tend to result from achieving and reinforcing job retention.

Rather, the answer is to develop a welfare-to-work system that places employment sustainability at its centre, instead of focusing on achieving job starts. What is needed is an employment service that is built around an appreciation of the dynamic nature of the UK labour market, and is sufficiently flexible and well-resourced to tailor the help it offers to individuals with unique sets of circumstances.

A wide variety of employment support interventions is available to help people to sustain their employment. Many approaches have been tested, whether scientifically or not, in recent years. The next chapter discusses the evidence on what kind of interventions work, and draws some conclusions about what this means for the optimal design of employment services.

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\textsuperscript{52} European Commission, \textit{Human Capital Policy for Europe}, by Pedro Carneiro (Brussels: European Commission, 2009).
CHAPTER 2: HELPING PEOPLE TO STAY IN WORK

Chapter 1 described the scale of the problem of revolving door employment in the UK labour market. The evidence suggests that a large proportion of benefit claimants find it difficult to find steady employment or hold down a job for a range of reasons, and consequently tend to cycle in and out of employment at significant cost to themselves and the taxpayer. A model of welfare-to-work services as a kind of interactive notice board for job opportunities is therefore inappropriate to deal with the reality of employment patterns for millions of people in the UK. This raises the question of what employment services should instead be doing to foster sustained employment. What levers exist to try to achieve better employment outcomes and which, if any of them, are effective? Mapping the range of interventions available and their effectiveness is the task of this chapter.

There is no shortage of approaches to achieving sustained employment. This chapter identifies three main levers for increasing employment retention. These are: financial support; human capital approaches; and personal advice and job search support. What follows looks at the aims of each approach, the kind of specific interventions that have been attempted in the past, and the evidence on their effectiveness. The chapter concludes by drawing out the implications of this evidence for the future direction of welfare reform.

1. FINANCIAL SUPPORT

Financial incentives to work are obviously hugely important in attracting people to look for work. Since 1997, the Government has introduced a range of measures to make work pay, which have been largely successful in boosting labour supply among different groups.\(^53\) The National Minimum Wage (NMW) and tax credits

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system aim, respectively, to boost and supplement the incomes of low-paid people to ensure that being in work pays more than remaining on benefits. The combination of the NMW and tax credits means that the minimum in-work income guarantee for a part-time earner in a family with one child was 30% (in real terms) in 2008-09 than in 1999-2000. The NMW alone led to a 48% increase in the minimum in-work income guarantee for a couple without children over the same period. And employment rates for most target groups have risen over the period: by 2007 lone parent employment was around 12 percentage points higher than the 1997 figure, decreasing slightly in 2008 to 56.3%. The employment rate for disabled people is around 9 percentage points up on the 1997 figures, standing at 48% in 2008. Financial incentives, along with a benign macroeconomic environment, have been a key element in fostering this trend.

Numerous studies have found that measures such as the Working Tax Credit and NMW have had positive effects on employment retention. But while the reality of whether someone is better-off in or out of work is important to whether or not they remain in employment, financial work incentives are primarily designed with

labour supply, rather than employment retention in mind, and are therefore beyond the scope of this chapter. Here, we focus on financial issues that have a specific impact on employment sustainability.

However, in-work financial support that, perhaps owing to administrative problems, fails to materialise once someone moves into work, can jeopardise employment sustainability in the early stages of a new job. Housing Benefit and Council Tax Benefit (HB and CTB) are a major part of the support available to very low-income working families in particular. But for most, when moving into full-time work, their earnings will mean that their entitlement to HB and CTB will end after four weeks in employment.58 From the jobseeker’s perspective, the move into work therefore represents a significant risk. If the job does not work out for them, they may find themselves without the means to pay their rent or council tax. Meanwhile, the bureaucracy and time involved in reclaiming the benefits is daunting; the required form is 40 pages long and the average claim takes 28 days to be processed.59 This means that those who – despite these deterrents – do take up temporary employment are at financial risk once their temporary contract ends.

Even if temporary employment opportunities could be used as a route to finding more permanent employment, therefore, the way HB and CTB are allocated means that it is highly unattractive for recipients to take on such work.60 These are difficult problems to address and are not in the gift of employment service providers. They are, however, necessary areas for reform if activation programmes are not to be frustrated, and temporary employment is to become an opportunity rather than a dead end. The forthcoming Housing Benefit Review will hopefully address some of these issues.

60 Roundtable with employment service providers, held at the SMF, February 2009.
While financial support systems can lead people to fear the transition from benefits to employment, there are many other forms of positive financial employment retention levers that have been trialled. Such policies aim either to tackle specific needs that jobseekers have, or to provide straight cash bonuses for remaining in work. Examples include: discretionary payments by personal employment advisers, cash bonuses at pre-determined milestones for remaining in work, and temporary weekly payments for those entering work. The following section sets out three financial support mechanisms available to jobseekers – emergency payments, bonus payments and time-limited credits. It looks at the incentive structure they incorporate, as well as their effectiveness in terms of practical application.

**Emergency payments: the Adviser Discretionary Fund**

Jobcentre Plus personal advisers have access to an Adviser Discretionary Fund (ADF), which supports people facing the transition from benefits into work. The idea behind these payments, which are also made by some private employment service providers, is to cover small costs associated with moving into a job that might otherwise cause people to drop out again quickly after starting work. Under the Jobcentre Plus ADF, jobseekers are eligible for up to £100 of support within a 12 month period, down from £300 prior to 2005. Payments are intended to cover expenses such as work clothing, travel and help with childcare needs.

One evaluation of ADF found that lone parents and Jobcentre Plus staff viewed it positively, but acknowledged that the money was only a small part of a wider scheme of financial support, which enabled and incentivised lone parents to take up work.\(^{61}\) Advisers criticised the decision to reduce ADF in 2005 on the grounds that they felt it made it more difficult to sell the idea of work to their clients.\(^{62}\)

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There is relatively little firm evidence on how effective ADF expenditure is in helping people to remain in work in the early days of a new job. The Gregg Review recommended that the impact of the ADF be explored further, but also suggested that the fund be made available to all jobseekers from day one.63

Emergency and bonus payments: Employment Retention and Advancement Pilots

The Employment Retention and Advancement (ERA) pilots were designed to test how welfare recipients can be supported to enter and then progress in the labour market. The scheme aimed to support and encourage people, once in work, to take steps to increase their earnings, thus reducing tax credits and fostering stronger labour market attachment. The pilot programmes were operated by Jobcentre Plus in four UK regions - East Midlands, London, North West England, North East England - and Scotland and Wales. In each area, one Jobcentre Plus district with relatively high numbers of New Deal clients was selected. 16,000 eligible participants were chosen and then split between a programme group, who were offered all programme features, and a control group, who received only the mainstream programme support.

Pilot programmes were carried out for two different groups: lone parents (both out of work and in part-time employment) and New Deal 25 Plus participants. The ERA programme began with pre-employment services similar to those available under the New Deal programmes. After ERA participants had moved into work, support provided by ‘Advancement Support Advisers’ continued for two years. Advice was augmented by financial incentives: both groups were offered an employment bonus of £400 three times a year for two years for remaining in full-time work (defined as at least 30 hours per week for at least 13 out of every 17-week block).

In addition, participants were offered training, with an extra bonus payment of up to £1,000 if they completed the course. In case of personal financial crises, an emergency fund was also available.64

Theoretically, offering retention payments either encourages eligible jobseekers to search harder for work than in the absence of the payment, or it lowers the wage they would otherwise have been prepared to work for. Both of these should increase the chances of employment. But the bonus payments are also designed to provide an additional incentive for candidates to stick with their job in the early days while they build the skills to feel comfortable in their new role and adjust to the new lifestyle. In some cases, however, such bonuses may simply encourage people to wait for the payment before dropping out anyway. The argument for rewarding training is that bonus payments for building up new skills provide an immediate and obvious reward for an activity whose returns might otherwise be nebulous and longer-term.

Under the ERA pilots, neither retention nor training bonuses were particularly successful: only one third of candidates fulfilled the requirements to be eligible for the retention bonus payments and, although 62% knew of this bonus, only 4% received a payment.65 When asked whether the bonus payments had encouraged them to remain in their jobs, around 50% of those who received payment said that the money had no influence on their decision. This means that either money played a minor role in employment retention, or payments were too small to make a difference.

Another element of the ERA pilots was the emergency fund. Designed to cover emergency expenses once in work, the average

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64 The most recent evaluations of the programme: Department for Work and Pensions, Implementation and Second-Year Impacts for Lone Parents in the UK Employment Retention and Advancement (ERA) Demonstration, by James A.

payment made was £230.66 The impact of this fund is difficult to judge, because it was used in conjunction with other measures such as continued adviser support and retention bonus payments. The numbers who drew on the emergency fund, however, are not large: 23% of jobseekers coming from the New Deal for Lone Parents, and 18% of lone parents already working before and claiming Working Tax Credits, claimed on the ERA Emergency Discretion Fund to support childcare, transport or rent repayments. Most clients received one payment only.67

While the financial elements of ERA were only one part of the support offered, evaluations to date have not been particularly impressive. Initial results from the pilots found that, while they did have some effect on overall employment rates, reducing the number of clients who never worked over the two years by 2 percentage points, the programmes had little impact on employment retention.68

Time-limited credits
As a programme, ERA combines many different financial and other retention levers, making the impact of any one element difficult to isolate. However, a range of time-limited credits in recent years have enabled a clearer picture of the effectiveness of financial incentives for sustaining employment.

In the UK, the In-work Credit (IWC) and Return-to-work Credit (RTWC) provide financial support to both lone parents and former recipients of Incapacity Benefit (now Employment and Support Allowance [ESA]), who enter employment. To be eligible, jobseekers

67 Ibid, 82.
must have been out of work for at least one year, at which point they become eligible for a tax-free payment of £40 per week (with IWC rising to £60 in London) for 52 weeks after starting work provided they work more than 16 hours per week and earn no more than £15,000 per year. As with other financial incentives, the aim of the payment is to overcome any lingering doubts in recipients’ minds that they will be financially better-off in work, as well as to encourage new starters to remain in a job until they have developed a work habit.

Given that IWC was only rolled out nationally in 2008, following pilots from 2004, the long-term impacts are still unclear, but some tentative conclusions can be drawn from the pilot studies that were undertaken. After 24 months it was found that the pilots had increased participation rates amongst lone parents in the sample by 7%. Participation increased continuously during the pilot schemes, suggesting the impact of the scheme might be even more pronounced in the long-term.69 A survey of Jobcentre staff found that most were positive about the scheme, believing it helped them to make the case for work more easily to parents who were unsure of the financial implications of moving into employment.

Furthermore, some of the evaluation evidence appears to rebut the criticism that non-continuous payments only delay financial problems and have no long-run impact. One study found that none of the lone parents interviewed left work after one year because the IWC ended.70 While this appears an endorsement of IWC, it is important to note that most parents said that the financial incentives


of the IWC did not influence their decisions about work at all.\textsuperscript{71} The credit was welcomed simply as part of a broader range of financial support.\textsuperscript{72} Despite the scepticism of recipients, however, the quantitative evidence suggests that the IWC was at least somewhat effective over the time period for which it was monitored.

Results are similarly mixed for the RTWC. A number of eligible people did not know that the credit was available and as a result did not receive it.\textsuperscript{73} Among those who did claim, there were four broad responses to the credit. For some, the money made a significant difference, especially for those who lived alone, lone parents or employees living with another benefit claimant. A second group felt that they benefited from RTWC because it increased their discretionary spending, with many apparently seeing it as a reward for working. A third group, however, felt it did not make a difference at all, claiming that their finances would not have been much different in the absence of the payment.\textsuperscript{74} A fourth group felt that the payment was too small to help with problems such as debt recovery.\textsuperscript{75} Unfortunately, neither of the two studies drawn on here gives an indication of how large the different groups are. What is clear, however, is that people had different needs and that the RTWC catered to some but not all of those needs.

International experience of similar time-limited bonus payments gives some clear evidence on their impact. The Canadian Self-Sufficiency Programme (SSP) of the early 1990s offered a time-limited earnings subsidy for long-term workless lone parents leaving welfare.

\textsuperscript{71} Department for Work and Pensions, The Lone Parents Pilots After 12 to 24 Months: An Impact Assessment of In-Work Credit, Work Search Premium, Extended Schools Childcare, Quarterly Work Focus Interviews and New Deal Plus for Lone Parents, 28.

\textsuperscript{72} Ibid, 48.


\textsuperscript{75} Department for Work and Pensions, Incapacity Benefit Reforms Pilot: Findings From the Second Cohort in a Longitudinal Panel of Clients, 52-53.
The wage subsidies available were substantial and offered for three years after the recipient started work.

