



EU Network of
Independent Experts
on Social Inclusion

Assessment of the implementation of
the European Commission
Recommendation on **active
inclusion**

[A Study of National Policies](#)

United Kingdom

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Assessment of the implementation of the
European Commission Recommendation on
active inclusion

A Study of National Policies

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COUNTRY REPORT - UNITED KINGDOM

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Summary

- Reducing the deficit, rebalancing the economy away from the public sector, and combating 'welfare dependency' are the government's clear over-riding priorities
- They are being pursued in the context of a continuing economic crisis and very difficult labour market, with high unemployment and more of the jobs created being part time
- The policies of the smaller nations often diverge from the Westminster government's in areas in which they have devolved powers, particularly in relation to income distribution
- The government's active inclusion strategy focuses on welfare to work, and references to adequate/generous income usually refer only to severely disabled/elderly people
- The central activation policy is the Work Programme, a comprehensive new scheme featuring private providers, being paid by results, with a 'black box' approach to methods which makes it difficult to monitor the quality of services and possible impact of discretion
- Conditionality is being personalised, but also ratcheted up (again) and extended (eg to lone parents with a youngest child aged 5, and in future the partners of more claimants)
- Incentives for employment retention are increasingly focused on providers not individuals; in-work poverty and low pay are continuing problems, the minimum wage is being increased by less, and employment and equalities rights are under threat
- Multi-agency cooperation is invoked in particular for the most disadvantaged; for others, a push for more localisation may increase fragmentation and a 'postcode lottery'
- Benefit levels have been increased faster than wages recently; but benefits are low, and those on low incomes have experienced higher inflation due to price rises for basic goods
- Poverty for working age adults has been neglected in recent years and will rise in future
- Universal credit, to be introduced from 2013, is a radical reform which will cost an extra £2 billion and take many out of poverty; but concerns focus on the downsides of bringing together most means-tested benefits into one payment and on the administrative risks
- Universal credit will have a 65% marginal deduction rate (ie higher than now for many 2nd earners, alongside reduced support for childcare costs, albeit extended to 'mini jobs')
- The government's emphasis on the supply side necessitates tackling the UK's 'long tail' of low-skilled individuals; it has an emphasis on market solutions and has abolished the previous government's skills targets. Some commentators urge more demand side focus
- There is a developed system of impact assessments, monitoring and evaluation, and piloting and testing of policies are if anything increasing; but it is too early to evaluate the Work Programme, and Universal Credit has not yet come in
- The government should develop clear policies for job creation and use public revenues to finance job opportunities for young people in particular who are being particularly hard hit

- The conditionality in conjunction with the Work Programme is the toughest regime yet and demands careful monitoring in view of the potential hardship it may create
- The 65% marginal deduction rate under Universal Credit should be reviewed and reduced as soon as possible by as much as public finances allow
- There is an urgent need to reassert the need for adequate social security provision as a necessary component of active inclusion strategies, in part to promote its socially inclusive function and stem the trend to increasingly negative public attitudes to claimants
- The focus on paid employment as a route out of poverty will be counterproductive unless more attention is paid to the quality/sustainability of employment and decent pay levels
- The current public services cuts and trend to localisation should be reconsidered
- More synergy between the UK's social inclusion strategies and Europe 2020 would be constructive, including resumed resourcing of the active participation of stakeholders.

1. Integrated comprehensive strategy

1.1 Comprehensive policy design

1.1.1 Introduction

The government could be described as having a clear focus, rather than a comprehensive active inclusion strategy. Their central aim is to rebalance the economy away from public towards private sector employment, and to move households from 'welfare dependency' (claiming state benefits) to 'self-reliance'. The understanding of 'dependency' appears to have been expanded to cover claiming in work support as well as out of work benefits. The first part of this goal is difficult to achieve, however, at least at this stage of a determined deficit reduction strategy; the second can be achieved by cutting back on benefits (which is a central part of this deficit reduction strategy), but this is hard to do without increasing poverty.

The core concerns around poverty, however, are increasingly being shifted from the level of current income and circumstances towards current behaviour (poor parenting, family breakdown, addiction) on the one hand, and future opportunities (social mobility) on the other. It is too early to know whether this strategy will succeed in achieving active inclusion. But at present the signs are not hopeful. Adequate income support is expressed as a goal largely relevant only for those who will never be able to participate in the labour market. The emphasis on social mobility means that the focus of policy developments in terms of access to quality services is on the early years and education in particular; specifically. Social care reform (a recurrent problem for different governments) seems to have been postponed again. Social housing in particular is being targeted even more narrowly on the worst off. The cutbacks in legal aid threaten to make it more difficult for people to claim rights to a range of services.

Exclusion from the labour market is seen as a key issue, with paid employment as the route out of poverty. The analysis of causation is in part based on the thesis of a 'broken' benefits system which is too complex and confusing, gives the wrong signals to people about whether they will be better off in work, and fails to push them hard enough into it. The other major cause of exclusion from the labour market is seen as ingrained 'welfare dependency' and intergenerational worklessness.

1.1.2 The context

Active inclusion is being pursued in the context of a very difficult labour market, as described in detail in **Appendix 1 below**. In the last quarter (February to April 2012), the unemployment rate was 8.2% of the economically active population (2.61 million), with 886,000 of these having been unemployed for over a year; the claimant count in May 2012 was 1.6 million, or 4.9%. The employment rate was 70.6% in February to April 2012, but the increase in employment is being achieved by a growth in the numbers of part-time workers. There is increasing concern that an activation policy, which is (as under the previous government) simultaneously ratcheting up conditionality and extending it to more people, is operating in a situation of continuing decreased labour demand.

For the purposes of this report, we will only consider activation policy since the election of the coalition government in May 2010. Measures to promote active

inclusion introduced by the previous Labour administrations between 1997 and 2010,¹ are effectively obsolete and of little relevance to future developments.

1.1.3 Coalition policies in outline

Employment services aimed at helping unemployed (and increasingly other groups of) people into work are provided in two ways. For most new claimants of social security benefits, services are provided by **Jobcentre Plus** for a period of up to 12 months. Jobcentre Plus is an agency of the Department for Work and Pensions. People who have not found work after a year are transferred to the **Work Programme**, a major new payment-for-results welfare-to-work programme that was launched throughout Great Britain in June 2011. The Work Programme replaced a range of welfare to work programmes, including Pathways to Work, Employment Zones and the Flexible New Deal. It is intended to be supported by a major reform to the social security system, the introduction of Universal Credit, to be implemented from late 2013. Both these are described in later sections of this report.

Jobcentre Plus retains its responsibilities for supporting people in finding work in the early stages of their benefit claim. Jobcentre Plus staff have access to a range of supporting programmes and compulsory measures, such as Access to Work, Mandatory Work Activity, Work Based Learning for Adults, and Work Trials.

The Work Programme is being delivered by a range of organisations and represents a long-term investment by government and its partners. The government awarded 40 contracts to deliver the Work Programme to 18 different organisations (15 in the private sector, two in the third sector and one in the public sector). These 'prime' contracts were awarded partly on the basis of the contractor specifying a supply chain of other providers who would deliver specialist services based on, for example, client group, geography or industry. There was some criticism that few were awarded to charities and voluntary sector organisations; and reports suggest that almost 100 charity providers have dropped out.²

As mentioned above, the Work Programme uses a novel Payment by Results model, intended to give providers incentives to get people into sustained employment. The longer a 'customer' stays in work, the more providers are paid, the intention being to introduce strong incentives to continue support once people are in work. There are differentiated payment rates for different claimant groups, to encourage providers to focus on the groups that are harder to help. Another novel feature of the Work Programme is the freedom allowed to providers to design their services as they wish (known as the 'black box' approach), although they are also required to conform to minimum service requirements. The intention is to encourage innovation and to allow providers to focus their resources where this will do most good. Five-year contracts have been issued (to expire in 2015) in order to give providers time to build long-term partnerships with their specialist supply chains of local providers, and other partners, including local government. However, an evaluation of this approach in the Flexible New Deal under the previous government found that it did not necessarily equate to more innovation and a wider choice or variety of services.³

¹ See e.g. Bradshaw, J. & Bennett, F. (2006), *UK: Trends, Recent Developments, Active Inclusion and Minimum Resources (First Semester Report, 2006)*, Brussels: European Commission (DG Employment, Social Affairs and Equal Opportunities)
http://ec.europa.eu/employment_social/social_inclusion/docs/experts_reports/uk_2006_en.pdf.

