



DELIVERING FULL EMPLOYMENT: FROM THE NEW DEAL TO PERSONAL EMPLOYMENT ACCOUNTS

Stephen Evans

The UK has made good progress toward full employment, thanks in part to the New Deal. But the rate of economic inactivity has changed little, with around 3.5 million people in receipt of Incapacity Benefit and Income Support. Furthermore, around two thirds of Jobseeker's Allowance claims each year, some 1.6 million claims, are repeat claims meaning many people remain stuck in a low pay, no pay cycle.

To achieve full employment over the next decade requires a fresh approach to Welfare to Work. This paper recommends that workless people be given a virtual budget – a Personal Employment Account - instead of being enrolled in the current New Deal. This Account, based on a similar initiative being piloted in seven states in the US, would be used far more flexibly for a far wider range of support. Claimants and their Personal Adviser would draw up a Back to Work plan using the individual budget to purchase services, such as training or clothes for an interview.



SMF FORESIGHT

First published by
The Social Market Foundation,
February 2007

The Social Market Foundation
11 Tufton Street
London SW1P 3QB

Copyright © The Social Market
Foundation, 2007

The moral right of the authors has been asserted. All rights reserved. Without limiting the rights under copyright reserved above, no part of this publication may be reproduced, stored or introduced into a retrieval system, or transmitted, in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise), without the prior written permission of both the copyright owner and the publisher of this book.

The Social Market Foundation

The Foundation's main activity is to commission and publish original papers by independent academic and other experts on key topics in the economic and social fields, with a view to stimulating public discussion on the performance of markets and the social framework within which they operate.

The Foundation is a registered charity and a company limited by guarantee. It is independent of any political party or group and is financed by the sale of publications and by voluntary donations from individuals, organisations and companies.

The views expressed in publications are those of the authors and do not represent a corporate opinion of the Foundation.

Chairman
David Lipsey (Lord Lipsey of Tooting Bec)

Members of the Board
Viscount Chandos
Gavyn Davies
David Edmonds
Brian Pomeroy
Martin Ivens
Shriti Vadera

Director
Ann Rossiter

The Account could be used to encourage claimants to move into work quickly and cost effectively. They should be able to keep a portion of the money left in the account when they find work, being paid some on entry to work and the rest after six months employment to encourage job retention. These Accounts would give power to frontline staff and claimants, removing the straightjacket of the current focus on set processes and instead rewarding providers and claimants for the outcomes we want - sustainable employment and progression. It is this increased flexibility that holds the key to delivering full employment.

INTRODUCTION

The rate of employment has long been an important measure of economic success and the achievement of full employment often a key goal of public policy for Labour governments. Over the last decade, the government has tried to deliver full employment through a combination of supply-side measures, such as the New Deal and Working Tax Credit, and maintaining macroeconomic stability.

Today the UK is closer to full employment than it has been for a generation. The UK employment rate is almost 75 per cent, one of the highest in the world.¹ The New Deal has contributed to this; evaluations have shown it to have increased employment. However, its success is overstated if evaluation focuses on the headline number of people finding work through it – many people find work only to lose it again.² This ‘churn’ constrains social mobility and prevents some people from lifting themselves out of poverty. In addition, despite falls in unemployment, the rate of economic inactivity remains stubbornly high.

¹ ONS, *Labour Force Survey* (Office for National Statistics, January 2007).

² K Ashworth and WC Liu, *Jobseeker's Allowance: Transitions to work and early returns to JSA* (Department for Work and Pensions, 2001).

A new Prime Minister will take office later this year. This provides an opportunity to look again at how these ongoing challenges can be tackled and how we can move closer to full employment.

The government has set an ambition of an 80 per cent employment rate, its definition of full employment. Achieving this will mean helping an additional two million people to find and stay in work. There is clear scope for delivering this – many of the 9.4 million people of working age not currently in work say they would like to work. For example, more than one million of the 2.6 million on Incapacity Benefit say they would like to get back into employment.³ However, those out of work today are more likely to suffer from multiple disadvantages than the workless of ten years ago.

This makes the task more difficult. The majority of this group are not work-shy. Rather, they face many barriers to finding work and need more personalised and tailored help than the New Deal has traditionally provided. The evidence presented in this paper clearly shows that when today's workless are offered this personalised support, they are keen to take it up and often move into work.

The experience of lone parents is a good example. Traditionally they were offered little help or support to find work until their youngest child was 16. Today, they are offered personally tailored help into work ranging from childcare to skills from the moment their child is born. As a result, the lone parent employment rate has risen by 11 percentage points since 1997, and around one half of this rise is due to the new help and support they are offered.⁴

³ Disability Rights Commission News Release, 2005.