Initially, the SSP had a very substantial impact on the employment of the eligible group compared to the control group, in that it brought forward entry into work. At its peak, SPP reduced the proportion of workless lone parents by 14 percentage points over the control group. On the downside, while the job entry rate was higher than for the control group, so was the job exit rate, leading to high churn. In contrast to the IWC, however, the Canadian SSP maintained an incentive for claimants to find work again quickly after dropping out of a job since they remained eligible for the wage subsidy on finding work again. This difference in design may mean that more people would be expected to drop out under SSP than under IWC, but that more of those who dropped out might return to work again under the Canadian scheme.

52 months after the start of the SSP project, the employment rates of eligible and non-eligible groups had converged, as had wage levels. The programme therefore brought forward entry to work for a large number of benefit claimants. But this came at a price: the SSP came at a net cost to government of $55 per participant per month. The authors of one authoritative study conclude that the project confirmed that time-limited work incentives have “little or no permanent effect on welfare dependency.” Worryingly, the lack of any impact on the wage level of participants suggests that the extra work experience had no noticeable impact on their earning power.

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78 Greenwood and Voyer, “Experimental Evidence on the Use of Earnings Supplements As a Strategy to” Make Work Pay”.
80 Ibid.
Financial support: a mixed picture
The overall evidence on retention payments and emergency funds is therefore mixed. On the ERA programme, take-up of bonus payments and emergency funds was low. Small financial payments to smooth the transition into work seem to be successful for certain people only. And, as stressed in the evaluation of the IWC, financial measures need to be part of a wider intervention, because they only address some of the barriers former jobseekers face when entering employment.

While evidence on employment retention from the IWC appears promising, the Canadian experience indicates that cash payments alone may not be sufficient to reduce levels of worklessness, or raise wages, in the long run. It can be argued that such programmes only ever bring forward job starts and cannot be expected to raise the long-term employment rate. It is legitimate to ask whether such policies are cost-effective from a government revenue perspective, although they clearly contribute to other important public policy aims, such as poverty reduction. It appears, therefore, that cash retention incentives are only one possible approach to achieving sustained employment rather than a comprehensive solution.

2. HUMAN CAPITAL APPROACHES TO EMPLOYMENT RETENTION

An individual’s human capital consists of their skills – both job-specific and more general ‘employability’ skills – that are vital to the employment agenda. Low skill levels can be both a cause and a consequence of unemployment. Firstly, a lack of basic skills forms a major barrier to entry into the labour market; employment levels for those with no qualifications have continued to fall over the last ten years, despite improvements in the employment prospects for other disadvantaged groups. In 2007, for example, those with poor literacy
skills had an employment rate of just 55%. Higher levels of human capital also increase jobseekers’ chances of sustaining a job, with better education protecting against both long-term and revolving door unemployment due to increased productivity. Secondly, a jobseeker’s skill levels can quickly deteriorate during extended periods of unemployment, damaging their future prospects.

An extensive literature and various policy initiatives acknowledge the need for, and benefits of, human capital-building interventions, particularly for securing sustained employment. However, there are some important caveats. There is a wide consensus that programmes need to be market-led and as close to ‘real’ employment as possible. Regardless of skill type – soft, hard, general or specific – it is important that skill acquisition is matched to what local employers are looking for. Ensuring skills and training offered are relevant necessitates a degree of cooperation between service providers and employers. Evidence suggests that such collaboration significantly improves the effectiveness of training.

There are three broad categories of programmes focused on human capital, although the boundaries between them are not always clear cut. The first is the provision of work-focused skills training for those seeking work. The second is the use of work trials to build up employability and help individuals in the transition to work. The third is the use of intermediate labour markets – combining paid work on a temporary contract with training and job search support. All contribute to human capital but, at the same time, are associated with specific costs, benefits and risks.

Basic skills and work-focused training
Assessing the impact of training programmes has proved a controversial area and, as Evans and Meager put it, the general consensus is that these programmes “have not lived up to expectations.” Leitch identified the frequent disjoint between skills provision and employment services (for example, there were no effective links between New Deal programmes and Train to Gain) and the need to ensure that incentives were aligned. The Government has sought to tackle this through the introduction of a more joined up ‘Adult Advancement and Careers Service’ (due to be rolled out nationally in 2010). However, some employment advisers continue to fear that jobseekers may be offered ‘training for training’s sake’, with little emphasis on securing relevant qualifications that actually boost employability. They believe that the quality and accessibility of training on offer must be improved.

The low quality and lack of innovation within current skills provision may in part be down to an over-emphasis on the acquisition of basic skills and qualifications. For example, the Government currently guarantees funding to ensure all adults have an opportunity to gain basic qualifications (Level 2). However, evidence on the actual value of these courses is mixed. In fact, a 2004 review of the returns on Level 2 qualifications found that, controlling for other qualifications achieved, “individuals holding low-level National Vocational Qualifications (NVQs) have statistically significantly lower wage levels than otherwise similar individuals who lack NVQs, the estimates for NVQs at Level 1 and 2 falling between −5% and −20% lower wages.” The study concluded that the only sectors of the working population likely to benefit from gaining NVQ2 are those with particularly low skills.

85 Evans and Meager, The Evaluation of Active Labour Market Measures for the Long-Term Unemployed, 65.
88 Ibid
When comparing job search to classroom-based training, evidence suggests that training does not tend to pay off in the long-run: classroom-based training participants in one study had lower employment rates than participants in work search programmes. These negative effects could be traced four years after completing the training, before disappearing. But, while the record of classroom-based training appears patchy, work-focused training may be more effective than has sometimes been assumed. Numerous evaluations suggest that basic- and work-focused skills training do distance jobseekers from the labour market in the short-term, compared to work search strategies, but may give better results in the long-term.

A Swiss study comparing jobseekers in training to jobseekers focused on work search found that the break-even point for employment levels came after several months. For Swiss males, computer courses had the lowest break-even time when compared to the employment trajectories of non-participants. For this cohort, it took an average of eleven months until course participants caught up with non-participants in terms of their probability of being in work. Comparing work first and skills first programmes in the Swedish labour market, Sianesi found further evidence that human capital approaches do not outperform job search in the short-run, but do in the long-run when focused on job subsidies or trainee placements (where someone replaces a permanent employee on a temporary basis). While these programmes can be seen as work-focused training, they also resemble the more practically focused human capital approaches discussed below.

89 Barbara Sianesi, Differential Effects of Swedish Active Labour Market Programmes for Unemployed Adults During the 1990s (London: Institute for Fiscal Studies, 2002).
92 Rafael Lalive, Jan C. van Ours and Josef Zweimüller, The Impact of Active Labour Market Programs and Benefit Entitlement Rules on the Duration of Unemployment (Bonn: Institute for the Study of Labour, 2000), 21.
A body of evidence therefore appears to suggest that some human capital approaches can provide an important means to secure sustained employment in the long run. However, it is important to note that the impact of any given course is only as good as the quality of the training itself. Clearly, there exists a wide variety of training programmes of varying levels of work-focus, and, given the potential discrepancies in quality, care should be taken when making blanket conclusions on the ‘effectiveness of training’.

The nature of the would-be trainee is also relevant to the appropriateness of training as an intervention. Indeed, a review of the impact of training on the long-term unemployed found that personal circumstances such as motivation, unsurprisingly, have an influence on whether training leads to an employment outcome.93

What can be said is that training needs to be job outcome-focused, appropriate to the individual’s existing skills and focused on the needs of the local labour market.94 The need for individual flexibility and a strong focus on achieving employment implies that it is essential to embed training decisions in an outcome-based commissioning framework.

Flexibility for providers on the appropriate balance between work first and skills first approaches would also allow the volume of training on offer to vary according to its opportunity cost, dictated by macroeconomic conditions. But given that returns to training appear only to accrue in the longer-term, there is perhaps a danger that, where providers are paid by results, short-term outcomes will take precedence to the detriment of long-run cost-effectiveness.

Box 2.1 Skills in a recession

With the UK ranked 18th out of 30 OECD countries in terms of the proportion of its population with low skills, it is clear that there needs to be a focus on upskilling UK workers. Over the last decade, however, there has been some reluctance on the part of employment services to push for training the unemployed. As discussed above, studies have shown its up-front costs are high and pay-offs long-term and sometimes unclear. In comparison, the low costs and short-term pay-offs of work first approaches appear much more attractive when jobs are plentiful. Yet this calculation has been radically altered following a major reversal in economic fortunes. As the UK enters recession, the number of job vacancies has declined and competition for available positions has intensified, so there is clearly an argument for looking anew at the role of work-focused training.

A recession extends the timeframes associated with job search, particularly for those already distanced from the labour market. As such, the short-term opportunity costs of training fall. Given that pay-offs for work-focused training become evident over the long-term, equipping jobseekers with a relevant set of skills and qualifications should put them in the best position to capitalise on a future economic upswing. There have been numerous recent calls – among them the Chief Executive of the UK Commission for Employment and Skills – for the Government to increase training budgets in light of the recession.

http://www.personneltoday.com/articles/2008/10/24/48094/skills-chief-urges-employers-see-recession-as-opportunity-to-upskill-staff.html

Work trials and work experience

While training has been shown to bring certain advantages in the long-term, a work first approach can provide a much quicker route into employment. Work trials and work experience involve offering jobseekers the opportunity to undertake short (and usually unpaid, although benefits can still be claimed) spells in a
real work environment. For jobseekers, such placements have the potential to boost confidence, improve soft skills, extend their CV, foster contacts, and provide insight into the nature of work within different sectors. For employers, a work trial can provide an inexpensive and risk-free means of assessing the suitability of a potential candidate.

Work trials are now offered by Jobcentre Plus and have proved popular; as one interviewee in a survey of Jobcentre Plus advisors put it, "lots of employers are saying that work trials are 'the best kept secret of Jobcentre Plus." Trials tend to last for two to four weeks and, importantly, Jobcentre Plus requires that the placement is offered in relation to a specific job opportunity. However, so far, Jobcentre Plus’s work trials have taken place on a relatively small scale – in 2007 they recorded only 2,000 work trials.

There is some evidence for the success of a work trials approach. An evaluation from the mid 1990s found that, on average, the employment rate of participants increased by 35 to 40 percentage points. The programme, however, was voluntary and therefore a selection bias might be at play to some extent. The success of work trials comes down to their role in facilitating job match. They give both the jobseekers and the employer the opportunity to get to know each other: the employee gets a realistic picture of what a job entails, while at the same time the employer can see how the jobseeker fits into the workforce. Many businesses and other employment service providers have moved to offer them, with many placements not necessarily linked to a specific vacancy but used more generally as part of a training programme.


They also often aim to improve a client’s employability skills, which include self-management, problem-solving, team-working and communicating as well as gaining an understanding of the business the employer operates in. Almost all employers and employment service providers interviewed for this research were positive about their impact.

Box 2.2: Case study: Work Trials at Marks and Spencer

The ‘Marks and Start’ programme is part of Marks and Spencer’s (M&S) corporate social responsibility programme. It offers two to four week placements to engage disadvantaged groups in retail work. Participants are recruited by charitable organisations and fall into four main categories: those who have been homeless, lone parents, disabled people, and young people who are not in employment education or training (NEETs). Recruits are paired with M&S employees who act as mentors, helping them to develop basic soft skills. According to The Prince’s Trust, the scheme has hosted over 2,500 unemployed people. Of those participating in 2008, 40% have gone on to secure permanent employment, either at M&S stores or with other employers. Case studies and participants’ feedback indicated the benefits of the scheme also included increased self-esteem and confidence about operating in the workplace.

Intermediate Labour Market Programmes

One of the potential drawbacks with work trials is the need for intensive supervision from employers where participants are unused to operating in the workplace. Intermediate Labour Market Programmes (ILMs) provide a work first option which seeks to overcome these issues. Dan Finn and Dave Simmonds have


99 Interviews with employers and employment service providers carried out between January and April 2009.
defined ILMs “as a diverse range of initiatives that typically provide temporary waged employment in a genuine work environment with continuous support to assist the transition to work.”  

They aim to offer employment experiences to the most disadvantaged groups – generally those who are very long-term unemployed who would take time to re-adapt to the workplace. These sheltered, transitional employment opportunities allow participants to gain job-specific or general employability skills before moving into the mainstream labour market. ILMs also tend to work within the most deprived communities, to provide services based on the needs and priorities of the locality. ILMs were pioneered in the early 1980s by the Wise Group, a social enterprise seeking to promote employment, based on active labour market policies aiming to provide work experience to the long-term unemployed and benefits to local communities, such as the Community Programme.  