² Reported in *The Observer*, 10 June 2012.

³ Vegeris, S., Adams, L., Oldfield, K., Bertram, C., Davidson, R., Durante, L., Riley, C. and Vowden, K. (2011), *Flexible New Deal Evaluation: Customer Survey and Qualitative Research Findings*, Research Report 758, London: Department for Work and Pensions.

As under the previous government,⁴ **conditionality** continues to be simultaneously ratcheted up and widened to include more groups at greater distance from the labour market. (See section 2.1.2 below.) Conditions do not relate only to activation measures such as looking for work or training, but also to (for example) learning English,⁵ or (in the latest example) obtaining treatment for addiction. Many claimants who had had compulsory skills training in a pilot said they would have engaged in it anyway, even if they had not been threatened with loss of benefits.⁶ Conditions on jobseekers are being tightened simultaneously, with claimants now being expected to spend 'several hours a day' to achieve their weekly job-search goals and to look for any suitable job within a 90-minute commute (subject to caring responsibilities or health considerations).⁷

The latest extension is to lone parents with a youngest child aged 5, who have to move on to jobseeker's allowance from income support. The lone parents' NGO, Gingerbread, has expressed concern about the lack of notice given to lone parents and the current obstacles to getting suitable jobs.⁸ And a report by the Single Parents' Action Network⁹ following 50 lone parents who had moved on to jobseeker's allowance over the past three years was critical of the 'work first' approach of Jobcentre Plus and the abolition of lone parent advisor posts. Cuts in Sure Start provision at local level may also be undermining the opportunities for lone parents in gaining employment.¹⁰ The employment rate of lone parent families was 57.3% in April-June 2011 – a 0.1% improvement on the year before; and the lone parent employment rate has not fallen during this recession. But much of this employment is part time, and SPAN reported that all the lone parents in their study who had got work were in low-paid jobs, with training to do a better qualified job often not encouraged.

As we have noted in a previous report, the government is terminating entitlement to contributory employment and support allowance (ESA) after 12 months for those in the work related activity group (i.e. those who may work again at some time) and is also abolishing non-contributory ESA for young disabled people. ESA is the benefit that has been replacing incapacity benefit (IB) for those considered incapable of work through illness or disability. ESA was introduced in 2008, starting with new claims; now existing IB claimants are also being moved on to ESA. It was suggested that the new **work capability assessment** would result in 75% of claimants being found ineligible for ESA. But at first there were only small changes in the case load and Gregg¹¹ suggests that the number of claims will not differ greatly for 10 years as the higher inflows resulting from the recession counterbalance the impact of the new testing regime. However, those who do lose entitlement to IB, including those made ineligible for contributory benefit, will suffer a drop in the level of benefits, and those who do not claim, or are ineligible for, jobseeker's allowance may suffer a catastrophic drop in income. And a recent report noted that the work capability assessment would not give providers of welfare-to-work services and personal advisers the information

4 Griggs, J. and Bennett, F. (2009), *Rights and Responsibilities in the Social Security System*, Occasional Paper 6, London: Social Security Advisory Committee:

http://www.ssac.org.uk/pdf/occasional/Rights_Responsibilities_Social_Security.pdf

5 Press release, 13 September 2011, 10 Downing Street.

6 Dorsett, R., Rolfe, H. and George, A. (2011), *The Jobseeker's Allowance Skills Conditionality Pilot*, Research Report 768, London: Department for Work and Pensions.

7 Written Ministerial Statement, House of Commons Hansard, 6 October 2011, cols. WS 77-78, London: The Stationery Office.

8 Press reports, 20 May 2012.

9 Haux, T. et al. (2012), *A Longitudinal Qualitative Study of the Journeys of Single Parents on Jobseeker's Allowance*, Bristol: Single Parents Action Network/University of the West of England.

10 Mulley, K. and Scowcroft, E. (2011), *The Red Book: Impact of UK government spending decisions on children, young people and families 2010/11*, London: Action for Children.

11 Gregg, P. and Robinson, H. (2012) 'Disability welfare reform: what will be the long-term effects on numbers of claims?' http://stats.cesi.org.uk/website_documents/ESA_Paul_Gregg.pdf

that they needed to support everyone into employment without the introduction of various changes.¹²

The last government had policies on job retention and advancement (including the In Work Credit, the Employment and Retention demonstration project and Pathways to Work). The shift towards sustainability of employment has been maintained, but is to be achieved primarily via incentive payments for providers of employment services rather than for individuals in work; what is emphasised less is improvement in the quality of jobs, or the creation of a more inclusive labour market. Thus, in-work poverty¹³ continues to be a problem, and threatens to increase further; and employment rights and enforcement of equalities are under threat. The post-recession period has seen the reversal of positive labour market interventions, with an adverse impact on people employed in low-waged jobs, according to one recent article.¹⁴

The planned increase in the minimum wage for 2012¹⁵ leaves it lower in real terms than in 2004, and 6% below its 2009 peak, although a recent report said that there was 'overwhelming evidence' that it had reduced wage inequality without damaging employment;¹⁶ there are increasing calls for a 'living wage' to be introduced by companies that can afford to do so.¹⁷ The Universal Credit scheme, the centrepiece of the government's welfare reforms (see below for detail), is estimated to reduce poverty, and will be funded to the tune of £2 billion extra; but there is some concern that it may subsidise low quality, marginalised employment;¹⁸ and that the incentives for advancement (moving on and up in the labour market) will be created in part by extending conditionality into the in-work population, including partners - as well as by reducing marginal deduction rates for some groups - whilst increasing them for others. (The Institute for Fiscal Studies has published an initial analysis of its impact on incentives.)¹⁹

1.2 Integrated implementation

There is a coordinated push by the Coalition Government to emphasise the multifaceted causes of poverty and social exclusion, and to see low income as a symptom rather than the core of poverty.²⁰ There is widespread agreement that income is not the only important indicator of poverty or deprivation; and that a relative poverty line may not be as useful in the short term (especially in a recession) as it is over the longer term. However, there are widespread concerns from those outside government, including most of the NGOs working on poverty, that downgrading the importance of income (and characterising more generous transfers

12 Coleman, N. with Parry, F. (2011), *Opening Up Employment for All: The role of assessment in the Work Programme*, London: Centre for Economic and Social Inclusion.

13 Bradshaw, J., Bennett, F. and Mayhew, E. (2010), *In-work Poverty and Labour Market Segmentation: A study of national policies (UK)*, Brussels: European Commission.

14 Grimshaw, D. (2012), 'Low-wage work during the crisis: policy measures in the UK', *International Labor Brief*, vol 9, no. 9.

15 Department for Business, Innovation and Skills (2012), *National Minimum Wage: Low Pay Commission Report*, London: The Stationery Office.

16 Manning, A. (2012), *Minimum Wage: Maximum impact*, London: Resolution Foundation.

17 Pennycook, M. (2012), *What Price a Living Wage? Understanding the impact of a living wage on firm-level wage bills*, London: Resolution Foundation and Institute for Public Policy Research.

18 Dean, H. (2012), 'The ethical deficit of the United Kingdom's proposed Universal Credit: pimping the precariat?', *The Political Quarterly* 83(2): 353-359.

19 Brewer, M., Browne, J. and Jin, W. (2012), 'Universal Credit: a preliminary analysis of its impact on incomes and work incentives', *Fiscal Studies*, vol 3, issue 1.

20 For example, see Department for Work and Pensions and Department for Education (2012), *Child Poverty in the UK: The report on the 2010 target*, London: The Stationery Office.

as merely being 'poverty plus a pound') opens the door to a shift in emphasis from structural to individual causes of poverty.²¹

Joined-up services were central to the previous government's approach to social exclusion. They are also a key theme for the current government in relation to its focus on the most disadvantaged families in particular (the 120,000 or so 'troubled families', who will have a key worker engaging with them).²² This group was for a short period a focus of the previous government as well, which talked about the 2 per cent most disadvantaged as part of its social exclusion strategy. But it is also a central concern of the current government's social justice strategy, which also emphasised prevention (especially supporting positive behaviours); recovery and independence, rather than maintenance; and giving people second chances. It also included sections on young people and adults with multiple disadvantages. Multi-agency delivery was said to be one of the 'watchwords'.²³ However, there is an emphasis on 'damaging behaviours' in the strategy; and 'troubled families' can all too easily mutate into families which cause trouble to others. A recent report examining the progress made by the government in helping individuals with multiple needs said more could be done.²⁴ The strategy also emphasises that interventions need to be 'a fair deal for the taxpayer', and says £9 billion were spent on these families last year alone, which suggests that cost is a core consideration. The definition of 'social justice' is rather limited, in that the government argues that it is about ensuring that 'everybody can put a foot on that [social] ladder'. The individual examples given in the strategy are about extreme cases of (eg) drug addiction.