⁴ P Gregg and S Harkness, *Welfare reform and Lone Parents Employment in the UK* (CMPO Working Paper Series No. 03/072, June 2003).

The key to delivering full employment over the next decade is to personalise Welfare to Work support. It is to move beyond basing the responsibilities of claimants on taking particular actions – this focus on processes is a straightjacket that prevents innovation and personalisation. Instead, individuals and providers should be rewarded for outcomes, the responsibilities part of the benefit contract must be based on finding work, rather than precisely how this is done.

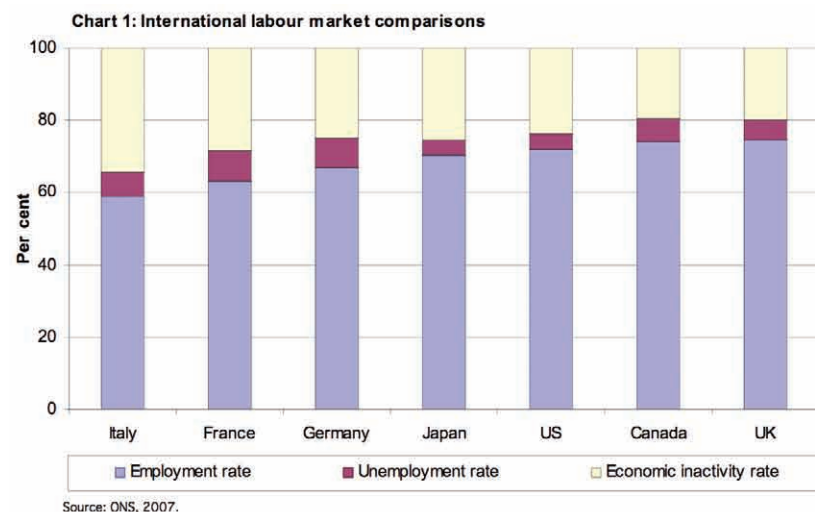
This paper recommends that those out of work be given a Personal Employment Account, replacing the current menu of New Deal support based on strict eligibility criteria. This would build on a similar scheme currently being piloted in seven US states. The Account would give people a *'virtual account'* that they and their Personal Adviser could use flexibly to pay for the support they feel would best help them into work. Claimants should be able to keep a portion of the money left in the Account when they move into permanent work and be encouraged by matched funding to use this for in-work training to aid their progression.

THE LABOUR MARKET TODAY

The UK labour market has performed strongly over the past decade. This strength has contributed to the fall in child poverty as well as holding back benefit spending, thereby freeing resources to be invested in health and education. This section discusses the state of the labour market and evaluates the main causes of this success, including the New Deal.

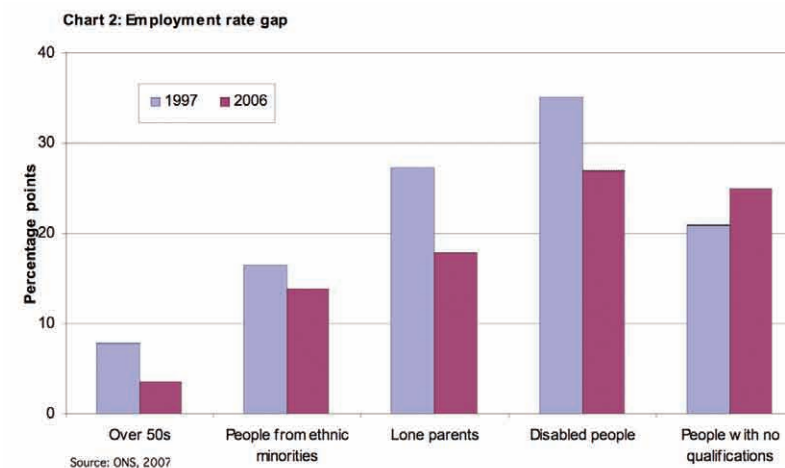
Reasons to be cheerful

Employment levels have risen by over 2.5 million since 1997, with the employment rate rising from 72.6 per cent then to almost 75 per cent today. As a consequence, the UK has one of the highest employment rates and lowest unemployment rates in the G7, as Chart 1 shows.



Unlike previous periods of strong labour market performance, over the last ten years the employment rates of traditionally disadvantaged groups, such as lone parents and those with health problems and disabilities, have risen more quickly than the national average. As a result, the gap between the employment rates of such groups and

the national average has narrowed, as shown in Chart 2, though they remain far below the national average (a 25 percentage point gap in the case of disabled people for example).⁵



This strength has benefited individuals, the economy and the Exchequer. The increase in employment, particularly among lone parents, has contributed to the fall in child poverty seen over the past decade.⁶ Reforms to make work pay, such as the minimum wage and tax credits, mean that most people are better off in work – they are not just exchanging out-of-work poverty for in-work poverty.⁷ The flipside of this is an increase in the numbers of people in work who face high marginal tax rates – 1.6 million people face a marginal tax rate of 60 per cent – making progression more difficult.⁸ The reduction in the numbers of people claiming benefits and increased numbers of people in work and paying tax means that spending on social security benefits is £5 billion less than it would have been had unemployment remained at 1996-97 levels.⁹

⁵ With the exception of the gap for people with no qualifications, discussed below.