The Government has begun to recognise the potential of ILMs for combating social exclusion in deprived areas; many Employment Zones incorporated ‘Neighbourhood Match’ schemes, in which ILMs were established to reflect the needs of local people.  

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**Box 2.3: Case study – ILM in London: Getting London Working**

Getting London Working (GLW) was run by the charity ‘Tomorrow’s People’ and existed for 7 years until it ended in 2006. The programme was based in four London Boroughs: Camden, Islington, Southwark and Lambeth, all of which rank in the top 20 index of deprivation. It targeted wards which were particularly deprived; some had unemployment rates as high as 17%. The programme focused on

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101 Ibid.
anyone unemployed, claiming JSA, IB or not claiming benefits at all. Outreach activities were carried out at Jobcentres and Community Centres, but also in less traditional places such as GP surgeries. Services offered under the programme included client advice, targeted support services such as seminars and workshops and job brokerage. An employer team worked with a range of employers to develop vacancies for GLW clients. The service was supplemented by in-work support once the jobseekers had moved into regular employment, for both jobseeker and the new employer.

Unemployment rates in the areas where GLW operated fell by around 4 percentage points, but this effect is largely attributed to developments in the wider economy. However, retention rates under the programme were very good: three months after finishing the programme, 86% of clients were still employed, and after 12 months the proportion had only fallen slightly, to 80%. The scheme was seen to represent good value for money: for every £1 spent on the programme, the economy benefited by £2.80.a


ILMs provide disadvantaged jobseekers with direct work experience, which is important for two reasons. First, they provide a vital boost to employability, confirming that the individual can operate in a work environment. Second, jobseekers enter the world of work with realistic expectations, hence improving their chances of sustaining employment.

There is some evidence that ILMs are a successful labour market intervention, comparing well on a range of measures. First, it is argued that they are a more cost-effective way of integrating long-term unemployed jobseekers into the labour market than, for example, pure training programmes. This is mainly because jobseekers are both active and productive while on the programmes. Second, drop-out rates from ILMs are, at
20-30%, lower than those of training courses, which tend to be around 50%.\textsuperscript{103}

Third, job outcomes that result from ILMs also appear to be relatively successful. When comparing ILMs to other programmes, it is important to keep in mind that participation in ILMs is often voluntary – indeed some argue that this is an integral feature of their success.\textsuperscript{104} That means that the problem of ‘selection bias’ may arise in evaluating the performance of most ILMs, whereby it is hard to disentangle whether the apparent success of a programme is down to the programme itself or simply due to the stronger motivation of those who choose to participate in it. McGregor et al., however, compare the success of the ILM operated by the Wise Group to “Training for Work”, a government training scheme leading to a Vocational Qualification and work experience.\textsuperscript{105} There were still differences in the characteristics of the participants between the two programmes – the share of long-term unemployed jobseekers was, for instance, greater in the ILM programmes – but the results can still be compared meaningfully. Although the ILM programme involved more long-term unemployed participants, it outperformed the Training for Work scheme. While in the former 46% were in employment post-training, the figure for the latter was 25% (both are the figures for Scotland).\textsuperscript{106}

Finally, and of most relevance for the focus of this report, the sustainability of resulting jobs appears to be higher than for alternative interventions. One study found that, six months after entering the real labour market, 90% of ILM participants were


\textsuperscript{105} Alan McGregor et al., \textit{Bridging the Jobs Gap: an Evaluation of Teh Wise Group and the Intermediate Labour Market} (York: Joseph Rowntree Foundation, 1997), 12.

\textsuperscript{106} McGregor et al., \textit{Bridging the Jobs Gap: an Evaluation of Teh Wise Group and the Intermediate Labour Market}, 50.
still working, while for the comparison group the figure was less than 40%. This finding is supported by evidence from similar programmes in Sweden. There, programmes, that were most similar to employment in the open labour market, such as employment subsidies and trainee replacements, were the most successful.

But there are some important caveats as well. As with training, ILMs are a nebulous concept and their quality and effectiveness can vary significantly depending, not least, on the needs of the individual concerned. Past evaluations have suggested that it is crucial to target ILM programmes at the very hardest to help to avoid deadweight costs, particularly through spending on those who would have otherwise found work independently. If the emphasis on the personal support element of ILMs is weak, they become structurally very similar to public works programmes (centrally engineered job creation, often with a social purpose), which have rarely been found to have positive effects for jobseekers. As with training, therefore, ILMs are no panacea but are a tool that will only be effective if deployed in the right way for the right jobseekers.

The ‘Future Jobs Fund’, a measure announced in the 2009 Budget, aims to build on these insights. Over the next two years, £1 billion will be available to support long-term unemployed youngsters and other disadvantaged jobseekers, aiming to create 150,000 jobs, including a small fraction of green jobs. A third of these jobs is targeted at regions prone to higher than national average unemployment rates, with first job starts expected for October 2009 or even earlier.

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110 Kluve “The Effectiveness of European Active Labour Market Policy”, 27.

The success of human capital approaches varies hugely
While the importance of increasing human capital in any form is central to employment retention, the evidence on what specific kinds of programmes work is much more complex. No two interventions are alike and effective approaches may be difficult to scale up. Successful programme design depends in every case on taking account of jobseekers’ backgrounds and needs, and those of the local labour market, as much as on the quality of the provision itself.

3. PERSONAL ADVICE AND JOB SEARCH SUPPORT

Personal advice and job search support is a broad category of different interventions that can be undertaken by employment service providers to help people find sustained employment. These interventions include the things that employment service providers have the most discretion over delivering in the existing welfare-to-work system. Efforts that fall into this category can be usefully split into pre- and post-employment support. This section takes each category in turn, exploring the motivations behind the interventions, examples of past efforts and any evidence of success.

Pre-employment interventions
Achieving a good job match is central to producing sustained employment. Highlighting the importance of the matching role that employment services play, Mansour and others argue that, despite differences in retention rates across different sectors, there are no ‘bad’ jobs, just evidence of bad job matches. Indeed, a job which is difficult to sustain for one person can be suitable for

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112 Comparing job retention rates for lone parents in care (including health, child and animal care) and hospitality and catering, 82% sustain in the care sector whereas only 70% of in the hospitality and catering sectors sustain for 13 weeks. Former JSA claimants seem to sustain best when working in Leisure, Travel and Personal Services (82%), whereas in construction and building only 59% sustain (unpublished data from WorkDirections).
another.113 And where matches are poor, neither employer nor employee are content and one way or the other the employee is likely to leave. There is some suggestion that poor job matches, whether brokered by a third party or not, are a major contributor to revolving door employment: a DWP study found that of those repeat JSA claimants who left their last job voluntarily, 72% stated that this was because their work was ‘not suitable’.114 A reasonable conclusion might therefore be that improved job matching would boost retention (see Box 2.4). In practice better job matches could be achieved either by people having more time to search for, or receiving more help to find, work that is more appropriate for their skills and personal needs.115 If this can be achieved, the job is more likely to be sustained.

**Box 2.4: Search theory and job matching**

It is clear that the labour market does not operate in the way that simple economic theory might suggest that it should. Far from the labour market clearing at full employment all the time, there are simultaneously job vacancies and unemployed people looking for work at all points in the economic cycle. There are even large numbers of vacancies in the middle of a recession, such as the current one: the latest data suggests that in April 2009 there were 444,000 vacancies notified to Jobcentre Plus. Over recent decades, theories have been developed to explain how the labour market works to create the problem of persistent simultaneous unemployment and vacancies. These theories not only have relevance for an understanding of what employment services should do to help people find employment: they also have implications for achieving sustained employment outcomes.

Search-matching theories of the labour market build on the observation that people’s skill sets and the skills required for
various jobs are hugely diverse. The process, therefore of finding a job that suits one’s skills and experience among the hundreds of thousands of vacancies that do exist is no small task. Moreover, retraining to take advantage of existing jobs is clearly an expensive and time-consuming - if sometimes necessary - way to find work. The difficulties faced by employers and jobseekers trying to find one another are referred to by labour economists as ‘frictions’. Those frictions give rise to the apparent paradox of simultaneous vacancies and unemployment.\textsuperscript{a}

The implications of this understanding are that, for certain groups, the frictions in the labour market are more problematic than for others. For many unemployed people, the information network provided by employment service providers helps to reduce frictions and therefore lower unemployment compared to what it would otherwise be. But specialised skills are not the only cause of frictions in the labour market. For some, particularly those with health conditions or significant caring responsibilities, employment options may be further constrained, making it harder for them to find work. For these people in particular, employment service advice and job search support is important to provide them with viable employment opportunities.

But search-matching theories of unemployment are not only relevant to understanding the role of employment services in helping people find work. By helping people to find an \textit{appropriate} job, they are essential to helping people find \textit{sustained} employment opportunities. The financial retention incentives, described above, are designed to make a given job more attractive. Human capital interventions aim to develop jobseekers’ skills to better match employers’ needs. Job search help and adviser support, by contrast, seek to match people as they are with vacancies that exist: done well, such interventions can therefore boost sustainability by ensuring that people are in appropriate jobs.

\textsuperscript{a} Christopher A. Pissarides, \textit{Equilibrium Unemployment Theory} (Massachusetts: MIT Press, 2000).
The desirability of improving welfare recipients’ work search is, however, not uncontested. Better quality search (adviser support) or longer search (longer benefit claims) both cost money. Moreover, as already mentioned, unemployment has scarring effects which appear to worsen the longer the person’s spell of unemployment, creating a trade-off between better matching and human capital depreciation. Nevertheless, for many of the most marginalised jobseekers, good quality job search help and adviser support are currently a central part of employment service interventions. It is therefore important to consider what kinds of pre-employment intervention are most effective in fostering sustained employment.

An obvious problem with the concept of a ‘good’ job match is that it is very intangible: by definition it is dependent upon the individual and the employer. Nevertheless, evidence does allow conclusions to be drawn about some of the available mechanisms by which employment service advisers can foster a good job match. These are discussed below.

Job search support at a basic level involves jobseekers working with advisers to identify appropriate job opportunities. Clearly, this covers a huge range of interventions of different levels of intensity. On the whole, however, reasonably basic job search support can be a relatively cheap option and has been shown to produce positive results. In an experimental setting in Sweden, 55% of people receiving these services found a job within one year, whereas a similar group of jobseekers, who did not get this support, had a job entry rate of 42%. Supporting these findings, Martin and Grubb estimate that job search reporting and regular interviews

each have a positive impact of around 15-30% on probabilities of moving out of unemployment – so-called hazard rates.  

But the apparent success of effective job search is not necessarily mirrored in job retention, and here the evidence on what works is less clear-cut. A qualitative study conducted by the DWP found that advisers were aware of the importance of getting the right job match, and over time had directed increasing resources at getting it right. One Employment Zone Manager said, “We don’t push them to be applying for jobs from day one, we’re trying to get to know them and find out what they want to do, the retention is generally about getting the match right. If you get the match right, you get the retention.” In response to the problem of jobseekers failing to sustain employment because the job was ‘not suitable’, Poppe et al. make a case for focusing all pre-employment services on the best possible placement. Supporting a jobseeker to find the best possible job placement considering individual circumstances means to discuss what a possible job will entail so that the jobseeker has realistic expectations. A lone parent, for example, will find it difficult to work irregular shifts. To ensure long-term attachment to the labour market, these matching efforts should be combined with discussions about career paths and future goals.

Quantitative studies suggest that job matching, especially where building connections with employers is a central part of the service provider’s role, can be successful. The Way Into Work Pilot, which ran in the UK from July to December 1999, aimed to assist disadvantaged jobseekers with intensive job matching support. Advisers were trained to understand employers’ business needs and carefully

map jobseekers to vacancies, in the hope that this would increase the employability of the target group as well as building stronger relationships with local employers. The pilot delivered impressive results with work placements up by 37% on non pilot areas. Employers who took people from the scheme reported being pleased with those they had recruited and keen to employ more, suggesting that sustainability may also have been better than usual. However, it is unclear what the drivers of the programme’s success really were, as no rigorous evaluation was undertaken.

A still more intensive job matching scheme was undertaken by Jobcentre Plus staff working specifically with Centrica to fill a pre-determined number of jobs in 2001. Adviser support involved a wide range of interventions including: motivation and confidence building efforts; attempts to prepare the jobseeker with a good understanding of the specific workplace and type of work involved; and an understanding of the employer’s expectations, among other things. Unsurprisingly, perhaps, after such intensive efforts followed by a competitive recruitment process, sustainability was very high and around 90% of successful candidates were still in employment at the company one year later. Once again, though, it is very unclear whether any real conclusions about the effectiveness of such interventions, let alone their cost-effectiveness, can be drawn.