1.3 Vertical policy coordination

There will be increasing localisation of provision in future, due to the coalition government's conviction that this is preferable to what they see as central diktat under the previous government. Central targets have been abolished. Parts of the Social Fund for those on the lowest incomes will be administered by county councils. Council tax benefit will in future be delivered by local authorities, with their own rules (outside the new Universal Credit scheme). Accompanying increasing localisation are two further developments: less ring-fencing of funds, and less guidance from central government to local authorities. The balance between central and local direction and delivery is a perennial issue in social policy debates and there are clearly arguments on both sides. But in terms of the groups relevant to active inclusion strategies, some commentators have argued that increasing localisation of services will result in a more fragmented experience for many, with a greater likelihood of 'postcode lottery' provision.

The government abolished regional development agencies in England. Benefits and labour market policy are usually governed from Westminster; but the devolved administrations are increasingly diverging from England/UK policy in various areas where this is possible. An article argued that differences were emerging in Northern Ireland in terms of welfare-to-work policy, although the devolution settlement and constitutional issues limited the likelihood of radical departure from 'parity' with Great

21 See, for example, Judge, L. et al. (2012), *Ending Child Poverty by 2020: Progress made and lessons learned*, London: Child Poverty Action Group; Whitham, G. (2012), *Ending Child Poverty: The importance of income*, London: Save the Children.

22 Levitas, R. (2012), 'There may be "trouble" ahead: what we know about those 120,000 troubled families', mimeo.

23 Department for Work and Pensions (2012), *Social Justice: Transforming lives*, London: The Stationery Office.

24 Donaldson, J. and Page, A. (2012), *Progress on Multiple Needs and Exclusions*, London: Making Every Adult Matter/Revolving Doors Agency.

Britain.²⁵ One key issue for the future of the new Universal Credit is that 'passport benefits' may often be the responsibility of the devolved administrations, whereas the major transfers are the responsibility of the Westminster government, making it more difficult to develop a coherent policy in this area when the key benefits for passporting disappear.

There is less emphasis on the EU level of policy under the current government, and (as noted in our recent reports) the government has not adopted the suggested indicators to measure its progress towards social inclusion in many of the areas suggested for member states, preferring to use its own indicators and largely not wishing to set targets by which to guide its policy development, as it rejected this approach by the previous government. This makes comparisons with other member states more difficult. However, we have already noted in a recent report that this year's National Reform Programme was much more focused on social inclusion than the previous one, which was welcome.

1.4 Active participation of relevant actors

In our recent reports, we noted that the more systematic on-going dialogue between government and relevant stakeholders – including groups which involved individuals affected by poverty and social exclusion themselves – has been discontinued (on the grounds that given the deficit reduction strategy the government could no longer support this exchange). The government would also argue that this is not necessary because it consults on individual policies; and there is a clear set of rules about this, with a minimum period of three months usually allowed. The Social Security Advisory Committee, which is an independent statutory body with oversight of the social security system in particular, has been reviewed recently, and will be maintained. A wide range of NGOs and others has been involved in trying to influence legislation in this area, in particular the Welfare Reform Act 2012 (although the government's parliamentary majority ensured that final changes were few). However, there is increasing concern – being expressed via legal challenges, as well as in other ways – that there is less emphasis on assessing the cumulative impact of policies on disadvantaged groups than there should be, and that consultation on individual policies does not suffice.

In terms of implementation, the Work Programme has introduced for the first time an elaborate schedule of payments to prime contractors with the intention of incentivising them to help all claimants, regardless of their distance from the labour market. Contractors may have slightly different payment schedules because these have been negotiated separately by each of them with the DWP. Precise details are treated as commercially sensitive and are not in the public domain. The government intends to review these in the future to ensure that contractors are (a) not making excessive profits or (b) not in danger of withdrawing from the market because of losses. The National Audit Office has also committed itself to reviewing the financial outcomes for contractors (and therefore the cost to the public purse).

The government is keen in principle on encouraging voluntary organisations, especially those who aim to 'transform lives'. However, the deficit reduction strategy works against this goal, as it has tended to result in funding cuts for many such bodies. The government's emphasis on social innovation, including in particular social impact bonds (which involve organisations investing in solving social problems and being paid if long-term outcomes are favourable) will tend towards support for social enterprises.

²⁵ Wiggan, J. (2012), 'A kingdom united? Devolution and welfare reform in Northern Ireland and Great Britain', *Policy & Politics*, Vol 40, no. 1.

An interesting development in the government's strategies relevant to active inclusion is increasing demands on the private sector. For example, financial inclusion strategies have already placed requirements on the financial services sector, including banks in particular (for example, to set up basic bank accounts, and more generally to commit more resources to outreach to low income customers); the Work Programme (as described in this report) has demanding contracts for providers; and employers will have to operate 'real time information' technology for Universal Credit. Water companies are going to operate a social tariff for vulnerable customers on low incomes finding it hard to pay their water bills. It appears likely that an increasing number of social outcomes will be dependent on private sector performance and continued willingness to co-operate in operating social policies.

2. Impact and cost effectiveness of measures

2.1 Adequate income support

2.1.1 Adequate resources

Benefit levels for unemployed people and others have been increased in line with the CPI (consumer price index) since 2010. Curiously, because real earnings have been falling, there has probably been some narrowing in the gap between out-of-work and in-work incomes over the period. But Jobseeker's Allowance is very low, currently being worth £71 per week for a single person aged over 25. In 1971, unemployment benefit was worth 20.9% of average earnings for a single person but by 2010 JSA had fallen to 10.9% of average earnings.

There have been substantial increases in the costs of food, fuel and clothing, driven by a long-term rise in world demand, increases in the price of raw materials, and increasing labour costs in China and other emerging economies. These are particularly serious because all these commodities constitute a larger share of the budgets of low-income households, who often depend on cash benefits currently pegged to the CPI. Those dependent on state benefits have experienced higher rates of inflation than those with middle incomes.²⁶ Hirsch *et al.*²⁷ have suggested a scenario in which the minimum costs of living could rise by 34% by 2020 and by 9-18% after adjusting for general inflation. If this happens, the real incomes of in-work and out-of-work households dependent on benefits/tax credits will fall. Indeed, unless the economy and earnings grow, average living standards – those of the so-called 'squeezed middle' – will also fall.

Working age poverty has been a neglected issue under recent governments, and this government criticises the previous one for this. As noted in our 3rd 2011 report, in 2009/10, 16% of people of working age were living in households with income less than 60% of the median disposable household income before housing costs (the same percentage as in the previous year, with no reduction in the working age poverty rate since 2004/05). The figure was 15% in 2010/11. Universal Credit is forecast to reduce working age poverty (without building in behavioural effects); but this will be offset by other tax and benefits changes. The Institute for Fiscal Studies suggests that relative working age adult poverty will in fact fall slightly between 2009/10 and 2012/13, before rising in 2013/14. Absolute working age poverty will rise continuously and by more than relative poverty over this period. By 2020, relative working age poverty will be 20% of parents (compared with 17.1% in 2009/10) and 17.5% of working age

²⁶ Levell, P. and Oldfield, Z. (2011), *The Spending Patterns and Inflation Experience of Low-Income Households Over the Past Decade*, Commentary 119, London: Institute for Fiscal Studies.

²⁷ <http://www.donaldhirsch.com/globalisation.pdf>

childless adults (15% in 2009/10) – an increase of 400,000 in total compared with the situation without the policy announcements as of summer 2011.

The introduction of Universal Credit (UC) from October 2013 will be the biggest change in the UK's social protection system for working age people for decades and, even if the introduction is not successful, or if it is altered by a new government, it will continue to have repercussions until 2020 and possibly beyond. In-work and out-of-work benefits/tax credits are to be integrated, marginal deduction rates reduced for many, more generous disregards for part-time work introduced, and an automated delivery system, relying on largely online interaction with claimants, brought in. People will be migrating to the new scheme from October 2013 as they make new claims or their circumstances change (but there will be an experimental introduction of UC in one local area from April 2013).