⁶ R Dickens and DT Ellwood, *Child poverty in Britain and the United States* (The Economic Journal, Vol. 113, No. 488, June 2003).

⁷ Although one half of children living in poverty have at least one parent in paid work – the issue of progression from such low-paid work is

discussed later in this paper.

⁸ 'Investing in Britain's potential: Building our long-term future', pp. 98 *Pre-Budget Report* (HM Treasury, 2006).

⁹ 'Investing for our future: Fairness and opportunity for Britain's hard-working families', para 4.10 *Budget 2005* (HM Treasury, 2005).

The UK is now in its **15th year** of unbroken economic growth, the longest sustained period of growth in history.

The causes of success

There is a range of causes of the sustained improvement in UK labour market performance. The UK is now in its 15th year of unbroken economic growth, the longest sustained period of growth in history. This growth, coupled with unprecedented macroeconomic stability, has produced the conditions for employers to create jobs. The UK's flexible labour market has also made it easier for firms to take on new workers.¹⁰

Linked to this, the introduction of supply side measures has aimed to better help those out of work to find new employment. The New Deal was introduced as the flagship of a new Welfare to Work policy in 1997. The New Deal for young people (NDYP) was the first to be introduced, offering increased support to help young people into work. Similar support for Jobseeker's Allowance (JSA) claimants over the age of 25 quickly followed through the introduction of ND25+. Participation in both of these New Deals is mandatory for JSA claimants out of work for a given period of time (6 months for young people and 18 months out of the last 21 for those aged 25 and over).

As unemployment fell, the policy focus shifted to increasing support for those economically inactive.¹¹ Voluntary support for lone parents was introduced through the New Deal for lone parents (NDLP) and for people with health problems and disabilities through the New Deal for disabled people (NDDP). Support for disabled people is now being channelled through the national rollout of Pathways to Work, which offers more tailored help for claimants of Incapacity Benefit.

¹⁰ See, for example, *EMU and labour market flexibility* (HM Treasury, 2003).

¹¹ Those not in work and either not seeking work or not able to start work in the next 4 weeks.

While support to find work is voluntary for lone parents and people with health problems and disabilities, they are required to attend regular work focused interviews (WFIs). At these hour-long meetings, claimants discuss the support available to move back into work with a Personal Adviser (PA) – it is then up to the claimant whether they want to take up this support. These interviews have led to a large take-up of NDLP – around 40 per cent of lone parents attending a WFI take up help through NDLP.¹² As a result, the number of WFIs that claimants of Income Support and Incapacity Benefit must attend has been significantly increased.

Evaluating the New Deal

Independent evaluations have shown the approach adopted – combining mandatory contact with Jobcentre Plus (fortnightly interviews for JSA claimants and regular WFIs for other groups) with intensive labour market support (mandatory for JSA claimants, voluntary for other groups) – to be a success.

For example, evidence shows that, without the NDYP, youth unemployment would have been twice as high.¹³ The NDLP has helped more than 420,000 lone parents into work, contributing one half of the 11 percentage point rise in the lone parent employment rate since 1997.¹⁴ Pathways to Work is successfully increasing benefit off-flow rates for those with health problems and disabilities.¹⁵

However, the benefits of the New Deal have sometimes been exaggerated. The government has claimed to have virtually eradicated youth long-term unemployment, in part through the success of the New

¹² DWP administrative statistics.

¹³ *The New Deal for young people: implications for employment and the public finances* (NIESR, 2000).

¹⁴ P Gregg and S Harkness (June 2003) op. cit.

¹⁵ For a discussion of the successful impact see, for example, *Economic Survey of the United Kingdom* (OECD, 2005).

Deal.¹⁶ Indeed, the number of young people (those aged 18-24) claiming JSA for 6 months or more did fall from around 150,000 in 1997 to just over 30,000 in 2004 (though it has since risen to over 50,000).¹⁷

But the Labour Force Survey shows that, on the wider definition of unemployment which includes people out of work but not claiming benefits, there are 150,000 long-term youth unemployed today, down from 210,000 in 1997.¹⁸ This is still a significant reduction but much more modest than the government claims.