Indeed, despite the general conclusion that assisted work search can be effective, for some people even that may not be the best approach. Meadows found that intensive job search requirements are not the most appropriate intervention to achieve sustained employment for jobseekers who are less job ready: in such cases work search may yield a job outcome but it is unlikely to be sustained. Finally, a review of different active labour market strategies revealed that:

122 Sheila Riddell, Work Preparation and Vocational Rehabilitation: A Literature Review (Glasgow: Strathclyde Centre for Disability Research, 2001), 41.
123 Ibid, 29.
policies in the OECD by Daguerre and Etherington found that people with low skills and young people from BME groups are in danger of entering the grey economy if a work first approach is not supplemented by other measures.\textsuperscript{125}

A further kind of pre-work intervention, aimed at helping the long-term excluded and those with chronic health conditions, is a relatively recent innovation in the UK. In 2003 the Condition Management Programme, developed by local National Health Service providers and Jobcentre Plus, was launched as part of the Pathways to Work pilots. The programme provides a ‘bio-psychosocial’ assessment of clients’ health conditions, aiming to identify obstacles to their returning to work and find ways around those problems.

The assessment, along with advice and information on health conditions, is provided via either one-to-one sessions with professionals such as psychotherapists or group sessions focusing on particular health conditions. Evaluations showed that participants found one-to-one sessions particularly helpful.\textsuperscript{126} The professionals working on the programme reported positive outcomes such as improved confidence, self-esteem, physical appearance and stamina.\textsuperscript{127} Little is known about the isolated impact of these programmes on sustainability per se, although in many cases such interventions would seem to be a pre-requisite for participation in the labour market at all.

Overall, there are many different possible levels of pre-employment support intensity and little evidence on what works


effectively and for whom. This is compounded by the fact that, often, pre-work interventions such as those available to jobseekers on the ERA pilots, are difficult to isolate from other measures introduced to promote retention. The difficulties of drawing firm conclusions about this important element of successful employment services is one of the strongest arguments for deploying adviser discretion and allowing flexibility. Indeed, part of the difficulty of identifying the impact of pre-employment support is that many programmes are combined with a post-employment element.

**Post-employment support**

Even in cases where a good job match is secured, however, for those furthest from the labour market this alone may not be sufficient to break the cycle of revolving door employment. Re-entering the labour market after a long period of unemployment, or returning to work after earlier negative experiences in employment – such as short-term or unsuitable jobs – can be daunting, and problems often arise.\(^{128}\)

The transition back to work can pose personal, as well as work-related, challenges, such as negotiating transport and childcare arrangements. If they are not addressed at an early stage, these issues can, in some cases, lead to dismissal or resignation. Looking at data on repeat JSA claimants, just under one in five had either been dismissed from their previous job, or had left because they didn't like it.\(^{129}\) A failure to resolve initial problems could account for many of these early terminations.

One solution to these problems is to offer new employees some form of in-work support. In-work support mechanisms have been trialled by a number of public and private employment

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programmes, as well as some employers, both in the UK and abroad. Such support can be offered by the employment service provider, by the employer or both in cooperation. Evaluations of small-scale, private initiatives are hard to come by, but several public employment schemes have incorporated various forms of in-work support. For example, many interventions have been trialled through the Workstep programme, helping people with disabilities find and retain employment; and the ERA pilots, to increase the retention and advancement prospects of New Deal participants.

One method employed by both private providers and the Workstep and ERA programmes is the continuation of regular interviews between adviser and jobseeker even after the jobseeker has entered employment. Typically these continue over the first few months’ transition period, helping to ensure the new working routine becomes established, and giving advisers the opportunity to help their clients with any emerging issues. In the experience of personal advisers, such interviews have been deemed successful in anticipating and addressing the particular issues which could trigger problems. 130 74% of participants on the ERA pilots had contact with Jobcentre Plus staff while in work, for example, compared to just 30% of a control group. 131

Box 2.5: Advice and financial support under ERA

Despite large take-up of the interviews and the combination of support with financial incentives (discussed above), ERA was not hugely successful in helping long-term jobseekers find sustained jobs and advance. The net impact of the programme for the target group of long-term unemployed people has not been as great as might have been


hoped. At the end of the two-year programme, 42.2% of participants were receiving JSA - that is 2.6 percentage points fewer than those in a control group. The average total amount of JSA received in the same year was £72 lower for ERA participants than for the control group – a 5% drop. While there is some hope that the effects on advancement will emerge in the longer run, the immediate impact is discouraging.

The picture for lone parents is slightly different. They received the same support as long-term unemployed participants. But the impact here, compared to a control group of lone parents, was more encouraging. The programme had a positive effect largely because it increased the proportion of lone parents working full-time, which led to higher earnings. Parents participating in ERA worked full-time for an average of 5.2 months over the two year pilots, compared to an average of 3.5 months of full-time work for the control group. However, ERA’s main success was in speeding up parents’ entry into work: comparison with figures from the control group revealed the programme had little impact on retention rates. So while there was a positive impact of ERA – it brought forward job entry for lone parents - success in terms of employment retention is limited.

Discussions with employment service providers during the course of this research, revealed that some advisers visit the workplace of their clients themselves during the first week, and remain in regular telephone contact. On the Workstep programme, it was common for advisers to engage in some form of ‘job coaching’, which generally involved support workers spending the first few days guiding a new employee in the workplace. Support materials were also used, including visual aids and checklists to help with time management or operation of machinery.

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132 Ibid.
133 Ibid, 9.
135 Interview with employment service provider, 08 December 2008, London.
There are also longer-term methods of providing in-work support, which were much more likely to be voluntary. Voluntary approaches may be favoured for less hard-to-help jobseekers, since they reduce deadweight costs, are less disruptive and encourage independence where possible. Some American welfare-to-work programmes included ‘peer group’ support and telephone helplines for new employees who experienced difficulties. Peer support groups may be linked to training or induction workshops, but generally entail groups of new employees meeting to share experiences and tackle problems with others in a similar position. Helplines were open to both new employees and employers, allowing them easy access to information on resolving common work-related problems, as well as answering questions on tax and benefit entitlements. However, none of these schemes have been separately evaluated so there is little concrete evidence that they have a significant impact on retention.

In the UK, along similar lines, one employment service provider offers a ‘Graduate Commitment’: extending office opening hours for one evening a week with an open door policy, to allow clients who have recently moved into employment the chance to go in and discuss any problems they may be experiencing. The service is not particularly widely used, but advisers believe that its existence alone provides an added sense of security for new employees and thus eases the transition to employment.

An important element of fostering retention in the longer term is that providers have some contact with employers. Evaluation of the Workstep scheme found that promoting links between employers and employment services, through the use of case studies on successful placements, as well as the benefits of employment for programme

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138 Ibid, 95-96.

139 Interview with employment service provider, 06 January 2009, London.
participants, might encourage employers to take a pro-active stance on ensuring retention.\textsuperscript{140} For example, many advisers participating in job coaching felt the provision was usually best undertaken by the employer - sometimes in return for financial assistance - to encourage smoother, quicker integration of the employee.\textsuperscript{141}

Many effective employers also offer new employees a ‘buddy’ or ‘mentor’ – another member of staff who takes responsibility for the welfare of the new recruit.\textsuperscript{142} Employers also reported that they appreciated providers ‘being on the end of the phone’ to allow for a quick response to problems arising with new employees.\textsuperscript{143} It is important to note, however, that this may be alienating for jobseekers. In one study a private employment provider reported that some employees were uncomfortable with the idea of their adviser and employer consulting on their progress.\textsuperscript{144}

Evidence suggests that both employees and employers are appreciative of in-work support. An evaluation of the Workstep scheme found “the overwhelming majority of providers described the positive impact Workstep has on the lives of supported employees.”\textsuperscript{145} Employers, too, reported that supported employees “were more dedicated to their jobs than other employees...were very committed, had good punctuality and had a positive impact upon fellow employees”.\textsuperscript{146}

\begin{flushleft}
\textsuperscript{140} \textit{WORKSTEP Evaluation Case Studies: Exploring the Design, Delivery and Performance of the WORKSTEP Programme}, 82.
\textsuperscript{141} \textit{Ibid.}, 84. \textit{WORKSTEP Evaluation Case Studies: Exploring the Design, Delivery and Performance of the WORKSTEP Programme}, 84.
\textsuperscript{142} See, for example, the buddy scheme run through the Marks and Start programme
\textsuperscript{143} \textit{WORKSTEP Evaluation Case Studies: Exploring the Design, Delivery and Performance of the WORKSTEP Programme}, 82.
\textsuperscript{145} \textit{WORKSTEP Evaluation Case Studies: Exploring the Design, Delivery and Performance of the WORKSTEP Programme}, 87.
\textsuperscript{146} \textit{Ibid.}, 94.
\end{flushleft}
However, when questioned on the effectiveness of the support offered by Workstep, some employers felt that their Workstep-supported employees were no different to other members of staff and needed little, if any, support from the provider. In the case of the ERA pilots, it was again evident that the need for problem-solving support may have been overestimated. While 74% of participants had contact with employment services when in work, only 10% received support with work-related problems and around 6% received advice on personal matters. Most of the advice that was administered related to prospects for advancement, such as working out long-term career goals (23.7%) or finding a training course (35%).

Some advisers also raised questions as to the appropriateness of such advice in all cases, particularly for older jobseekers who had not worked in many years; “many advisers felt that the notion of advancement envisioned in the ERA programme was not always relevant to such clients, who saw advancement as simply retaining work.”

This suggests that, certainly if administered in a mandatory or uniform way, in-work support may be associated with high deadweight costs. The lack of rigorous evaluations on many of these initiatives also poses problems. While employees and employers report that they like these kinds of services, there is little evidence to suggest concrete success. Indeed, trials of post-employment support operating in four states of the US revealed no statistically significant effects on retention and advancement rates. But as with ERA, which had no evident impact on retention, evaluation is complicated by the fact that the programmes were evaluated in aggregate. Since they incorporated a wide variety of

147 Ibid., 83.
149 Ibid., 65.
150 London Development Agency, What Works With Worklessness?
different retention interventions - including employee counselling, advice on benefits and retention payments - the impact of any one component was impossible to disaggregate.

A key message from one evaluation of Workstep highlighted the importance of significant delivery flexibility “to meet the needs of individual supported employees.” So, as with human capital approaches, the success of interventions appears to increase with the flexibility to allow jobseekers and advisers to come up with their own answer. The use of in-work support is even more reliant on a high degree of flexibility since poorly targeted approaches can lead to large deadweight costs and may even disrupt the integration of the employee, creating dependencies. Tailoring support offers the best chance for providers to ensure that interventions are appropriate, and that the interaction between pre-work and in-work support can facilitate a smooth transition.

A HOLISTIC APPROACH TO EMPLOYMENT SUPPORT

Given the wide variety of support mechanisms which have been trialled, but the lack of conclusive evidence on the superiority of any one intervention, a number of recent employment programmes have introduced a mixed programme of support. This approach implicitly acknowledges that the diverse needs of jobseekers – particularly those facing severe or multiple barriers to employment – require employment services to make use of a wide range of the measures set out in this chapter. Box 2.6 sets out the adoption of this approach by the Workstep and StepUp programmes.

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Box 2.6: Case study: Workstep and StepUp

Workstep is a government-supported employment programme specifically designed for people who, due to a disability or work-limiting health problem, may find it difficult to find or keep a job. It is offered to people both in and out of work. Jobcentre Plus administers the programme and commissions local authorities as well as third sector and private organisations to deliver services. Advisers draw up an individual development plan with each client, which is subsequently monitored. For those in work, there are funds to pay for adjustments at the workplace and to provide awareness training for staff and managers. Participants who are not in work go to regular meetings with an adviser, they are offered help with application processes, training courses and work trials. Participants work in the open economy, in supported placements or in supported businesses.

Users of the Workstep programme report that an ideal package of support takes a holistic approach to their needs, a challenge the Workstep programme meets. A case study of the programme found that “in general, supported employees were very positive about their involvement with the programme and many highlighted numerous personal and social benefits, in addition to the financial rewards they derive from their work.” In general, participants liked the idea of a ‘safety net’ to fall back on. Because they had someone to turn to for support, they felt more confident when entering into work. The in-work support from personal advisers provides encouragement and constructive feedback about work done. The customised training available to users has been emphasised by Workstep providers as being of particular importance.