Some of the key issues that have been raised about UC are:

- that it will subsidise and institutionalise low-paid, marginal work (see above)
- that it is not going to be 'universal', but means-tested, combining benefits into one payment, thereby – whilst potentially being simpler for claimants - losing the budgeting advantages of payments being labelled and paid to different members of the household on different dates, and leaving claimants open to the risk of their whole benefit not being paid on time or at all if there is an administrative error
- that the localisation of council tax benefit, and policy in relation to including 'passport benefits' (not yet developed), may undermine its simplicity
- that it will be paid to one person in couples, meaning (for example) that the element for children will not necessarily be paid to the main carer in families with children, as child tax credit is now
- that support for housing costs will be part of this payment, though currently many claimants have the support for their rent or mortgage interest paid direct to the landlord/lender
- that it will be paid monthly, rather than more frequently as most benefits can be now, making it harder for claimants to budget (especially as it will be one combined payment); claimants are reported to be particularly worried about this
- that a major new computer system is being developed; if it fails (as many government IT systems have), it will be a disaster for claimants - 80% are being expected to deal with their claims online.

Whilst UC is intended to smooth out and simplify means tests, a recent report argues that already, as localization is pushed further, and more agencies became responsible for designing their own means tests, the lack of a system to take an overview of their overlapping effects, and to avoid undesirable design features, becomes an increasing problem across social policy.²⁸ (See above about insufficient assessment of the cumulative impact of a range of policies on some vulnerable groups.) And the devolved administrations, as noted above, are making it clear that they will where possible attempt to 'smooth the edges' of welfare reform in their areas.²⁹

²⁸ Hills, J. and Richards, B. (2012), *Localisation and the Means Test: A case study of support for English students from autumn 2012*, CASEpaper 160, Centre for Analysis of Social Exclusion (London School of Economics).

²⁹ See, for example, report by Members of the Scottish Parliament, 16 May 2012.

2.1.2 Resources linked to activation

Social security recipients in the UK are subject to a range of employment conditions, unless they are specifically exempted from them. Recipients of Jobseekers Allowance are required to be actively seeking and available for work. They may also be required to take part in *Mandatory Work Activity*, a compulsory scheme requiring them to undertake work-related activity. Recipients of Employment and Support Allowance who are deemed to be capable of some work are assigned to the 'Work-Related Activity Group' of recipients and are required to take part in activity that will bring them closer to the labour market. If these employment conditions are not met, JSA and ESA claimants may be subject to a sanction. The imposition of conditionality and sanctions in the UK has always been controversial; but a report in 2010 for the Joseph Rowntree Foundation concluded that there was '...a gulf between the rhetoric and evidence on benefit sanctions. The evidence base is both small and limited in its coverage...'.³⁰

The recently passed Welfare Reform Act 2012 has amended the conditionality and sanctions regime that will apply to Universal Credit when it is introduced in 2013. The government also has powers to introduce its new regime for JSA and ESA ahead of their replacement by Universal Credit. Sections 26 and 27 of the Act provide for sanctions to be imposed on claimants who fail to meet conditionality requirements without a good reason. The details of the sanctions have not been finalised, but have now been set out in draft regulations. The table shows what is planned.

Sanction	Applicable to:	1 st failure	2 nd failure	3 rd failure
High Level e.g. failure to take up an offer of paid work	Claimants subject to all work-related requirements	91 days	182 days	1095 days
Medium Level e.g. failure to undertake all reasonable action to obtain work	Claimants subject to all work-related requirements	28 days	91 days	
Low Level e.g. failure to undertake particular, specified work preparation action	Claimants subject to all work-related requirements	Open ended until re-engagement plus...		
	Claimants subject to work preparation and work-focused interview requirements	7 days	14 days	28 days
Lowest Level Failure to participate in a work-focused interview	Claimants subject to work-focused interview requirements only	Open ended until re-engagement		

30 Griggs, J, and Evans, M. (2010), *Sanctions Within Conditional Benefit Systems*, York: Joseph Rowntree Foundation.

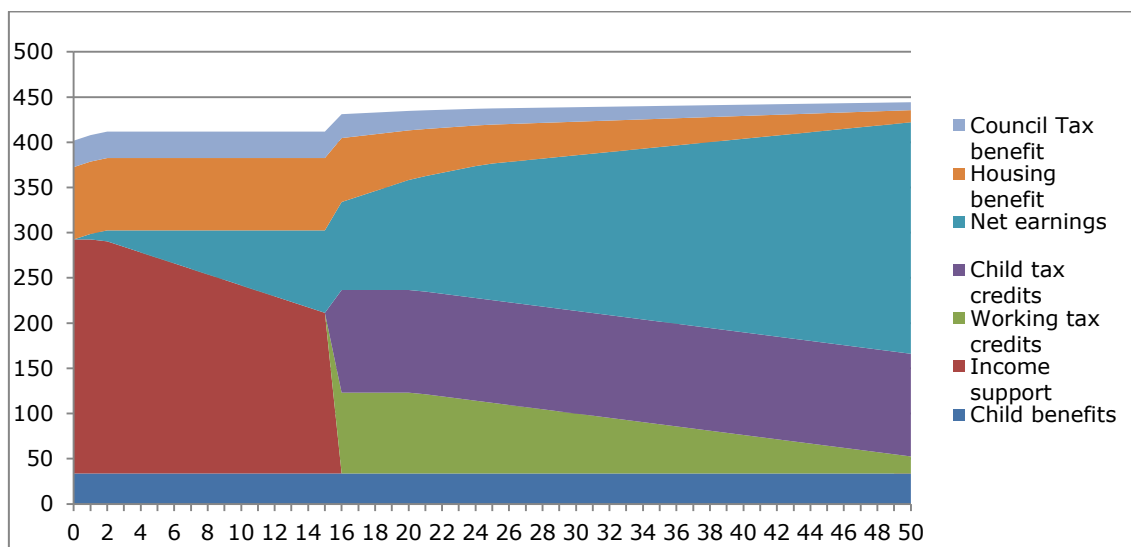
In terms of the rights of claimants, on the other hand, the Work Programme does not confer any rights on social security claimants that they can invoke through legal channels to secure the resources they want and need. However, people who are unhappy with the service they receive from a Work Programme provider can complain to the provider in order to resolve issues and disputes. If the client is not satisfied, providers are required to tell clients what further recourse they have, which is to the Independent Case Examiner (a statutorily independent referee for people who feel that any government agency or business has not treated them fairly or have not dealt with complaints in a satisfactory manner). A Freedom of Information request to the DWP elicited the information that the Independent Case Examiner had received 70 complaints against Work Programme providers by mid March 2012. There is no data on the outcomes of the Examiner's investigations, however.

2.1.3 Incentive to work

Figure 1 sets out a picture of the 2011-12 tax benefit system. This is the position for a couple with two school-aged children. When neither parent is employed, they will have a net income of £401.78 per week, or £292.53 per week after they have paid their rent and council tax. Then one parent begins to work for the minimum wage (£6.08 per hour). At 16 hours' work per week (to be changed to 24 hours for couples), they have to move from Jobseeker's Allowance to a joint claim by both partners for Working Tax Credit and, if they are able to work 40 hours per week, the family's net disposable income is £441.51 per week (or £332.26 after paying their rent and council tax). This is not a representative case; but it illustrates a number of characteristics of the current UK tax/benefit system:

- The state makes a substantial contribution to the incomes of low-income families with one earner – even if s/he is working 40 hours per week, 51.5% of the family's net income comes from benefits and tax credits.
- The in-work net income is very flat. This is the so-called 'poverty trap' – high marginal tax rates which result from the combined impact of income tax and national insurance contributions and the loss of tax credits and housing and council tax benefits as income rises.
- Then there is the 'unemployment trap', or the 'replacement rate'. By having one earner working 40 hours per week, this family is better off than if no one were working – but only £39.73 per week better off.
- It is difficult to estimate the poverty threshold in 2011-12 for this family but it is probably going to be about £350 per week after housing costs – which means that even with one earner working full time on the minimum wage, this family is still in poverty after they have paid rent and council tax.

Figure 1: Impact of the UK tax/benefit system as at 2011-12 on a one-earner family with 2 school-aged children. Net disposable weekly household income by hours supplied by one earner on the minimum wage (£6.08/hour), rent £80/week, council tax £29.25/week.