Why the disparity between the two definitions of unemployment? In part because those who do not find work through the New Deal rejoin the claimant count as new claimants, rather than as long-term claimants, which might be a more accurate description. In addition, many people who find jobs through the New Deal are unable to stay in work – around 40 per cent of NDYP participants who find work, claim JSA again within one year.¹⁹

All of this means that the figures suggest a bigger fall in long-term claimant unemployment, but at the expense of inflating short-term unemployment. The number of young people claiming JSA for less than

¹⁶ Speech by the Prime Minister on September 5th 2006.

¹⁷ DWP administrative statistics.

¹⁸ ONS (January 2007) op.cit.

¹⁹ *Fifth Report: New Deal: An evaluation* (Select Committee on Education and Skills, 2001).

6 months is today 230,000, exactly the same as in 1998, despite an overall fall in the claimant count over the same period of around 30 per cent.²⁰

On balance, as the independent evaluations cited above show, the New Deal has helped to reduce unemployment. The large impact on lone parent employment and, more recently, through Pathways to Work for people with health problems and disabilities is real. And there is a strong case to be made that periods of short-term unemployment are preferable to sustained long-term unemployment: the scarring effects of long-term unemployment, in terms of depreciating skills, lost motivation and reduced attractiveness to employers, are strong, particularly for young people.²¹

The point to note here is that there is room for improvement in these New Deals and that large numbers of lone parents and people with health problems and disabilities for the other New Deals still need help.

²⁰ *Labour market statistics: First release* (ONS, February 2007).

²¹ W Arulampalam, P Gregg and M Gregory, 'Unemployment scarring' (*The Economic Journal*, Vol. 111, No. 475, November 2001).

THE CHALLENGE AHEAD

To reach full employment and the ambition of an 80 per cent employment rate, an additional two million people will need to find and stay in work. This is, without doubt, achievable: there are today 9.4 million working-age people out of work. However, it can only be achieved by making significant inroads into the number of people currently economically inactive.²² And it can only be sustained if people are helped to stay in work, freeing them from the trap of 'revolving door' employment. This requires a new approach to Welfare to Work.

Helping today's workless

Unemployment is relatively low by historic and international standards. The number of people currently economically inactive (7.8 million) is almost five times the number of unemployed (1.6 million) on the internationally approved survey measure.²³ It is helping the inactive into work that will hold the key to achieving full employment. The government has said that it wants to reduce the number of claimants of Incapacity Benefit by 1 million over the next decade and has set the target of a 70 per cent lone parent employment rate by 2010.²⁴

As the previous section set out, the NDLP has been highly successful at helping lone parents into work, and Pathways to Work is successfully increasing the rate of flows out of Incapacity Benefit. There will be a debate in the coming months over how to reach deeper into these groups, in particular whether the current approach of mandatory contact with Jobcentre Plus but voluntary help can continue to succeed or

²² Even if an economic downturn were to double the number of people claiming JSA (from its present 0.9 million) this would still be dwarfed by the number of people on inactivity benefits (currently around 3.5 million).

²³ ONS (January, 2007) op.cit.

²⁴ *A new deal for welfare: Empowering people to work* (Green Paper, DWP, 2006).

whether there should be a greater requirement to seek or prepare for work in order to continue receiving benefits.

For example, there is currently a debate over whether lone parents should be required to actively seek work from when their child reaches the age of 11 rather than the current 16. On a practical level, such a change would have virtually no impact on the lone parent employment rate because most lone parents have younger children and more than 60 per cent of lone parents with children over the age of 11 already work.²⁵

The success of the NDLP and Pathways to Work is not guaranteed to continue. As time goes on, those who remain out of work become harder to help, because they are the people facing greater and more complex barriers to employment.

For example, people claiming benefits for health problems or disabilities often have complex conditions that require personalised solutions. Almost 40 per cent of Incapacity Benefit claimants have a mental health condition – one size fits all treatment and Back to Work plans will not help them, they need tailored support that reflects the individual and often fluctuating nature of their conditions.²⁶ Many of those on all types of benefits are parents or have other caring responsibilities that present another hurdle for them to overcome before they can get back into work.

This does not mean that people suffering from multiple barriers are *'too hard to help'* or can be simply classified as part of a *'can work, won't work'* culture – far from it. Between 80 and 90 per cent of people

²⁵ ONS (January, 2007) op.cit.

²⁶ *Work and Pensions Longitudinal Study* (DWP, May 2006).

The success of the NDLP and Pathways to Work is not guaranteed to continue. As time goes on, those who remain out of work become harder to help.

who claim Incapacity Benefit would like to work.²⁷ Often it is the lack of effective support for an individual that is the problem. For example, the nature of Incapacity Benefit, with its lack of active work-focused help until the recent introduction of Pathways to Work, meant that once someone has been claiming it for two years, they are more likely to retire or die than to find work.²⁸ The evidence, discussed below, is that when people with multiple barriers are offered effective, individualised, tailored support, they can find work.