StepUp was established as a pilot programme, offering subsidised job placements to New Deal participants who had been out of work for six months.
after completing their first New Deal Option or Intensive Activity Period. Participants were paid National Minimum Wage in placements that lasted for up to 50 weeks and were for up to 33 hours per week. StepUp produced a significant impact on job outcomes for the 30 to 49 year age-group (32% of those eligible). The programme showed small benefits for the 25 to 29 group, but not for younger Jobcentre Plus clients.

a  WORKSTEP Evaluation Case Studies: Exploring the Design, Delivery and Performance of the WORKSTEP Programme
b  Ibid.

CONCLUSION

The range of programmes offered to help jobseekers and support them to sustain employment is broad. As this brief overview has shown, there is no clear indication that any single programme works significantly better than others in all circumstances. While it is possible to see some trends – job search support and work experience appear to be the most commonly successful approaches and basic skills training appears to have low immediate returns – these lessons do not apply to all jobseekers uniformly.

Although some very different client groups such as lone parents, ex-offenders and long-term unemployed people may often face similar challenges in finding and sustaining employment, the package of interventions that works for a given person is as unique as they are. Policymakers will generally fail if they try to determine the right interventions for all, beyond some broad and well-worn conclusions, the effectiveness of activation strategies. Rather, support for each jobseeker needs to be personalised to be
effective. Service providers need the flexibility to tailor interventions to ensure successful and sustained job outcomes.\textsuperscript{152}

Aside from the intrinsic benefits of flexibility, the complexity of the welfare-to-work challenge implies that a pluralistic approach is needed. Evidence on effective interventions is far from complete and innovation is essential. Employment service providers need the opportunity to experiment to determine what works best for each jobseeker.

What does this mean for policymakers? It implies that the question of how to configure employment services becomes less about which interventions ‘work’ and more about creating the structures within which employment service providers operate to achieve flexibility, accountability and innovation. This should focus policy attention on how these structures operate, rather than on searching for specific kinds of intervention. Currently, a number of systemic problems hamper the ability of UK employment service providers to deliver sustained outcomes. These will form the focus of the next chapter.

\textsuperscript{152} Department for Work and Pensions, \textit{Active Labour Market Policies in International Context: What Works Best? Lessons for the UK}; Evans and Meager, \textit{The Evaluation of Active Labour Market Measures for the Long-Term Unemployed}. 
CHAPTER 3: SHORTCOMINGS OF THE EMERGING SYSTEM

Chapter 1 described the scale and nature of the hidden problem of revolving door employment. It also discussed some of the attributes of the UK labour market that contribute to the transitory nature of employment for those on the fringes of the labour market, and the implications of those observations for policy. Chapter 2 considered the range of interventions commonly deployed to achieve sustained employment. Our review of the evidence suggests only one reliable rule for effective employment programmes: that there are few consistently appropriate interventions for jobseekers. Interventions need to be varied to match individual needs and innovation is crucial.

These insights suggest that attention should be focused on the importance of system design. As this chapter reveals, the current system of employment services places much emphasis on the role of policymakers in micromanaging interventions and resource allocations. The problems associated with this approach suggest an improved system should combine flexibility and innovation with accountability, to ensure that service providers’ interventions are appropriately targeted, achieve the desired goal and are cost-effective.

In pursuing these goals, an effective system to achieve sustained employment must succeed in three broad areas:

- Classification: It must be able to identify jobseekers with weak attachment to the labour market.
- Resource allocation: It must provide the flexibility and incentives to allow service providers to tailor their support and engage jobseekers.
- Outcomes: It must drive service providers’ performance on the basis of carefully-defined sustained employment outcomes rather than simple proxies, which can lead to unintended consequences.
Getting these elements right is central to making sure that providers choose the right interventions for the right jobseekers and at the right time. This chapter assesses how the current welfare-to-work system measures up against these aims. The final chapter then outlines recommendations for a twenty-first century employment service which can overcome current shortcomings in each area, and the implications of these recommendations for the direction of welfare reform over the next decade.

The October 2009 welfare-to-work regime

Under the emerging welfare-to-work system, there are two main dimensions by which jobseekers are categorised. The first is by jobseeker type: people with potentially work-limiting health problems claim the Employment and Support Allowance (ESA), while others claim Jobseeker’s Allowance (JSA). The second categorisation is by length of unemployment (or length of benefit claim).

Chapter 2 set out the diverse array of interventions available to employment service providers trying to achieve sustained employment outcomes. But the evidence on some of these interventions is patchy and inconsistent, and many are very expensive. One way to reduce the costs is for policymakers to stipulate what kinds of interventions should apply to each group of jobseekers in aggregate, based on available evidence. This is considered to be the best means of centrally limiting the risk of under- or over-spending on employment programmes. The tendency in the current system is therefore for policymakers to develop a top-down segmentation of the entire claimant group, with different categories offered different forms of support.

Under the ESA regime, for example, claimants remain with Jobcentre Plus for the first 13 weeks before being referred to the Pathways to Work programme. Meanwhile, under the JSA regime, jobseekers will face four (and before long five) stages of steadily
escalating support and conditionality as their claim progresses. Box 3.1, below, outlines the interventions involved at each stage of the current JSA regime. This escalating system of intervention is designed to minimise the unnecessary or ‘deadweight’ costs associated with putting all the newly unemployed on expensive support programmes, when the majority of them are likely to move back into work within a short time and without assistance. The consequence of targeting based on length of claim, however, is that jobseekers with a long-term broken work history and those for whom an unemployment spell is an aberration are treated in the same way from day one of their claim.

Box 3.1: The April 2009 reforms to the Jobseeker’s Allowance Regime

This summary sets out the options for support at each intervention point of a jobseeker’s claim. Available support was increased in 2009, and this box sets out the old and new offers, where different.

Stage 1: First 12 weeks

Old offer:
- Drawing up a job search plan and catering for basic skills needs.
- Five minute interviews every two weeks conducted to prove claimants are looking for work.

New offer:
- More discretion for advisers and availability of additional support, some of which was previously only on offer at Stage 3.
- Jobseekers can be referred to Programme Centres – these are private and third sector providers offering job search or CV help. They can also attend courses run through Jobcentre Plus, providing help for different jobseekers, such as those who have never previously been unemployed.
- Jobseekers can access the Adviser Discretionary Fund (ADF) which can provide money for additional expenses.
Stage 2: 13 to 26 weeks
There are no significant changes between the old and the new offers at this stage. In London, however, jobseekers reaching this point become eligible for half price travel.

- Jobseekers begin this stage with a twenty-minute interview with an adviser, where the Jobseeker’s Agreement and the client’s job goals are reviewed.

- For the first six weeks, jobseekers have a weekly twenty minute interview with an adviser; this is the ‘intensive matching period’.

- After this, they go back to a five-minute meeting every two weeks.

- Jobseekers remain eligible for referral to Programme Centres and to receive subsidies from the ADF.

Stage 3: 26 to 52 weeks
Begins with a forty-minute interview when the Jobseeker’s Agreement and job goals are reviewed again, followed by another six weeks of weekly ‘job matching’ interviews.

Old offer:
Options such as Local Employment Partnership (LEP) placements and work trials would have become available at this point – LEP placements are now available to all and work trials available to the most disadvantaged jobseekers from day one.

New offer:
Additional options available at this point:

- Incentives for employers: those who recruit someone on Stage 3 will receive £500 for an initial job start and a further £500 for those remaining in work after six months. They will also be able to access up to £1500 for training costs via Train to Gain.

- Support is offered to those wishing to become self-employed. These jobseekers are exempt from proving they are actively seeking employment for up to eight weeks, and offered help from a brokering service. If they succeed in becoming self-employed, they are offered payment of £50 per week for the first 16 weeks.
• Jobseekers can also ask to gain volunteering experience and help to do so through a brokering service – this can help boost their confidence and will enhance their CV.

• They can also request generic or specific work-focused training, funded by a training allowance rather than JSA.

Stage 4: 52 to 104 weeks
Jobseekers reaching one year of unemployment will be moved onto the Flexible New Deal programme. They will leave the Jobcentre Plus regime and begin to work with a private or third sector provider of employment services.

Key elements of the Flexible New Deal (FND) programme:

• Private and third sector providers will operate under a ‘black box’ approach. They are given the freedom to assess the needs of individual jobseekers and employ a range of interventions as they see fit. These could include advice in job search, help with CVs, skills training, help with personal barriers to work or support with expenses such as work clothes or travel requirements.

• Contractors also have the flexibility to draw on the skills of smaller specialist providers, or local organisations, to meet the specific needs of their clients.

• Contractors will be paid by results for getting their clients into employment, rather than paid for undertaking processes. They will receive payments for achieving employment outcomes that are sustained to 13 and 26 weeks.

Stage 5: 104 weeks onwards
At present, there are a number of proposals on the most appropriate programme of support for those who have not entered sustained employment after one year on the FND. In 2010 – as the first cohort complete the FND – pilots for such a programme will begin in several areas. In these areas, those leaving Stage 4 will be required to participate in either:
Stage 5 programmes will be mandatory and will involve full-time work-related activity. The aim will be to help those jobseekers who have been out of employment for a long time to learn or regain work habits and routines, and to address the substantial barriers to work experienced by this group. In areas operating the pilot schemes, Jobcentre Plus advisers will also be allowed to refer jobseekers to the programme who they feel would benefit from this type of activity earlier in their claim. Those completing Stage 4 in non-pilot areas will return to Stage 3 of the process after 24 months.

From the Whitehall perspective, then, jobseekers on the main programmes fall into one of seven separate categories, depicted in Figure 3.1 below. Each category delivers different levels of support, with the hardest to help – defined as those who have been out of work longest – afforded the most.

Figure 3.1: Rationing of support: Segmentation by disability and length of claim

Another significant aspect of the current system is the variation in objectives applicable to each section of the system. Obviously, all elements aim to achieve job outcomes for their clients. But what this means in practice varies by jobseeker category. Under Stages 1 to 3 of the JSA regime, Jobcentre Plus has targets to get JSA claimants into a job, but there is no significant reward for Jobcentres that achieve sustained job outcomes past one day of employment. Pathways to Work and FND, by contrast, are both payment-by-results systems. Providers are awarded 70% and 80% of their contract value only for achieving employment sustained to at least 13 weeks. The principle behind this approach is that, by funding job outcomes rather than specific interventions, DWP gives providers the flexibility to try different approaches and find out what works best.

Within this rather rigid system, a minority of jobseekers have access to more intensive and personalised support earlier in their claim. Personal advisers have some limited scope to fast-track newly unemployed jobseekers straight to the Gateway Stage (otherwise reached after six months of unemployment). For certain groups – including homeless jobseekers, those with substance abuse problems, and ex-offenders – more intensive support is available early on. But for the vast majority of jobseekers, the level of adviser flexibility and discretion increases only once their claim is of sufficient length to place them in the category of the hardest to help.

The existing welfare system can therefore be seen as a patchwork of both rigid categorisation and top-down resource allocation, alongside incentives designed to allow devolution of decision-making and innovation. The next three sections look at the kind of frictions that the current system creates, measured

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154 Under the FND, the outcome-based proportion of the payment has been reduced in the early years of the contracts to reflect the prevailing economic climate.
against the three elements of a more effective system set out above.

1. CLASSIFICATION: JOBSEEKERS’ HISTORIES ARE HIDDEN FROM THE SYSTEM

A defining characteristic of the current system is that it is built around the assumption of a jobseeker’s linear journey through unemployment and into work, where the story ends. A jobseeker who moves off JSA and into work only to fall out of work again shortly afterwards is treated in exactly the same way as a jobseeker with an otherwise unbroken work history. Both claimants start at the beginning of the JSA regime, receiving the bare minimum of adviser time and support. Yet, while cheap and minimal support might be appropriate for the first-time unemployed person, it fails to target those trapped in revolving door employment. Only in a very limited number of cases, such as people experiencing an extremely brief spell of employment, is it the case that jobseekers retain the right to go back to more intensive employment support as soon as they fall out of work.155

As Chapter 1 discussed, the fact that revolving door employment is hidden from the system in this way is no small problem. Indeed, analysis of claimant data in 1998 found that, in February 1995, while around 36% of jobseekers had been claiming JSA continuously for over a year, half of the remainder had cumulatively claimed for over 12 months in the past two years.156 Notwithstanding that these figures are now dated, this implies that the current system effectively overlooks the greater needs of around a third of the stock of JSA claimants. For all those cycling

155 Linking rules for JSA mean that claimants go back to stage 3 of their claim if they find work at Stage 3 and spend less than 28 days in employment. Claimants who have been in work for less than two of the previous 24 months will be fast-tracked to Stage 4.

between employment and benefits, defining appropriate support mechanisms on the length of a single claim therefore represents a false economy. This approach risks exacerbating the scarring effects of protracted or frequent past spells of unemployment.