In terms of the factual situation, rather than models, in-work poverty (and household joblessness) declined between 2005 and 2010 in the UK,³¹ but nevertheless remains a problem. The main source of data on in-work poverty in the UK is the annual Households Below Average Income (HBAI) series. Table 1 shows that, of all children living in households in poverty in 20010/11, 60 per cent had someone in their household in employment. Among these, the largest groups were the self-employed and people in households with someone working only part time – defined as less than 31 hours per week. However, 25% had someone in full-time work. The risk of poverty was of course much higher in workless households. Nevertheless, the risk of poverty was the same as average for children living in couple families with only one adult employed.

³¹ Corluy, V. and Vandenbroucke, F. (2012), *Individual Employment, Household Employment and Risk of Poverty in the EU: A decomposition analysis*, Working Paper 12/06, Antwerp: Centre for Social Research (Antwerp University).

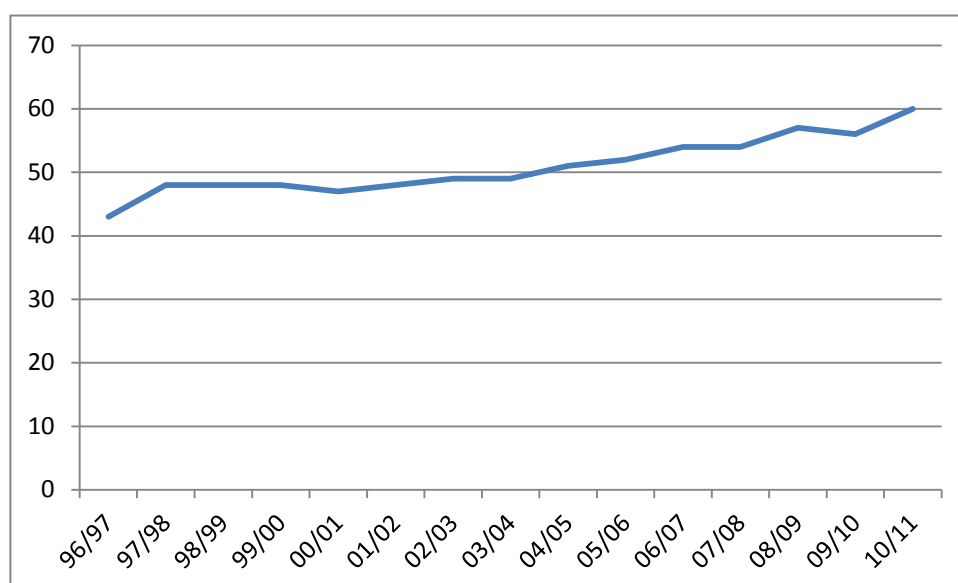
Table 1.3: Children at risk of poverty and composition of those in poverty by employment status (under 60% median equivalised disposable household income before housing costs 20010/11)

	Risk of poverty	Poverty composition
Lone parent full-time FT work	10	3
Lone parent part-time PT work	13	4
Lone parent not working	34	21
Couple parent self employed	16	17
Both FT work	2	2
One FT work, one PT work	4	5
One FT work, one not working	18	17
One or both PT work	43	11
Both not working	58	19
All	18	100

Source: DWP (2012) HBAI Tables 4.3 and 4.5

It can be seen in Figure 2 that there has been an increase in the proportion of children in poverty with a parent in employment since 1996/97.

Figure 2: Percentage of children in poverty with a parent in employment



Source DWP (2012) HBAI Table 4.6ts

The government's recent measures implemented as part of the public spending review have included policies to prevent couples from claiming working tax credit unless they are working 24 hours between them (rather than 16);³² there was no transitional protection when this measure was brought in, and commentators suggested that it ran contrary to the spirit of Universal Credit, which will aim to make work pay however short the hours. There have also been cuts to working tax credit and child benefit has been frozen; increases in child tax credit gave some compensation for cuts, but have now been halted.

2.2 Inclusive labour markets

2.2.1 Increased investment in human capital

Education and training is a devolved policy in the UK, so the devolved administrations have responsibility in the smaller nations. Issues around skills utilisation and employer demand have been taken further in Scotland.

In the UK as a whole, there has been concern for many years about a 'long tail' of low skills.³³ A recent report found that 1.5 million employees do not have the skills needed to do their jobs.³⁴ But there is also said to be growing levels of over-qualification.³⁵ The period since the general election has been one of enormous change, including cuts at a time of economic fragility. There has been uncertainty and something of a hiatus, with the Regional Development Agencies abolished (in England), and Local Enterprise Partnerships set up.

Under the previous government it was acknowledged that there was a case for intervention where market failure was assumed; so government funding for adult learning was focused mainly around level 2 qualifications and a Train to Gain programme subsidising employers to help employees without these gain them (and later level 3). These priorities did not always recognise that some employers might pursue low value added skills strategies.³⁶ The coalition's strategy is marked by less top-down targets policy, and more emphasis on markets, private investment and smaller government. Its 2010 skills strategy³⁷ abolished the 2006 Leitch Review targets and moved beyond 'the machinery of central control' as a means to achieve the ambition for world class skills. More recently, the government set out (following consultation) a programme of work designed to take forward its plans for reforming the further education and skills system for adults aged 19 and over in England.³⁸ Apprenticeships are at the centre of the strategy.³⁹ But apprenticeships in the UK have traditionally not resembled the high skill vocational system in various continental European countries; and a committee of MPs has argued that up to a fifth of adult

32 HM Treasury (2010), *Spending Review 2010*, Cm 7942, London: The Stationery Office.

33 Hasluck, C. (2011), *Low Skills and Social Disadvantage in a Changing Economy*, London: UK Commission for Employment and Skills.

34 Davies, B., Gore, K., Shury, J., Vivian, D., Winterbotham, M. and Constable, S. (2012), *UK Commission's Employer Skills Survey 2011: UK Results*, London: UK Commission for Employment and Skills.

35 Green, A.E. (2012) *Skills for Competitiveness: Country report for United Kingdom*, OECD Local Economic and Employment Development (LEED) Working Papers, 2012/05, OECD Publishing.
<http://dx.doi.org/10.1787/5k9bb1vc6skf-en>. (The information in this section is drawn in particular from this source, and from Payne, J. and Keep, E. (2011), *One Step Forward, Two Steps Back? Skills policy in England under the coalition government*, Research Paper 102, Centre on Skills, Knowledge and Organisational Performance, Cardiff and Oxford Universities.)

36 Lanning, T. and Lawton, K. (2012), *No Train No Gain: Beyond free-market and state-led skills policy*, London: Institute for Public Policy Research.

37 Department for Business, Innovation and Skills (2010), *Skills for Sustainable Growth*.

38 Department for Business, Innovation and Skills (2011), *Further Education and Skills System Reform Plan: Building a world class skills system*.

39 Rhodes, C. (2012), *Apprenticeships Policy*, Standard Note SN/3052, London: House of Commons Library.

apprenticeships last 6 months or less and are 'of no real benefit',⁴⁰ while the National Audit Office argued for more effective targeting.⁴¹ There is also some gender segregation – although in the economy as a whole, women are increasingly acquiring qualifications at all levels.⁴²

It is too early to tell what success the new strategy will have. A skills strategy has to be important to a government which puts emphasis on the supply side of the labour market. But the UK Commission for Employment and Skills has also argued that 'the future employment and skills system will need to invest as much effort on raising employer ambition, on stimulating demand, as it does on enhancing skills supply'. And a think-tank report said that failing to address the under-utilization of skills, especially at the lower end of the labour market, constituted a barrier to social mobility and economic competitiveness.⁴³ The government is not going to extend the right to train to employees of small and medium sized businesses.

One issue attracting attention in the UK recently has been the use of unpaid interns. Whilst this is seen as a good way to gain experience and skills, there has been some concern about exploitation, and also a deeper worry about the way in which internships may be obtained through personal contacts and social hierarchies, rather than being equally open to all.

2.2.2 Development of active and preventive labour market measures

The Work Programme has been described above in outline. Information on the performance of Work Programme providers is not yet available. The UK government has made a commitment to publish statistics on outcomes in the autumn of 2012, possibly in October.

The Work Programme is being evaluated by an independent consortium of research organisations. This consortium is also expected to publish its initial findings on the early experiences of the providers and clients in autumn 2012 (see section 4.4 below). The Work Programme has been subject to a report by the National Audit Office on its introduction and early implementation.⁴⁴ The report was positive about the speed with which the Programme had been set up, but warned of risks associated with the payment-by-results approach, such as providers 'cherry picking' easier to help claimants.⁴⁵ The report could not comment on performance.