One size doesn't fit all

In the past year or so, the UK has become one of the few countries in the developed world where the number of people claiming incapacity-related benefits has fallen.²⁹ It has achieved this in part through the development of a programme of individually tailored support - Pathways to Work. This combines mandatory contact with highly skilled Personal Advisers with tailored employment, health and financial support. It is this combination of mandatory contact with Jobcentre Plus and individually tailored support that has made Pathways a '*considerable success*' in the words of the OECD.³⁰

Similarly, NDLP's success has been founded on mandatory contact with Jobcentre Plus to ensure lone parents are aware of the support available, coupled with a Personal Adviser to tailor support for those lone parents that want it.³¹ Finally, employment outcomes are better (though unit costs are higher) in thirteen Employment Zones (EZ) around the country where the New Deal is private or third sector led.³² This is not because the private sector is inherently better than the public sector at getting people into work. Rather it is largely the result of the greater

27 Disability Rights Commission News Release, 2005.

28 'The Active Welfare State: Matching Rights with Responsibilities' (Speech by John Hutton, 16th January 2006).

29 (OECD, 2005) op. cit.

30 *ibid.*

31 See, for example, A Thomas and R Griffiths, *Integrated Findings from The Evaluation of the First 18 Months of Lone Parent Work Focused Interviews* (DWP, March 2004).

32 *Evaluation of Employment Zones* (National Centre for Social Research, 2003).

freedoms that EZ providers have with regard to how they help people into work.³³

So the lesson of what has worked over the last decade is that support must be individualised, tailored to personal circumstance and designed in conjunction with benefit claimants. A one size fits all approach, with support delivered prescriptively, will not be able to meet the challenges of the next decade. Interventions attempting to solve each barrier to work individuals face in isolation rather than part of a coherent personalised package of support are less likely to succeed – 'siloed' support risks being less than the sum of its parts.³⁴

The government's recent *Welfare Reform Green Paper* accepted this, noting that, '*currently there is a one size fits all approach to our services. They cannot deliver the innovation and choice our customers rightly desire.*'³⁵ John Hutton recently announced a review of the future of Welfare to Work provision, which will examine how a more flexible approach can be delivered. It will '*examine [how to build] a more customer-focused welfare delivery system that better reflects the Government's wider public service ambitions of greater choice and empowerment.*'³⁶

This claim gets to the heart of the tension in Welfare to Work policy. While support needs to be individually tailored, a national benefit system must effectively tie rights to responsibilities. But whereas the approach of the last decade has been to do this by mandating precisely what benefit claimants must do in return for their benefit, this paper argues that the responsibilities part of the benefit contract must be

33 Policy Research Institute, *Phase 2 of multiple provider Employment Zones: Qualitative Study* (DWP, 2006).

34 R Berthoud, *Multiple disadvantage in employment: a quantitative analysis* (York Publishing Services, March 2003).

35 DWP, *A new deal for welfare: Empowering people to work*, pp. 19 (DWP, 2006).

36 'Welfare reform: 10 years on, 10 years ahead' (Speech by John Hutton, 18th December 2006).

based on what we want individuals to achieve rather than how they achieve it – the focus should be on finding work rather than precisely how people must find work. The experience of Employment Zones shows that this can be done and that it can work.

Ending ‘revolving door’ employment

For full employment to be reached and sustained, and to support social justice and poverty reduction, support must go beyond just helping people into work. People must also be supported to stay in employment and progress.

Currently, the UK has a real problem with ‘revolving door’ employment – people locked into a cycle of short periods of low-paid employment followed by worklessness. Around two thirds of JSA claims are repeat claims, some 1.6 million claims each year.³⁷

The structure and incentives of Welfare to Work services have contributed to this problem. Jobcentre Plus is set targets by the DWP each year to attain a certain number of points, which it gains by helping people off benefits. A higher number of points are given for helping people from priority groups, such as lone parents.³⁸ Around one third of Welfare to Work provision is provided through more than 1,000 contracts with the private and third sectors. These providers are

³⁷ *Prosperity for all in the global economy – world class skills* (Leitch Review final report, TSO, 2006).

³⁸ Details of the Jobcentre Plus target regime can be found at <http://www.jobcentreplus.gov.uk/JCP/Aboutus/Jobcentreplusperformance/index.html>

rewarded for job entries and for clients remaining in work after 13 weeks.