2. RESOURCE ALLOCATION: FLEXIBILITY AND INCENTIVES WITHIN THE CURRENT SYSTEM

As discussed above, the current system relies heavily on the top-down categorisation of jobseekers – primarily according to length of benefit claim and the existence of health problems or disabilities. This structure can be thought of as a form of rationing, attempting to ensure that deadweight costs are not incurred through providing extra support for jobseekers who may not require it. But focusing on two particular characteristics as the primary indicators of need seems to be a very imperfect approach, especially since these two characteristics may be poor predictors of the actual needs of jobseekers.

But the flexibility available to providers working with certain categories of jobseeker (e.g. those on FND) is less evident for those on other programmes. Further, the very process of compartmentalising jobseekers reduces flexibility. Structuring the system in this way causes four significant problems:

- First, categorisation by personal characteristics is unhelpful. Where jobseekers are allocated to different programmes based on certain attributes (such as disability), the need for support potentially varies significantly within each group;
- Second, categorisation by length of claim exacerbates the disengagement problem;
- Third, categorisation distorts decisions about resource allocation. Having seven different categories of
jobseekers on programmes operated by different state, private and third sector organisations makes assessments of each individual’s needs more difficult;

- Fourth, overlapping contracts are wasteful. Categorisation leads to numerous costly and overlapping networks of provision and endless contracting rounds in the same geographical area.

Each of these problems is discussed in turn.

**Categorisation by personal characteristics is unhelpful**

Policy changes for people on Incapacity Benefit (now Employment and Support Allowance), requiring and helping them to seek work, have meant that the distinction between those jobseekers with work-limiting health problems and those without has become increasingly academic. For those assessed to be capable of working, the new Employment and Support Allowance, introduced in October 2008, carries the possibility that claimants will have benefits reduced if they do not actively seek employment. This makes ESA not dissimilar from the slightly less generous JSA regime, which works on the same principle.

However, while the convergence of the two regimes is one reason for questioning the separation of people into two groups, the other is the similarities of the challenges faced by those in each group. Previous SMF analysis has shown that just under 30% of those claiming JSA for 12 months or more report having some kind of health problem or disability.\(^{157}\) Partly reflecting that fact, the flows of people between IB and JSA each year are significant: one study analysing administrative data concluded that around 300,000 people each year moved from JSA to IB or

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vice versa in 1999 and 2000,\textsuperscript{158} illustrating the artificial nature of the categorisation. Further, while physical or mental health problems do appear to be associated with having somewhat lower employment chances when other characteristics are taken into account,\textsuperscript{159} there are other attributes, such as having no qualifications or coming from a BME group, which are much stronger indicators of labour market disadvantage.

The intensive support regimes for JSA and ESA are increasingly similar; the boundary between the two is very fluid and the determining characteristic for ESA – the existence of a health condition – is not necessarily any more important a characteristic in determining employability than others. For these reasons, the continued separation between employment services for these two client groups looks somewhat anomalous.

**Categorisation by length of claim exacerbates the disengagement problem**

Time-based assessments of jobseeker need are the instrument Jobcentre Plus relies upon most heavily to allocate resources. In both the ESA and JSA regimes, support increases the longer someone is out of work. This form of rationing is done for good reason. Intensive programmes of support are expensive and it is difficult to identify the people in need of intensive support before their need becomes obvious in their failure to find work.

The most powerful argument for using length of claim as the main indicator of need is that 60% of jobseekers leave JSA within 13 weeks – almost entirely of their own accord – and 80% have left within 26 weeks.\textsuperscript{160} For the majority, who will flow off benefit with relatively little support, expensive interventions would involve


\textsuperscript{159} Mulheirn and Menne, The Flexible New Deal: Making It Work, 58.

substantial unnecessary, or ‘deadweight’ costs. Allocating support on the basis of length of claim is therefore a simple and objective way for Jobcentre Plus to avoid these costs. But is that also a judgment based on only a partial analysis of costs and benefits?

Deadweight costs may not be the only source of potential expenditure. Chapter 1 outlined the impact for the Exchequer of failing to help people quickly, in terms of reduced earning power, re-employment chances and repeated benefit claims, all of which impose significant costs. The fact that some 40% of JSA claimants who find work return to unemployment within six months suggests that the light-touch system in the early stages of a new JSA claim may in fact be a false economy, driven by an over-emphasis on containing programme costs at the expense of direct tax and benefit costs to the Exchequer. For those who need the most support to find work, it is therefore likely that policymakers understate the costs of allocating jobseekers support by length of claim.

Many claimants would benefit from earlier help. For example, Green and Hasluck have found that participants in the New Deal 25 Plus found employment quicker if they were referred to the programme earlier.161 For this reason, the existing rules and adviser discretion to ‘fast-track’ a few very disadvantaged jobseekers to more intensive support are in place. These flexibilities are a minor aspect of the system, however: the vast majority of jobseekers just have to wait to get more support in the later stages of a claim.

Timing of interventions is crucial for their success and to prevent jobseekers becoming increasingly disengaged. However, Hasluck and Green conclude that “The ‘ideal timing’ is likely to be
context dependent, reflecting the heterogeneity of jobseekers.\textsuperscript{162} This makes it very problematic to use time as a tool to assess need. Given all this, the challenge for policymakers is to structure a system that can use length of claim as just one means to identify those who would benefit from early intervention, rather than the defining characteristic. But adopting such an approach leaves questions to be addressed, the most significant being: is there any effective way to overcome the problem of deadweight cost? We return to these issues in Chapter 4.

**Categorisation distorts decisions about resource allocation**

As well as exacerbating risks of jobseeker disengagement, the siloed approach means that service delivery agencies face strange incentives when it comes to moving people between categories and programmes. Since the JSA count is a very politically sensitive figure – even more so in a recession – government may have an incentive to move as many people as possible off the active claimant count. The recessions in the 1980s and early 1990s saw large increases in the number of IB claimants. Although this was primarily driven by a collapse in off-flows from IB, rather than a jump in on-flows to inactive benefits, this ‘political parking’ meant that large numbers of people moved onto inactive benefits and were not helped to stay in touch with the labour market.\textsuperscript{163}

The Government has made it clear that it intends to avoid a recurrence of this phenomenon in the present recession\textsuperscript{164} and either way, the support offered to those on ESA is now substantially greater than it was for those on IB in the past. So far, it appears that the Government’s aim to restrict the flow of people from JSA to ESA has been effective: in April 2009, the number of JSA claimants exiting to an ESA claim were just one-third of their level in April 2009.

\textsuperscript{162} Ibid.


2008, and around 28% of the level in the last month of the IB regime, October 2008.165

The current recession will, however, place serious restrictions on the budgets for welfare-to-work programmes. With the Departmental Expenditure Limit (DEL) in mind, the DWP may try to cut costs by reducing spending on welfare programmes. This makes sense if seen from a rather narrow point of view – however, when considering the big picture, things look slightly different: the greatest savings in welfare-to-work are not made by cutting services, but when jobseekers find a job, stop claiming JSA and other benefits, and become taxpayers themselves. The influential Freud Report proposed paying providers with part of the benefit savings which are made when jobseekers move into sustained work.166 In short, an over-emphasis on departmental expenditure is an obstacle to good policymaking.

The incentives for Jobcentre Plus managers are, however, not yet influenced by this thinking. They receive a rising number of job outcome points according to the perceived difficulty of getting a given jobseeker into work. But they do not have an incentive to let their advisers fast-track too many jobseekers to more specialised programmes because of the costs involved. When interviewed for a recent DWP study of referral practices from Jobcentre Plus under the Pathways to Work scheme, some advisers mentioned that they had “managerial directives…to limit referrals to more expensive services such as Workstep and Residential Training.”167 Winterbotham’s interviews with employment service staff also revealed that the strict criteria by which a jobseeker can be fast-tracked into training

165 “Nomis”.


frequently caused problems. Very few clients who met the criteria were keen to take part in training and staff generally did not feel they would benefit. Staff also reported they encountered many jobseekers who were keen to train, but did not fit the criteria:

“I find it embarrassing sometimes when you’ve got a keen person that wants a certain type of training but hasn’t been unemployed long enough… Basically you have to say to them that because they don’t take drugs and don’t have a health problem then they can’t come on the programme.” (Restart Adviser, Wave 3)\(^{168}\)

Similarly, as the volume of claimants moving to Stage 4 of the Flexible New Deal is anticipated to increase fourfold, it seems likely that efforts to fast-track more needy jobseekers are set to come under even more pressure.

That there are incentives other than achieving a sustained job outcome when allocating a jobseeker to a programme, indicates that programme participation does not necessarily reflect need. This is almost inevitable in a system where different agencies are responsible for different categories of jobseekers, involving different levels of resource. Once again, the centrally determined need to control costs through rationing allows only minimal deviation from the categorisation rules that broadly determine who gets what support and when, to the detriment of many.

**Overlapping contracts are wasteful**

The fourth problem caused by the existence of jobseeker categorisation is the large and growing number of contracts that are involved in the delivery of the different services. A wide range of services, from training and health interventions, to work placements and job-search support, need to be co-
ordinated to ensure effective support is available to jobseekers. The economies of scale involved in pulling together such a wide range of services formed the starting point of the large prime provider model advocated by the Freud Report. But the current fragmented approach to commissioning employment services means that DWP does not benefit from the potential economies of scale on offer.

Under the main parts of the welfare-to-work system from October 2009, three separate systems - Jobcentre Plus core services, Pathways to Work, and the Flexible New Deal - operate in the same geographical areas, often duplicating the infrastructure necessary to deliver employment services. Indeed, the huge overlap in the needs of different welfare-to-work client groups means that very similar subcontracting partners crop up in the delivery of each programme. One provider, who was not atypical, mentioned that they drew money from 16 different funding streams.

Massive overlap in contracting creates a huge administrative burden both for DWP and for the private and third sector providers bidding for contracts. The Department not only has to administer multiple time consuming and costly contracting rounds, but also needs to monitor a large number of contracts. For non-state providers, bidding for contracts represents a substantial fixed cost, consequently smaller organisations may be excluded from involvement in the market by the current proliferation of contracts.

Some of these problems are implicitly acknowledged by DWP: the Department is reducing the number of programmes and enlarging the geographical areas within which contractors operate for the above reasons. For example, the Flexible New Deal, will subsume many of the existing New Deal Programmes. But there remains much

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170 Interview with employment service provider.
more simplification, with its attendant economies, that could be achieved. These options are explored further in Chapter 4.

3. OUTCOMES: WELL-DESIGNED SUSTAINED EMPLOYMENT OUTCOMES

A major contributory factor to the revolving door employment problem in the current system is that length of employment spell does not form any aspect of Jobcentre Plus Job Outcome Targets (JOT). Only once jobseekers (on either JSA or ESA) move onto the more intensive support programmes of Pathways to Work or FND is any attention paid to their likelihood of sustaining future employment.

By not providing incentives to secure sustained employment early in a jobseeker’s claim, the current system encourages Jobcentre Plus personal advisers to push jobseekers into the first vacancies available, regardless of sustainability concerns. From this perspective, it is hardly surprising that 40% of clients are back on benefits within six months of gaining employment. 171

The lack of sustainability targets for Jobcentre Plus is partly due to the fact that DWP believes they deter both advisers and clients from taking ‘reasonable risks’ with available vacancies. 172 The Department argues that the focus during the early period of a claim should be on helping the jobseeker into employment as quickly as possible. To some extent, this fits with evidence to suggest that accepting even temporary employment could leave people in a better position in the long-term. 173 However, as the evidence of Chapter 1 makes clear, the single most common reason for returning to benefits was the ending of a temporary job. 174

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172 Interview with DWP officials, April 2009.
174 Department for Work and Pensions, Repeat Jobseeker’s Allowance Spells, 27.
existing system is clearly not designed to facilitate the translation of these initial employment opportunities into more permanent work. Instead, claimants return to Jobcentre Plus and start the whole costly and time-consuming process over again.

Further, while Jobcentre Plus advisers do not prioritise sustainability, fairly considerable sustainability requirements come into force for providers delivering the more intensive programmes. So while there are no sustainability targets for Jobcentre Plus, private and third sector providers are paid for achieving 13 weeks of sustained work in Employment Zones and 26 weeks of sustained work under Pathways and the Flexible New Deal. It is only on these latter programmes, then, that providers have an incentive to break the cycle of revolving door employment and work with jobseekers and employers to achieve better outcomes. The lack of consistency in job outcome targets across different programmes is puzzling in itself. But evidence suggests that even the three- and six-month targets for non-state providers may be inadequate to achieve sustained employment.