Personalisation is now the order of the day, in terms of both conditionality and support to get into employment. The government has promised that the Work Programme will deliver personalised support to claimants, reflecting their individual needs. However, it is difficult for the DWP to ensure that this happens when it has given providers the freedom to design services as they wish (the 'black box' approach). Instead, it has required contractors to specify in their bids the 'minimum service offer' that would be available to all their clients. The DWP intends that these minimum standards will form part of the performance management arrangements that it will be using to ensure that providers are satisfying the terms of their contracts. Many prime contractors have

40 House of Commons Public Accounts Select Committee (2012), *Adult Apprenticeships*, 84th Report (Session 2010-12), London: The Stationery Office.

41 National Audit Office (2012), *Adult Apprenticeships*, HC 1787 (Session 2010-12), London: The Stationery Office.

42 Schuller, T. (2011), *Gender and Skills in a Changing Economy*, London: UK Commission for Employment and Skills.

43 Wright, J. and Sissons, P. (2012), *The Skills Dilemma: Skills under-utilisation and low-wage work*, London: Work Foundation.

44 National Audit Office (2012), *The Introduction of the Work Programme*, HC 1701, London: The Stationery Office.

45 See also Wright, S. and Haux, T. (2011), *On the Receiving End: Perspectives on being out of work and claiming benefits*, London: Child Poverty Action Group.

specified details of the 'customer journey' in their bids (which are publicly available) covering initial assessment, joint action planning and activities tailored to individual needs and aspirations. It is not yet known how the DWP intends to monitor the activities of other contractors in the supply chains of the prime contractors. There is also a concern about personalisation including increased discretion, which may potentially have serious implications for disadvantaged groups.⁴⁶

Training interventions tend to result in positive impacts that are more apparent over the long term.

Training has tended to be a more important part of activation and labour market policies in other countries. Recent welfare to work policy has been said to increasingly emphasise a desire to support the transition from benefits into 'jobs with training' (more likely to provide an opportunity for sustained employment) without necessarily explaining clearly how this is to be achieved.⁴⁷

2.2.3 Continual review of incentives and disincentives

Incentives to work were dealt with above. The clearest policy change on high marginal effective tax rates more generally is going to be introduced in the Universal Credit scheme which, instead of having a range of marginal deduction rates specific to different benefits and tax credits, is intended to bring them all together into one 65 per cent rate. (Council tax benefit, however, is being kept out of Universal Credit and will be administered locally, with different local schemes and presumably marginal deduction rates; earnings disregards in Universal Credit are being increased to try to deal with this.) For many people, this new rate will be simpler and more transparent; and for many, it will also be lower. However, 'second earners' in couples face a much higher withdrawal rate under Universal Credit than currently (despite the OECD's conclusion that they already have comparatively very low financial incentives in the UK, and the Commission prioritising action by member states to remove obstacles for second earners).⁴⁸ And although economic modelling may show a lower marginal deduction rate for many others under Universal Credit, the impact in practice of the immediate imposition and high visibility of the 'poverty trap' (with one month's increase in income feeding through to loss of benefit in the next month) may have been underestimated.

2.2.4 Support for the social economy and sheltered employment

The government's 2010 Small Business Survey concluded that 58% of social enterprises grew last year, compared to 28% of small and medium sized enterprises. The government sees social enterprises as important both because they are part of the 'Big Society' and because they may be particularly keen on social innovation (such as the social impact bond).

There have been differing views about the closure of Remploi workplaces, which employ disabled people in sheltered employment, with some people arguing that they preserved opportunities for those with disabilities and others condemning them for perpetuating segregation. The Access to Work scheme is covered below.

⁴⁶ Fletcher, D.R. (2011), 'Welfare reform, Jobcentre Plus and the street-level bureaucracy: towards inconsistent and discriminatory welfare for severely disadvantaged groups?', *Social Policy and Society*, Vol. 10, Issue 4.

⁴⁷ Devins, D., Bickerstaffe, T., Nunn, A. and Mitchell, B. with McQuaid, R., Egdell, V. and Lindsay, C. (2011), *The Role of Skills from Worklessness to Sustainable Employment with Progression*, London: UK Commission for Employment and Skills.

⁴⁸ Brewer, M., Browne, J. and Jin, W. (2012), 'Universal Credit: a preliminary analysis of its impact on incomes and work incentives', *Fiscal Studies*, vol 3, issue 1.

2.2.5 Efforts to increase access to employment

A report for an official advisory body in 2011 summarised the evidence about the recruitment of unemployed people from an employer's perspective, and considered the processes that might result in disadvantage; in particular, it reported that the use of informal recruitment channels was increasing, especially during the recession, but unemployed people depend on formal channels. Long-term unemployment is seen as a particular risk by employers seeking to recruit.⁴⁹

The Coalition government has introduced a number of measures to encourage employers to take on new workers and apprentices. The Apprenticeship Grant for Employers of 16 to 24 year olds (AGE 16 to 24) provides wage grants to assist employers in recruiting their first apprentice. The National Apprenticeship Service will provide up to 40,000 Apprenticeship Grants to small to medium sized employers (with up to 250 employees) recruiting 16 to 24 year olds, with a value of £1,500. The AGE funding became available in April 2012, but will end in March 2013. The wage incentive element of the Youth Contract began in April 2012, and will be available for three years. It comprises 160,000 wage incentives of up to £2,275 each for employers who take on a disadvantaged or disabled 18 to 24 year old from the Work Programme for at least 26 weeks. (The government has abolished the previous government's Future Jobs Fund for young people.)

The government has also introduced a new enterprise allowance for young people.

2.2.6 Efforts to tackle labour market segmentation, ensure quality jobs and promote job retention and advancement

One of the principal aims of the Work Programme is to ensure sustained employment for people coming off benefits. As noted above, the government has addressed this aim by designing the payment-by-results system to incentivise providers to ensure sustained employment beyond six months. Hence, apart from a relatively small 'attachment fee' of £400 for each new client, payments only start when a client has been in employment for six months, with additional monthly payments for up to a further year. At the time of writing, there are no publicly available figures of the number of Work Programme clients in sustained employment.

Under the previous Labour administration, a review of the health of the UK workforce was commissioned from Dame Carol Black. The Black Report⁵⁰ led to a number of pilots and other policy innovations, including the Fit for Work Service,⁵¹ the Occupational Health Advice Lines,⁵² and public health initiatives such as the Responsibility Deal⁵³ (Department of Health, 2011). The Access to Work service provides grants for necessary adaptations to workplaces to ensure that disabled people can access or remain in employment.

The government asked a businessman to investigate the case for reducing employment rights (as part of its deregulation strategy). The Beecroft report⁵⁴ suggested that all employers with fewer than 10 employees should be able to opt out of a range of employment law, including unfair dismissal, the right to request flexible

49 Hasluck, C. (2011), *Employers and the Recruitment of Unemployed People: An evidence review*, London: UK Commission for Employment and Skills.

50 Department for Work and Pensions (2008), *Working for a Healthier Tomorrow: Dame Carol Black's Review of the Health of Britain's Working Age Population*, London: The Stationery Office.

51 Hillage, J. with others (2012), *Evaluation of the Fit for Work Service pilots: first year report*, DWP Research Report 792, London: The Stationery Office.

52 Sinclair, A., Martin, R. and Tyers, C. (2012), *Occupational Health Advice Lines evaluation: Final report*, DWP Research Report 793, London: The Stationery Office.

53 HM Government (2009), *Fit for Work Service: Programme of Piloting*, <http://www.dwp.gov.uk/docs/hwwwb-ffws-memorandum-of-understanding.pdf>

54 Beecroft, A. (2012), *Report on Employment Law*, London: Department of Business, Innovation and Skills.

working hours etc. It also included a suggestion that employers should be able to dismiss people (with compensation) without having to show that the dismissal was fair. However, although parts of the report are likely to be implemented, it is not clear that the government is going to pursue this option.

2.3 Access to quality services

2.3.1 Social assistance services

In terms of user involvement, the government has been (as always) testing out ideas about reform with claimants. In particular, they commissioned research not only on public and claimant perceptions of Universal Credit more generally at an earlier stage of its development, but also more recently on claimants' concerns and impressions about specific features. The technology is being tested with claimants inputting their data online and amendments being made as necessary. And the supports for tenants who will in future have the support for their rent paid to them rather than direct to their landlord are being tested in six demonstration areas around the country; this is not with a view to reversing the policy, which has now been decided, but with the aim of shaping the support mechanisms for claimants' budgeting and gathering information about which categories should be exempted from this requirement.