This system has helped focus on job entries and on priority groups. However, it does not reward for considering the sustainability of work or linking clients to available in-work support, such as Train to Gain for skills development, or for considering post-placement help. It is these incentives that have meant that Welfare to Work services have not made the contribution they could to sustainable employment and progression.³⁹ Too often claimants are treated according to the organisational silo they fall into (JSA claimant, IB claimant, low skilled worker etc) and the focus is solely on getting them off benefits (even if they will cycle back onto benefits again and again), rather than getting joined up, individualised support to help people ‘get on in life’.

The Harker Review showed that a more joined up, tailored approach, treating those out of work as individuals rather than as the claimant of a particular benefit, is essential if the UK is to eradicate child poverty by 2020. Harker noted that, *‘to thrive in today’s rapidly changing labour market, parents need guidance, support and skills to progress in work. A system which encourages parents to take any job rather than one that offers them good long-term prospects, or leads to parents ‘cycling’ between having a job and being out of work, is neither efficient nor effective in tackling child poverty’*.⁴⁰

³⁹ Leitch (2006) op.cit.

⁴⁰ L Harker, *Delivering on child poverty: What would it take?* (DWP, 2006).

The workless are badly placed to adapt to these changes. Between one third and one half of benefit claimants have basic skills problems.

The impact of the emerging global economy

No paper on the future of the UK would be complete without a reference to globalisation. Clichéd as discussions of it too often become, global economic changes are having a profound effect on labour markets. Technological change and the structural shifts brought about as emerging economies such as China and India enter the global economy are changing the types of job available in the UK. They place a premium on adaptability and flexibility, with soft skills such as team working and communication, as well as literacy and numeracy, crucial for many entry-level jobs.

The workless are badly placed to adapt to these changes. Between one third and one half of benefit claimants have basic skills problems. Around one half of the unemployed (around 750,000 people) and one half of the economically inactive (3.7 million people) lack the equivalent of five good GCSEs, increasingly the minimum required for employment.⁴¹ Employers routinely complain about a lack of soft skills among applicants for jobs.⁴²

Again, these problems need flexible solutions, with claimants' skills assessed and compared to local labour market opportunities. While some people will need to improve their skills before they move into work, others will need to be

⁴¹ *Labour Force Survey* (ONS, 2006).

⁴² *National Employer Skills Survey* (Learning and Skills Council, 2005).

linked with in-work training if they are to sustain employment. The decision about whether and how to improve skills must be a local one, with providers rewarded for the outcomes they achieve (sustainable employment and progression) rather than the processes they follow – a one size fits all approach simply cannot work here either.

ACHIEVING FULL EMPLOYMENT: A NEW DEAL FOR THE NEW DEAL

For full employment to be achieved, support to help people with often complex problems find work must be more effectively personalised than in the past. The next phase of the New Deal must be to better empower individuals and front line staff.

Personal Employment Accounts

This paper recommends that the goal of full employment can be achieved by giving each person eligible for active labour market support an individual budget through a Personal Employment Account, replacing the current menu of New Deal support. The use of individual budgets for public services is discussed in Box 1.

Box 1: The use of individual budgets in public services

Individual budgets usually involve people being given a virtual budget to design the public service they want. The budget usually involves drawing together a number of funding streams that would normally run straight from central government to the provider. Individuals can then allocate their budget between the (accredited) services they would like to receive. In this way, service users can design a personalised package from their budget rather than being given an often 'one size fits all' package.

Individual budgets do not usually involve giving service users cash to use as they please. Instead the budget is usually 'virtual' with users able to decide the allocation of their budget to a range of accredited providers of services, but with the relevant government agencies handling the actual processing of money. Budgets are also distinct from vouchers. Vouchers give access to alternative providers of a pre-determined service, whereas individual budgets give consumers the decision about how to allocate resources between different options according to individual need.

Individual budgets are being used in a number of public services. In 2000, the government introduced Individual Learning Accounts (ILAs) in England. These gave people wanting to improve their skills a government contribution to any approved course they wanted to attend. While the scheme was abandoned in England due to widespread fraud, ILAs still operate successfully in Scotland and Wales – the faults were administrative rather than systemic. DfES will be piloting similar Learner Accounts from later this year and the Leitch Review recommended their widespread use.

Personal budgets are also being piloted for social care in 13 Local Authority areas in England. These pilots draw together a range of funding streams into a single sum of money that customers can use to design the package of care that best suits them. They have drawn widespread support from groups representing users of social care and are currently being evaluated to inform a nationwide rollout.

The Personal Employment Account would give benefit claimants and their advisers a virtual budget to pay for support from a wide range of providers of different services to help them back into work. It would build on a similar initiative in the US, discussed in Box 2.

Box 2: Personal Reemployment Accounts in the US

Demonstrations began in 2005 in seven US states to test the effectiveness of Personal Reemployment Accounts (PRAs).^a These are personally managed funds that unemployed people can use to purchase job training and other services from either the private or public sectors. The states have been allocated \$7 million to offer PRAs to at least 2,270 people.