Since drop-out rates among newly employed people are typically high in the first three months – over 40% of lone parents drop out in this period – it is often assumed that achieving three-month sustainability will solve the problem. But a number of studies show that this is far from the case. Hales et al. show that, while Employment Zones facing three-month targets achieved substantially better three-month outcomes than other services that did not have such targets, their clients were ultimately not much more likely to sustain employment in the longer term than others. Their evaluation concluded that the next phase of contracting for Employment Zones should encourage providers to focus on “efforts to increase the longer-term sustainability of jobs.”

175 Department for Work and Pensions, Repeat Jobseeker’s Allowance Spells, 27.
Figure 3.2 shows how important the incentives set for providers were in driving this result. The chart shows employment ‘survival rates’ by week, of Employment Zone jobseekers in 2003 to 2005. In other words it shows the number of clients who were still in their job at the end of each week after beginning work, as a proportion of the number who started the week in work. The drop-out rate remains very low for the period during which providers are paid to care about sustainability – the first 13 weeks. But the drop-out rate then jumps suddenly in the 14th week after starting work.

This indicates two crucial points: first that providers can be extremely effective at hitting the targets they are set; but second, that the targets they are set must be the right ones - sustaining employment to just three months does little to ensure that people remain employed thereafter. As DWP’s Flexible New Deal Evidence Paper puts it:

“Employment Zones have been highly effective at helping jobseekers stay in work for 13 weeks, which is what they are paid for achieving. Beyond 13 weeks, however, jobseekers’ chances of
staying in work quickly deteriorate and their long-term prospects are no better than New Deal participants.”

CONCLUSION

As this chapter showed, the problems caused by the current employment system’s linear view of claimants’ employment patterns, centrally determined categorisation of jobseekers and ineffective sustainability targets are substantial. The first problem means that huge numbers of people are miscategorised and do not receive the help they require. The second hinders the allocation of resources to those who need the most help. And the third means that the job outcomes sought by employment support programmes do not incorporate the focus on sustainability required to ensure that they are cost-effective.

However, while the current welfare-to-work system proceeds from a top-down approach to resource allocation, there are many ways in which it tries to build in flexibility and target more sustained employment outcomes. Nevertheless, there are numerous bottlenecks, inconsistencies and inefficiencies in the approach. How can one create a system that both uses resources efficiently while also tailoring support to very specific individual needs? Many lessons in how to achieve this have emerged from the more innovative welfare reforms in the UK over the past ten years. The big question is how to generalise the best elements of different approaches. The final chapter outlines how a reformed system can be made to target sustained employment in a fairer and more efficient way.
CHAPTER 4: A MORE EFFECTIVE APPROACH

Over the coming decade, in the wake of a severe recession, reengaging large numbers of people in the labour market will be a defining challenge. Simultaneously, the squeeze on public spending will make it necessary to radically improve value for money in all aspects of government spending, including welfare-to-work. The danger is that an obsessive focus on reducing departmental programme expenditure may come at the expense of reducing costs to the taxpayer from re-engaging people in sustained employment.

There have been huge improvements in the development of welfare-to-work in the UK since 1997, and the intellectual direction of policy is the right one. But there remains a fair distance to go before the welfare-to-work system is designed to achieve sustained employment and cost-effective employment services. The Government knows that the solution to the problems of the current system lie in outcome-based commissioning. But it is implementing these insights neither quickly nor radically enough.

This final chapter therefore takes each of the issues identified in Chapter 3, and suggests ways in which the system should be redesigned to be both fairer to jobseekers and more efficient for taxpayers. In doing so it offers a blueprint for the development of welfare reform over the coming decade.

1. CLASSIFICATION: QUICKER, MORE ACCURATE IDENTIFICATION OF JOBSEEKERS’ NEEDS

An important principle that underpins the recommendations made here is that a particular characteristic may be relevant to, but should not solely determine, the level of support an individual receives. But as the previous chapter made clear, one glaring omission in
the way support is currently allocated is the lack of any information on a jobseeker’s past attachment to the labour market. Around one-third of jobseekers are effectively miss-classified as not being in need of employment support when evidence of their labour market attachment strongly suggests that they are. Figure 4.1 illustrates the make-up of one particular claimant cohort, according to their labour market attachment over the last five years.

Figure 4.1: Proportion of jobseekers by amount of last five years spent unemployed

![Proportion of jobseekers](image)


Rather than prioritising jobseekers according to their point-in-time status (e.g. newly unemployed), they should be categorised by their attachment to the labour market. By taking account of the proportion of the past two years spent in employment, it would be easy to identify the revolving door group, as well as those previously long-term unemployed, and prioritise them appropriately. Being smarter about jobseekers’ work history would enable employment services to target resources more effectively and avoid the deadweight costs of leaving vulnerable people on benefit without appropriate support for the first six-or-more
months of each claim. Indeed, at least one provider is already using this approach to determine necessary support for jobseekers under the Pathways programme.\textsuperscript{177} This approach should become the norm, with a labour market attachment indicator deployed in all employment service programmes.

Under the current system, this might mean that those who have spent more than 25% of the past two years unemployed would go directly to Stage 3 of the JSA regime, while those with unemployment of a year or more in the past two would go straight to Stage 4. Figure 4.2 shows how a system based on such a measure of labour market attachment would alter the current linear flow through the system.

\textbf{Figure 4.2: Support assigned by labour market attachment: Proposed system}

A cumulative measure of recent unemployment — an ‘attachment indicator’ — would make revolving door employment visible within the system and allow support to respond appropriately to the challenge of managing the jobseeker’s case over time.

Identifying people who have found it hard to sustain employment would allow better targeting of resources to enable them to achieve

\textsuperscript{177} Interview with employment service provider, May 2009.
sustained employment in the future. But while any particular personal characteristic - be it past repeat benefit claims, disability or unemployment spell duration - may be relevant, it should not, on its own, define the support a jobseeker receives.

**Recommendation 1:** DWP should use administrative data to create a labour market ‘attachment indicator’ for all claimants to identify and support jobseekers with broken work histories.

**2. RESOURCE ALLOCATION: INCREASING FLEXIBILITY AND ALIGNING INCENTIVES FOR MORE EFFECTIVE TARGETING**

Once jobseekers are inside the welfare-to-work system, as Chapter 2 showed, there are myriad different types of intervention that providers can make to try to engage jobseekers and achieve sustained employment outcomes. There is, however, little clarity on which measures are and are not effective, and their success is highly dependent on the individual jobseeker and the context in which interventions are deployed. A system with the greatest chance of success is therefore a flexible one that facilitates highly personalised solutions.

Rather than trying to figure out what works for broad groups of jobseekers and determining the necessary interventions centrally, policymakers should instead set a framework within which intervention decisions can be devolved right down to the personal adviser level. This would allow the information available to the adviser - but invisible to the system - to be brought to bear in decisions about the appropriate support for individual jobseekers. The challenge is in allowing such devolution without losing accountability or control of costs.

In recent years DWP has begun to take on elements of this design, increasing the level of flexibility for the hardest to help jobseekers. In doing so it has alighted on an extremely powerful tool to achieve the necessary flexibility, in paying non-state providers
by results for achieving job outcomes. Box 4.1 outlines some of the recent evidence for the effectiveness of payment-by-results systems of welfare-to-work.

**Box 4.1: The effectiveness of payment-by-results**

The available evidence suggests that the flexibility to innovate and tailor interventions is very effective when combined with a payment-by-results system. Hales et al. found that under the Employment Zones programme - a fore-runner to the Pathways and Flexible New Deal programmes, targeted at disadvantaged jobseekers - the job entry rate into full-time employment was 28%: 11 percentage points higher than for comparison groups. Evaluations of the Pathways to Work pilots suggested that they significantly increased the flow rate of people moving off benefit and into work. One key evaluation concluded that, a year and a half after the initial Incapacity Benefit enquiry, participation in the programme increased the probability of being in paid work by 7.4 percentage points.

The most authoritative evaluations of the large scale application of the same payment-by-results approach in Australia corroborates the view that the flexible commissioning strategy is effective. In the first year of Australia’s attempt at contracting employment services on this basis, the job outcome performance was similar to the previous state-run model. However, with the flexibility to tailor their help to jobseekers, contractors delivered the same rate of job outcomes at significantly lower cost while also achieving greater satisfaction levels from jobseekers and employers.

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Under FND (for JSA claimants between 12 and 24 months) and Pathways (for ESA claimants after three months), providers, operating
in a ‘black box’ system, have the flexibility to tailor services to given set of jobseekers. But that flexibility is hugely limited since these programmes remain embedded in the system of strict segmentation and rationing described above. The principle of flexibility, available within limited sections of the system, is therefore not reflected in the system as a whole.

This represents a real missed opportunity: while FND providers can, for example, tailor their help to a given long-term jobseeker, they cannot act early to prevent that person becoming long-term unemployed in the first place. It is here, then, that flexible provision has the most power to improve delivery, yet it is precisely here that flexibility is not currently deployed and, instead, time-based rationing is used. As the evidence on the impact of long spells of unemployment and the prevalence of revolving door employment show, flexibility over the timing of an intervention to support a jobseeker, just as much as flexibility over the nature of that intervention, is crucial to achieving cost-effective and sustained employment outcomes.

Allowing flexibility over the timing of interventions requires removing the current time-based categorisation of jobseekers. In line with this thinking, others have suggested that reform should move towards earlier referral. Professor Paul Gregg, author of the Gregg Review on personalised support, has suggested that the FND model be brought forward in the JSA claim so that jobseekers are referred to private providers from the sixth month of their claim.\(^{178}\) Merging stages three and four of the JSA regime in this way would certainly help, increasing the flexibility of support and reducing overlapping provision. Gregg also advocates the removal of category distinctions on the basis of disability, saying that “multi-client contracts can be used to deliver provision based on need rather than what benefit people are on.”\(^{179}\)


\(^{179}\) Ibid.
The logic of this argument - and the view of this report - is that reform should go further still, not only uniting the delivery of support for ESA and JSA claimants under one provider, but also merging all time-based stages of the JSA and ESA regimes. Multi-client groups should be assisted from the first day of their claim by a single employment service provider, who would be paid by results, with contracts allocated by competitive tender.

A payment-by-results approach throughout the system would ensure that providers have the necessary flexibility to tailor interventions, incentives to innovate, and accountability to ensure taxpayer value for money. This approach would alleviate all of the problems associated with the current fragmented and centrally rationed approach.

**Recommendation 2:** DWP should introduce multi-client group employment services to allow support to be directed according to individual need from the first day of benefit claims. These should be operated on a payment-by-results basis, with contracts allocated by competitive tender.

Multi-client groups of jobseekers served by the same provider from the first day of their claim would greatly increase caseloads for providers. Along with the opportunity for greater economies of scale than exist even under the current FND model, there are other possible advantages to a consolidation of provision. Higher caseloads would allow contracts to cover smaller geographical areas while benefiting from the same scale economies as currently. This would increase the scope for the system to leverage greater local knowledge of some service providers. Alternatively, regional competition between providers could be introduced more widely without creating unviable caseloads.

**Overcoming the problem of deadweight cost**
The costs associated with helping the 60%\(^\text{180}\) of JSA claimants who

move back into work within three months, and without support, are substantial and unnecessary. This is the key justification for setting up a number of stages with increasing levels of support and conditionality as the jobseeker’s claim progresses.

Rationing in this way leads to the most disadvantaged jobseekers being parked at every stage of the process until they reach the most intensive and perhaps punitive stage of the system. This is a particularly unfair side-effect of the emerging welfare-to-work regime. As well as failing the fairness test, this aspect of the current system fares poorly on the efficiency test, exacerbating the likelihood of jobseeker disengagement, with permanent consequences for jobseekers.

So how can removing time-based segmentation be compatible with cost-effective provision? The answer, as the SMF and others have argued before, is a system of graduated outcome payments under which providers are remunerated at increasing rates as they get more of their caseload of jobseekers into work. This is sometimes known as an escalator payment schedule. This report advocates extending this concept to the entire multi-client jobseeker group from day one of their claim.

Figures 4.3 and 4.4 show the fundamental differences between the two approaches to rationing employment support. While, currently, the length of unemployment spell is a key factor used to determine the resources available for each jobseeker, under the proposed system the amount of money available is related to the proportion of the cohort that has found work. Implicitly, therefore, the rationing of support to jobseekers is left in the hands of providers who have incentives to tailor resources to need. By paying providers more for each additional jobseeker within a cohort who

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enters work, the payment structure resembles the current system where those who take longer to find work are deemed to require more support. It does, however, differ from the current approach in that it de-links the decision on rationing from being strictly determined by length of claim. This creates strong incentives for providers to build capacity to help everyone early on in their claim. But, crucially, there are still incentives in place to encourage providers to avoid deadweight costs, since a scatter-gun approach to supporting all jobseekers at great cost would not be reflected in the payment structure on offer.