2.3.2 Employment and training services

See sections on Work Programme for employment services and on training/skills for training services.

2.3.3 Housing support and social housing

The government is implementing the actions in *Laying the Foundations: A Housing Strategy for England* (November 2011) to increase house building, stabilise the housing market and enable more people to own their own home. It also launched *New Buy* on 12 March 2012, making mortgages available for up to 100,000 people to buy a newly built home with only a 5% deposit. But a report by a committee of MPs said that the government needed to employ a basket of measures, covering all tenures of housing, if sufficient finance were ever to be available to tackle England's housing crisis.⁵⁵

A report by a think tank and a charity⁵⁶ suggested that the current trend away from ownership towards renting will continue for more than a decade on current trends, and that the government's housing strategy does not offer enough to tenants. In addition, these policies must be set against three measures in the Welfare Reform Act 2012 which are expected to result in considerable hardship for tenants:⁵⁷

- Benefit cap: the government introduced a £500/week benefit cap (£350 for single person households) for out of work households, on the grounds that people on benefit should not be able to receive more than those on median earnings. The initial impact assessment⁵⁸ suggested that the cap would affect 75,000 households by 2014/15 (90,000 adults and 220,000 children) - mainly large families and/or those with high rents. This and other studies show that the impact is concentrated in London and the South East, with over half of those affected in greater London.⁵⁹

55 House of Commons Communities and Local Government Select Committee (2012), *Financing of New Housing Supply*, Eleventh Report (Session 2010-12), HC 1652, London: The Stationery Office.

56 Report by Resolution Foundation and Shelter, reported in *The Observer*, 10 June 2012.

57 See, for example, *Crisis* (2012), *Housing Benefit Cuts*; Shelter has also produced briefing documents about the changes.

58 <http://www.dwp.gov.uk/docs/household-benefit-cap-wr2011-ia.pdf>

59 *Crisis* (2010), *Housing benefit cuts will cause homelessness surge in London*, Press release 12 August 2010 (accessed 13 October 2011): <http://www.crisis.org.uk/pressreleases.php/406/housing-benefit->

45% will lose less than £50/week, but 17% will lose more than £150/week. A concession giving a grace period for claimants who have been in employment for a year or more before leaving work will reduce the number of households affected to around 57,000.⁶⁰

- From October 2012, local housing allowance rates (for private tenants on housing benefit) have been set using the bottom 30% of rents, not the average. This will have a gradual effect on the ability of new and moving households to afford private rents.
- From March 2012, single housing benefit claimants will only get benefit to cover shared housing up to the age of 34 (instead of 24). The measure is bound to lower space standards.

A recent report said that the government was failing to deliver on 5 out of 10 key housing indicators, including housing supply, affordability of the private rented sector, and homelessness.⁶¹ And an article in *The Guardian* (10 May 2012) reported on the increasing use of multiple occupation, and people living in sheds and garages in inner London, including members of ethnic minorities in particular.

Councils will in future keep all their rent income and use it locally to fund their own homes, rather than money being redistributed by government between local authorities. The government has also extended the Right to Buy for tenants of council houses by increasing the discount; but it is unclear how many will be able to obtain a mortgage now (*Financial Times*, 4 April 2012). It is consulting on new guidance for allocations of social housing. Both these moves are seen as helping families who 'work hard' and 'play by the rules'. But on the other hand, it is likely that social housing tenants who are relatively higher earners will have to pay more rent. In addition, the Welfare Reform Act 2012 introduces restrictions on the size of house for which social housing tenants can claim housing benefit. A recent judicial review of the government's policy succeeded because insufficient account had been taken of the needs of disabled people and carers.

2.3.4 Child care

The focus of childcare policy is (as under the last government) divided between education and care for children on the one hand and helping parents (in particular mothers) to work on the other; the tension between these two aims is apparent in the development of policy. The proposed early roll-out of the extension of free part-time early education to disadvantaged 2-year-olds in 10 trial areas from September 2012 (instead of 2013) is welcome (an extension was also planned by the last government). This government is also making the hours in which early education can be used more flexible.⁶²

cuts-will-cause homelessness-surge-in-london; CIH (2011), Briefing Paper on the Impact of Forthcoming Changes to Housing Benefit and Local Housing Allowance London: CIH <http://www.cih.org/housingbenefit/Housing-Benefit-Briefing-April-2011.pdf>; Fenton, A (2010), How will changes to local housing allowance affect low income tenants in private rented housing? Cambridge: CCHPR; Fenton, A. (2011), Housing benefit reform and ten spatial segregation of low income households in London, Cambridge: CCHPR; Fenton, A., Tang, C. and Whitehead, C. (2011), Market Pegged Social Rents & Local Income Distributions, Cambridge: CCHPR

⁶⁰ House of Commons Hansard, Written Answers 17 May 2012, col. 293W.

⁶¹ Tate, A. et al. (2012), *The Housing Report: Edition 2*, London: National Housing Federation/Shelter/Chartered Institute of Housing.

⁶² Press release, 30 May 2012, Department for Education.

The UK's lack of affordable quality child care is a continuing problem,⁶³ and the OECD has commented in particular on the obstacle that the cost of child care poses in particular for 'second earners' in couple households⁶⁴. In England, 28 per cent of non-working parents said (according to a report in 2010) that they were not working because of inadequate childcare provision; and more than half of non-working lone mothers said that they would prefer to work if they could find good-quality, affordable, and reliable childcare.⁶⁵ One recent think-tank report estimated that 1 million women were 'missing' from the workforce because childcare provision and family policies failed to match those of other developed countries, and said that living standards would be improved, particularly for families on low-to-middle incomes, if more women were in paid work.⁶⁶ And another argues that providing universal childcare pays for itself: each mother returning to work part-time on an average wage after a year's maternity leave would bring in £4,860 over four years, in additional tax revenue, rising to £20,050 if women work full time, though it did not appear to take into account nursery education for three and four year olds⁶⁷

The recent cut in the childcare element of working tax credit from 80% of childcare costs to 70% has resulted in an increase of up to £30 per week, and concern is increasing about childcare costs,⁶⁸ with one report suggesting that by 2015 low-income families would have to find over 60% more of their own money for childcare compared with 2006.⁶⁹ The government is extending help with childcare costs to people working under 16 hours per week when Universal Credit is introduced, which will cost an additional £300 million (to be taken from the Universal Credit budget).

It is not clear how many parents will use child care if they are working under 16 hours per week; and in general many families continue to use informal child care in the UK, though often in conjunction with formal care.⁷⁰ But there is growing concern that the increasing focus on activation, coupled with the increase in the state pension age to 67 for men and women in future, will result in a lack of grandparental time to do such informal child care, thus necessitating more formal provision.⁷¹

2.3.5 Long-term care and health services

In our first semester report for 2012, we noted that the National Health Service (NHS) is at best facing level real funding and over the next 4 years will have to save and recycle up to £20 billion (a fifth of the budget). No health care system has achieved such a target. Care and support services for chronically ill, disabled and elderly adults in England cost 1.25% of GDP in England in 2011/12, against an OECD average of 1.5%. Four out of 10 local authorities were reported to be tightening social care

63 Lloyd, E. and Penn, H. (eds.), *Childcare Markets: Can they deliver an equitable service?*, Bristol: The Policy Press

64 OECD (2012) *Going for growth*, Paris: OECD

65 Campbell-Barr, V. and Garnham, A. (2010), *Childcare: A Review of What Parents Want*, Research Report 66, London: Equality and Human Rights Commission.

66 Plunkett, J. (2012), *The Missing Million: The potential for female employment to raise living standards in low to middle income Britain*, London: Resolution Foundation.

67 Ben-Galim, D. (2011), *Making the Case for Universal Childcare*, London: Institute for Public Policy Research.

68 Daycare Trust/Save the Children (2011), *Making Work Pay – The Childcare Trap: High childcare costs are affecting parents' ability to work, train and study*; and Burke, D. (2012), *The Childcare Funding Crisis: It's decision time on tackling the high cost of childcare*, London: United for All Ages.