PRAs give up to \$3,000 to unemployed workers deemed most likely to exhaust their Unemployment Insurance benefits. Workers who find employment within 13 weeks of receiving a PRA will receive a bonus payment of 60 per cent of the money left in their account at the time of moving into work and the remaining 40 per cent after staying in employment for six months.

Early evaluation suggests that PRA holders restrict spending on services to maximise their reemployment bonus.^b Most spending on services is on supportive services (such as car repairs, clothes for interviews etc) rather than full-time training. Based on related schemes, it was estimated that PRAs would reduce the average spell on benefit by almost two weeks, though an evaluation of actual employment effects is yet to be completed.^c

a Florida, Idaho, Minnesota, Mississippi, Montana, Texas and West Virginia.

b G Kirby, *Implementing Personal Reemployment Accounts: Interim Evaluation Report* (Mathematica Policy Research, Inc., July 2006).

c P Decker and I Perez-Johnson, *What can we expect under Personal Reemployment Accounts: Predictions and procedures* (Mathematica Policy Research, Inc., January 2004).

The amount of money in each Account could be based on the average spend per participant in the New Deal. For example, the estimated cost per job in Employment Zone areas (excluding benefit payments) was £3,115.⁴³ Basing the value on the US scheme would mean accounts worth around £1,500 per claimant. Claimants would become eligible for an account at the same point in their benefit claim as they are eligible for the New Deal today. For example, young people claiming JSA would

⁴³ Parliamentary answer by Jane Kennedy, 25th January 2005.

have their Account activated when they had been claiming benefits for 6 months.

This means that Accounts would cost no more than current New Deal provision and that eligibility criteria would remain so as to maximise efficiency by not spending on short-term claimants who would have found work anyway.

What would the difference between current New Deal support and Personal Employment Accounts be? The present New Deals offer a menu of support from which Personal Advisers (PAs) can pick for their clients and fixed requirements for activity by those out of work at each stage of their claim. The range of support can vary between New Deals. Such a rigid approach can limit innovation and personalisation of support.

By contrast, with an individual budget, claimants and their PAs would draw up a Back to Work plan that allocated their virtual budget far more flexibly between the sources of support needed to help that individual to find work. This would vary significantly by individual even if they were of similar age and claiming the same benefit, in a way that current support tends not to.

As in the US, this would aggregate the current funding streams an individual can access (from the Adviser's Discretion Fund to New Deal training) and give them control about how to use it. But claimants would have to draw up a Back to Work plan with their PA and have regular contact with them. By contrast, in the US there is little contact between a PRA holder and the state system, except for processing the account – claimants may forgo paying for advice to increase their bonus payment. Maintaining mandatory contact (free advice) and a firm plan should lead to higher success rates for a UK scheme. Box 3 illustrates how the process would differ for a young claimant of JSA.

Box 3: How an individual budget would work for young people

At present, a young person (aged 18-24) claiming JSA has to demonstrate that they are actively seeking work at fortnightly meetings at their local Jobcentre. Once they have been claiming benefit for six months, they must take part in the set process of the New Deal for young people (NDYP).

The first phase is the Gateway, up to four months of intensive job search activity with a Personal Adviser (PA). It is during the Gateway that rates of flow of people off benefit are highest.^a If the claimant does not find work, they must choose one of four options (subsidised employment, full-time education or training, environmental task force and voluntary work). Following this, they must claim JSA again as a new claimant.

Replacing NDYP with Personal Employment Accounts

Just as now, young people would be required to show they were actively seeking work at fortnightly meetings. At the six month point, their Personal Employment Account would be activated. This would contain a virtual fund of between £1,500 and £3,000 (based on current Employment Zone cost per job).

The claimant would draw up a plan with their Personal Adviser, setting out how the claimant will find work, including through use of the funds in their account. It could contain any activity the PA judges necessary for them to find work, for example, CV writing, training or transport to an employer placement. The allocation of resources between activities would be down to the claimant and their PA, far more flexible than the requirements of NDYP. But there would be no option of doing nothing.

If the claimant found work with money still left in their Account, they would receive a share of it and be incentivised by matched funding to use this for in-work skills development.

a R Dorsett, *The new deal for young people: effect of the options on the labour market status of young men* (PSI, 2004).

Many of the types of support mentioned are available in one form or another to many Jobcentre Plus customers today. But they are available through a number of funding streams, from the Adviser Discretion Fund to New Deal support. And they are too often inflexibly available and poorly contracted through block-booking. Too often the New Deal has been a rigid programme, with claimants required to do particular activities at particular times.