Some have argued that removing the time-based categorisation of jobseekers would be more expensive than the current system of rationing. But to explain why this need not be the case, it is helpful to compare the support on offer under current and proposed systems. Under the current system, some 60% of jobseekers have left for employment by the end of Stage 1. An escalator payment schedule could match the average per-head expenditure on Stage 1 for each of outcome achieved up to the 60th percentile of a given cohort of jobseekers. Doing the same for the following Stages would ensure that removing claim length categorisation would cost no more than the existing system.

Figure 4.3: Spend per jobseeker increases with time spent unemployed

![Spend per jobseeker increases with time spent unemployed](image)
Such a payment system has the advantage that it does not allow providers to make excessive profits on people who move into work of their own accord, as is the case under a uniform payment regime for each job start. But it also rewards them for helping the most excluded people. Under the Pathways and FND programmes, by contrast, the payment providers receive for each person who finds employment is the same, encouraging them to focus on those easiest to help. Box 4.2 below explains in more detail how such a payment schedule would work. A graduated payment schedule, extended to the entire jobseeker cohort, would resolve any risks of significant deadweight cost.

Box 4.2: How graduated payments could work in practice

In order to allow for a real-time reward under an escalator payment, the mechanism could involve determining the rate at which a cohort of jobseekers typically finds work. Contractors would then be paid top-ups according to the rate at which they achieve job outcomes compared to the expected trajectory. This would ease any cash-flow problems that providers might face.
For example, in a caseload of 100 jobseekers referred to a provider, in order to be on-target to achieve job outcomes for 50% of clients after 12 months, it might be expected that 10 would have found a job by the end of month one, 8 by the end of month two, 6 by months three, and so on. The typical rate of job entry could be determined from administrative data. Performance above the expected trajectory – e.g. getting 11 people into work in month one, or 9 into work in month two, for example – would put the provider on course to perform better than expected and get further into the caseload than anticipated. This would therefore entitle them to a top-up payment.

An alternative approach would involve making retrospective payments to providers once a full cohort had passed through the programme. While this would potentially have cash-flow implications, the large volumes of jobseekers involved would increase certainty for providers, allowing them to raise private finance in anticipation of future income.

The combination of a single integrated employment service, operating on a payment-by-results basis underpinned by an escalator payment profile would be an extremely powerful combination of reforms. It would allow providers the resources and flexibility to identify the level of support that individual jobseekers require in the most effective way, and to deploy the appropriate type of intervention to help them. But an outstanding question is whether this proposal implies an end to state provision of employment services.

**Should provision be public, private or third sector-led?**

If there is to be one, multi-client employment service provider in a given region, an obvious question that arises is whether that provider should be Jobcentre Plus or a non-state contractor. As already discussed, there is significant evidence that non-state contractors operating under a payment-by-results system can achieve more effective results at lower cost than can Jobcentre Plus operating under centrally driven resource allocation. But drawing conclusions about the relative performance of state and non-state
providers on this basis is to compare apples and oranges. It is not clear whether the success of payment-by-results is to do with the private or third sector contractors themselves, or simply related to the greater flexibility that these providers enjoy compared to Jobcentre Plus.

It is not the authors’ view that either state, private or third sector providers have an intrinsic ability to deliver employment services better than the others. But, consistent with a social market approach, it is reasonable to conclude that the complexity of the tailored services and the importance of rapid innovation mean that a pluralistic, market-based approach is likely to be a key element of a fair and efficient employment service. There are two reasons why provision might be more effectively carried out by a range of organisations, from whichever sector, operating under a payment-by-results model, and subject to a competitive tendering process.

1. First, payment-by-results, rather than payments for process which providers from all three sectors currently enjoy, encourages innovation in service delivery and effective use of resources.\textsuperscript{182}

2. Second, a pluralistic competitive environment – including public, private and third sector providers – operating in different geographic areas, limits the risks associated with providers trying new approaches in their area that may succeed or fail. It also increases the chances that the system will throw up new and innovative solutions. By contrast, a single national provider like Jobcentre Plus is understandably risk averse, relying instead on a ponderous pilot-and-evaluate model of service improvement.

Within such a system, then, the importance of the market element lies not in the involvement of non-state providers per se, but in its power

to encourage innovation and, crucially, to speed up the adoption of new approaches to helping jobseekers. None of these things preclude a continued role for a state employment service provider.

Indeed there are at least two arguments for actively seeking the continued involvement of state services in a mixed economy of service provision. First, where jobseekers are able to choose their service provider (under FND jobseekers can choose between two providers in 10 of the 14 Phase 1 areas), there is a strong argument for allowing state provision as one of those options. This is because the public service ethos may, or may be perceived to, give jobseekers a better service. Second, by its continued involvement in the market, the state can better understand the incentives faced by other actors and thereby limit the scope for gaming.

**Recommendation 3:** All sectors should be involved in a mixed market of provision to facilitate richer choice for jobseekers and allow government to identify and close loopholes for gaming the system.

So far, this chapter has sought to outline key elements of the ideal system of welfare-to-work. Evidence suggests that the changes recommended here could substantially improve performance – in terms of both job outcomes and jobseeker satisfaction – and limit costs in the sector. But experience also indicates that this framework is only as good as the incentives providers face. The third and final element of a system that fosters sustained employment outcomes is therefore the incentive structure that sets out exactly what providers are rewarded for achieving.

**3. OUTCOMES: WELL-DESIGNED SUSTAINABILITY TARGETS**

Shifting the whole system away from a process- to an outcome-driven structure is advocated on the grounds that it gives providers
flexibility and makes them entirely accountable for success or failure. However, the question of what success really looks like and how it can be measured is not as simple as it might at first seem. Some thought must therefore go into exactly what results the state should pay for.

There are two important elements to how payments are structured that should be considered. First, to achieve sustained employment, regardless of whether or not it occurs under an integrated system, job sustainability targets across all parts of the system are essential. Second, the nature of the sustainability target is important if services are to be made to work with the grain of, rather than ignore, the turbulent labour market. Evidence in Chapter 3 showed just how strongly providers follow the incentives that are set for them in a payment-by-results system. This makes it all the more important that targets are carefully designed to avoid perverse incentives and unintended outcomes, and achieve value for money.

**Sustainability target range**

In terms of the appropriate ‘range’ of sustainability targets, currently there is little clarity on appropriate timeframes that should define success. While Pathways and FND providers are paid for achieving sustained outcomes for three and six months, the authors’ discussions with providers revealed that little outcome data, beyond that required by Government programmes, is collected. This makes it difficult to assess what the appropriate timeframe should be.

Evidence on retention targets shows that retention payments are a powerful incentive to increase sustainability, but that targets that are too short can lead to abruptly falling retention once achieved.183 Recent analysis undertaken by the SMF suggests that, for the long-term unemployed, at least 12-month sustainability targets

would be warranted.\textsuperscript{184} NAO analysis suggests that the break-even point for many employment programmes is much beyond that, at 22 months’ sustained employment.\textsuperscript{185} Consequently, the NAO concludes that 13 week sustainability targets “fall short of the point at which most employment programmes deliver a positive return on investment.” This implies that an effective retention target is probably somewhere around a year for many programmes. UK employment law affords employees greater rights after the first year of employment. The sustainability target for providers should reflect this legislation and be set at just over one year, or 53 weeks.

Sustainability payments could be a more efficient incentive if they were designed according to a graduated payment model to limit the problem of deadweight cost. In a recent SMF publication, it was suggested that retention payments only be made once providers achieve greater than expected levels of retention.\textsuperscript{186} A still more sophisticated model would apply the escalator payment model to reflect the varying difficulties of achieving sustained employment for different jobseekers.

\begin{quote}
\textbf{Recommendation 4:} DWP should introduce 53-week sustainability targets across all employment services, including Jobcentre Plus, matched by an escalator payment.
\end{quote}

\textbf{Payment structure}

Achieving sustained employment outcomes is, however, not just a matter of setting longer range sustainability targets. As the evidence of Chapter 1 made clear, the real challenge is to structure those incentives to ensure that service providers use temporary

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{185} National Audit Office, \textit{Sustainable Employment: Supporting People to Stay in Work and Advance}, 17
\item \textsuperscript{186} Mulheirn and Menne, \textit{The Flexible New Deal: Making It Work}.
\end{itemize}
\end{footnotesize}
employment opportunities as stepping stones to permanent employment rather than dead ends.

Under the Pathways and FND programmes at present, reasonable small payments are made for achieving six-month outcomes. A clear danger with strong cash incentives for sustained outcomes is that they can bias providers away from helping those jobseekers they consider least likely to stick at the new job. They also risk making providers averse to promoting temporary employment at all, when in fact temporary jobs are an important part of the UK labour market.

But there need not be such a tension between sustained employment and any employment. Rather, incentives for providers need to strike a balance between being heavily geared to achieving one sustained job or, on the other hand, achieving one short-term job. If temporary spells of employment can contribute to securing permanent work in the long-term, as some analysts suggest, personal advisers need to face incentives to ensure that temporary opportunities are taken by jobseekers, and that their cases continue to receive support, after the end of the employment spell, to find the next job quickly. Rather than jobseekers returning to the start of the JSA regime, as they currently do, the clear need is to create incentives for providers to take on more of a brokerage approach to employment support.

To achieve this outcome, temporary jobs must be allowed to count towards the overall spell of employment on which outcome payments are made. Providers’ performance should therefore be assessed on a cumulative rather than point-in-time definition of

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187 Marloes Zijl, Gerard van den Berg and Arjan Heyma, Stepping Stones for the Unemployed: The Effect of Temporary Jobs on the Duration Until Regular Work (Bonn: Institute for the Study of Labour, 2004), 42.
job outcomes or sustainability. So, as well as paying for longer-term job outcomes, payment-by-results should reward providers for achieving job outcomes on a cumulative basis: a significant proportion of their payment should be made for every day, over the given period, that their client remains in paid employment.

Recommendation 5: Providers should receive an outcome payment that is proportional to the amount of time their client spends in employment over a given period, rather than based on snapshot assessments.

188 Under FND there will be some limited encouragement for providers to try to re-employ their clients who fail to sustain. Providers will be paid for 26-week outcomes if their clients have been in work for 22 of the 26 weeks. Four weeks’ leeway makes it possible for clients to leave a job, as long as they are quickly helped to secure another. But the binary nature of the reward available and the very short window for finding new work for the given jobseeker makes it unlikely that this will be sufficient.
CONCLUSION

This chapter has argued that while the direction of welfare reform in the UK is the right one, there remain a number of areas in which a fundamental rethink of the assumptions underpinning the current approach is needed to achieve fairer, more sustained outcomes more efficiently.

- A labour market attachment indicator would allow a better understanding of jobseekers’ recent work history - a crucial piece of information to enable providers to identify and help claimants struggling to sustain employment.

- In each geographic area, a system of integrated, multi-client employment service providers, paid by results and subject to competitive tender, is needed to deliver employment support services to all jobseekers from the first day of their claim. An escalator payment schedule is a necessary part of such a model. A mixed market of state and non-state providers is desirable.

- Longer sustained employment targets must be adopted for all categories of jobseeker. These should be combined with cumulative definitions of sustained employment as the basis on which providers are financially rewarded for helping their clients into work.

Recent innovations have established the building blocks for a modern employment service. The proposals of this report provide a blueprint for the direction of reform over the next decade. A focus on sustained employment offers the prospect of delivering a step-change to the fairness and efficiency in the welfare-to-work system of the future.
Every year millions of people in the UK are stuck in vicious cycles, moving from benefits into work and back again. Past experience suggests this problem is set to grow as unemployment rises. These transitory patterns of employment come at huge costs to both individuals and taxpayers. Breaking the cycle has never been more important.

In this report, the authors review a wide range of measures designed to achieve sustained employment. But the evidence suggests that, while there are myriad different approaches, there are few consistently effective interventions across all jobseekers. Despite this, there is a tendency for policymakers centrally to determine what works and ration resources through a range of specialised programmes. They should instead design the structures that allow front-line providers to allocate services according to individual need.

The authors therefore argue that government must go much further in extending the payment-by-results framework to encompass all jobseekers within a single multi-client programme. This would create a simplified, innovative and flexible employment service system. Doing so offers the prospect of substantial improvements in both the cost-effectiveness and fairness of the welfare-to-work system of the future. Over the coming decade tackling high unemployment and improving public sector efficiency will dominate the agenda: this report offers a roadmap to achieving both.