Under an individual budget, claimants would still be required to show that they were actively seeking work – rights would remain firmly tied to responsibilities – but claimants would be able to design, with their Personal Adviser, the package of help that would best help them to find work. This flexibility would allow innovative solutions to be found. It would empower Personal Advisers, moving from ensuring that claimants completed set tasks to instead designing a tailored Back to Work package from scratch. Perhaps best of all, it would empower claimants, giving them greater power and responsibility over the support they are entitled to.

Ensuring quality provision

There would need to be a simple system to ensure that public money is only used on good quality services. But the Learning and Skills Council already accredits skills and training providers. And local Jobcentres should decide what providers of other services, such as CV writing and New Deal provision, are allowed locally, just as they determine which of these services to contract with today. A final check would be provided by the fact that a claimant's plans would have to be approved by their Personal Adviser.

An end to rights and responsibilities?

At present, the right to benefit is matched by a responsibility to undertake activity, such as choosing an Option in the NDYP that should lead to finding work. A new system of Accounts would, if anything, better tie rights to responsibilities. The right to claim benefit would be matched by a responsibility to find work – an outcome not a process.

Moving more quickly into work

Personal Employment Accounts could also be used to incentivise claimants and PAs to minimise the costs of moving people into work in a way that the current system does not, and to encourage further skills development to aid progression while in work.

For example, any excess funds left in an Account if an individual moved into work within, say, 3 months could be split between the claimant, local Jobcentre or New Deal provider and the government. This would give the claimant an incentive to find work quickly and in the lowest cost way (as they would receive more cash if they did this). Coupled with the Job Grant which already offers long-term claimants £200 if they find work, this could be a substantial financial incentive to find work.

A number of safeguards would reduce the risk of claimants and providers 'playing the system' to collect more money. The first is that claimants would only have their Account activated after 12 months (or 6 months for young people). So there would be no incentive to cycle round benefits again and again to gain more money. The second is the focus in contracts for providers on sustainable employment and progression – their incentives would be to help people find and stay in work and that would be the bulk of their reward. The third is that the bonus could be paid in instalments – half on job entry and half after, say, continuous employment of six months. The fourth is that money in the account could only be used on accredited services as part of a plan approved by a Personal Adviser.

This approach would encourage the provider to use the most cost effective methods of moving people into work in an easier way than the current contracting process allows. Through these incentives and through the share of the money saved that would flow back to the Exchequer, this would reduce the unit cost of the New Deal.

Tackling 'revolving door' employment

Personal Employment Accounts also offer opportunities to better link in and out of work support, so that people are better supported to stay in work and progress, alleviating the problem of 'revolving door' employment discussed earlier. As Box 1 discussed, individuals already access learning through a Learner Account in Scotland and Wales and they are about to be reintroduced in England.

Claimants who find work should be encouraged to use their share of the excess funds in their Personal Employment Account to improve their skills while in work. They could, for example, be offered matched funding if they invested the cash in their Learner Account.

A single Career Development Account

Further down the line, it might be possible to roll the different forms of Account and financial support available into a single Career Development Account. This could amalgamate Personal Employment Accounts, Learner Accounts, Child Trust Fund and financial support available for learning such as the proposed Skills Development Fund and Career Development Loans. This would give people real choice over how to develop their careers and simplify the existing fragmented system of 'siloes' support.

CONCLUSION

The UK is closer to full employment today than it has been for a generation. Its employment rate is among the best in the world, record numbers of people are in work and the employment opportunities of disadvantaged groups have improved more quickly than the average. The New Deal has made a significant contribution to this record of success.

But there is further to go for the UK to reach full employment. People in disadvantaged groups still have far fewer employment opportunities than the average, despite wanting to work just as much. Given this, the government's ambition of an 80 per cent employment rate is undoubtedly achievable. However, far too many people find it difficult to stay in work, trapped in 'revolving door' employment.

Full employment can only be achieved and sustained if a different approach is taken to Welfare to Work. The biggest successes of the last decade have come when support has been individualised and focused on outcomes not processes. Yet too often the New Deal is still rigid, with a one size fits all approach. Full employment requires Welfare to Work that works better.

This paper has proposed a new system of Personal Employment Accounts to replace current New Deal support. These Accounts would build on the early experience of a similar scheme operating in seven US states. They would give workless people and their Personal Advisers a virtual budget that they could use in a far more flexible way to get them into work. They would incentivise providers and claimants to use the most cost-effective ways of getting into work. They could also be used to incentivise skills development once in the workforce, contributing to progression opportunities.

The prize for effectively personalising Welfare to Work is clear. It is the key to achieving an 80 per cent employment rate – truly full employment. Personal Employment Accounts, by devolving power to frontline staff and better empowering those out of work, can help move the UK toward this ambition. They would be an excellent way for a new Prime Minister to begin their first 100 days.

£5