69 Mulheirn, I. and Shorthouse, R. (2011), *The Parent Trap: Illustrating the growing cost of childcare*, London: Social Market Foundation

70 Bryson, C., Brewer, M., Sibieta, L. and Butt, S. (2012), *The Role of Informal Childcare: A synthesis and critical review of the evidence*, London: Nuffield Foundation

71 Wellard, S. (2012), *Doing It All? Grandparents, childcare and employment: An analysis of British Social Attitudes Survey data from 1998 and 2009*, London: Grandparents Plus.

eligibility,⁷² although fewer are said to have changed their eligibility thresholds in the event. Despite several major reports,^{73 74 75} the future funding of social care is in limbo and the Queen's Speech in May seemed to confirm again that action was not imminent. Spending on older people's care is projected by one major voluntary organisation to be £250m lower in 2014/15 than in 2004/05 – at the same time as numbers of people over 85 will rise by two-thirds.⁷⁶ Pressures for more spending from these two sources will be hard to resist, leaving aside the rising costs of unemployment. The (contested) Health and Social Care Act will mean substantial reorganisation of services, the development of new organisations and new kinds of services, including more health and social care in domestic and community settings.

In social care, a combination of income- and assets-testing, plus stringent needs assessments, means that some councils have stopped providing publicly-funded social care services to people with low or moderate support needs. (The situation is somewhat different in Scotland.) By 2016, 1 million out of 2.3 million older people with support needs are expected to receive no social care services, according to a Kings Fund report using modelling.⁷⁷ Growing burdens will therefore be placed on families and carers; some 5.2 million people were carers in England and Wales in 2001, according to the census, but this had increased by the 2011 census to 5.8 million. There is already significant private purchase of social care. An open letter to the press from 85 organisations (4 May 2012) argued that the system is in crisis. Meanwhile, the long-standing policy of encouraging those eligible for publicly-funded support to accept cash personal budgets and direct payments instead of services in kind will continue to increase the numbers of privately employed care workers, some of whom (if they are not employed by agencies) are currently outside any regulatory framework. It is therefore highly likely that the private purchase of care will continue.

3. Financial resources

3.1 National resources

The DWP estimated that the cost of the Work Programme would be £3-5 billion over the first five years and that it would help 3.3 million people. The Department estimated, however, that for every £1 spent there would be overall savings of £1.95. The National Audit Office report on the introduction of the Work Programme⁷⁸ identifies a number of areas that it considers to be risks to value for money. It questions the assumptions on which the DWP based the design of the Work Programme, including the likely success rate in placing people in sustained jobs. Previous government schemes had typically achieved success rates of around 25% for placing people in work. The assumption in the Work Programme is that providers will achieve an *average* success rate across claimant groups of 36% *for sustained employment*. For easier to help groups (such as those on Jobseekers Allowance) the government assumed that 40% would be found sustained work, while the NAO's own estimate was 26%.

72 Audit Commission report (2011), reported in *Financial Times*, 17 November 2011.

73 Royal Commission on Long Term Care (1999) *With Respect to Old Age: Long term care – rights and responsibilities*, Report of the Royal Commission on Long Term Care, London: The Stationery Office.

74 Wanless, D. (2006) *Securing Good Care for Older People*, London: Kings Fund.

75 Commission on Funding of Care and Support (2011) *Fairer Care Funding*, London, Department of Health.

76 AgeUK (2011) *Care in Crisis: Causes and solutions*, downloaded from www.ageuk.org.uk

77 The modelling is from the Personal Social Services Research Unit. *Estimates of people with needs outside the system are seen as less robust, and they might be receiving informal care.*

78 National Audit Office (2012), *The Introduction of the Work Programme*, HC 1701, London: The Stationery Office.

As reported by the NAO, by June 2012 concerns had been raised by some smaller organisations in supply chains that they were receiving fewer referrals than expected or promised, or were being expected to take on a large financial risk. There were also concerns that the financial arrangements in contracts would lead contractors to concentrate help on easy to help groups (so-called 'creaming') while ignoring the needs of harder to help groups (known as 'parking').

3.2 Use of EU Structural Funds

The European Social Fund (ESF) is intended to improve employment opportunities in the EU and equip people with the skills needed by business and, through this, improve economic and social cohesion and help raise standards of living. EU Member States and regions devise their own ESF Operational Programmes. In England, the European Social Fund Division within DWP is the designated 'Managing Authority'. The Operational Programme is funded through ESF and 'matched funding', provided by Co-financing Organisations (CFOs), such as DWP, and the Learning and Skills Council.⁷⁹

An early evaluation⁸⁰ of the impact of DWP's ESF-funded provision found that for JSA claimants, participation in DWP ESF-funded provision slightly increased the chances of claiming a working age benefit, but also increased the chances of being in employment. For Incapacity Benefit (IB) or Employment and Support Allowance (ESA) claimants, participation decreased the chances of claiming benefit and substantially increased the chances of being in employment. Another report drew together evidence from the 2007-2013 evaluation studies of the European Social Fund programme. The programme had increased the quantity and range of support available to unemployed people: but it had had 'minimal impact' on JSA claimants leaving benefit, and only a small impact on the likelihood of being in employment.⁸¹

A separate report⁸² examined the delivery of ESF provision relating to increasing employment and tackling worklessness, rather than its impact on social security recipients. It looked at how participants were referred on to provision (and who was not referred); the range, delivery, and tailoring of provision; and the relationships between key players involved in delivery. It made recommendations to improve the performance, and consistency of performance, of Jobcentre staff, and to improve performance measurement.

The latest evaluation of DWP use of ESF funds was published in 2012.⁸³ It set out to assess the DWP contribution to meeting targets in its Operational Programme and regional frameworks through its 84 contracted employment provision projects.⁸⁴ In Priority 1 areas, the DWP met the targets for the number and percentage of DWP and ESF project participants in the following categories: unemployed, economically inactive, and participants with disabilities or health conditions. For women and people aged 50 or over, however, the targets were not reached. The picture for participants

⁷⁹ The Learning and Skills Council's responsibility to fund and regulate adult further education and skills training in England was transferred on 1st April 2010 to a new agency – the Skills Funding Agency.

⁸⁰ Ainsworth, P. and Marlow, S. (2011), *Early Impacts of the European Social Fund 2007-13*, In-house report no.3, London: Department for Work and Pensions.

⁸¹ Ainsworth, P., Brooks, E., Cole, E., Marlow, S. and Thomas, A. (2011), *European Social Fund Operational Programme 2007-2013: Synthesis of evidence from the first half of the programme*, In-House Research Report 5, London: Department for Work and Pensions.

⁸² Atkinson, I. (2011), *Evaluation of European Social Fund Priority 1 and Priority 4: Extending employment opportunities to adults and young people*, Research Report 755, London: Department for Work and Pensions.

⁸³ Ramsey, D (2012) *Department for Work and Pensions European Social Fund 2007-10 Co-financing Plans Evaluation*, DWP In-house report no.9, London, Department for Work and Pensions.

⁸⁴ Cornwall had a number of specific projects under the Priority 4 provisions; the remainder of the projects were in the rest of England under the Priority 1 provisions.

from ethnic minorities was varied; overall, DWP targets were not reached, though ESF projects performed better than solely DWP funded projects.

4. Monitoring and evaluation

Note that monitoring and evaluation are generally covered in the sections above on specific policy areas, under implementation (2.) or impact and cost-effectiveness (3.).

4.1 Indicators and information

[see below about evaluations]

4.2 Involvement of actors

[see below about evaluations]

4.3 Role of National Reform Programme and National Social Report

None.

4.4 Use of social experimentation / innovation in development of active inclusion measures

As noted above, a socially innovative scheme of the coalition government is the 'social bond', intended to encourage providers to invest in services with a payoff in terms of dividends in future years. There has been some attempt within government to pursue 'Invest to Save' ideas within the public expenditure envelope, on the grounds that sometimes it is cheaper and more effective in the longer run to invest some money now in ways that will save money in the longer term. But this initiative is instead deliberately setting out to attract private and philanthropic investors into social provision, with a view to making money out of successful interventions in public policy. The first experiments are being trialled in the policy area of offending, with schemes that successfully combat recidivism. The government appears to see the 'social bond' idea as one way round continuing fiscal constraints, and as a new and imaginative way of bringing ideas and resources into service provision.

It could be argued that the government's interest in promoting behavioural change (or 'nudge') is also innovative. Various policies owe at least some of their impetus to this theory. However, the House of Lords Science and Technology Committee was sceptical about its potential.

The Welfare Reform Act 2012 contains provisions to allow testing of local variations to Universal Credit. The scheme will be introduced early (from April 2013) in one area, in order to test it out before full implementation from October 2013. And the differences between the Westminster government and the devolved administrations in terms of policy priorities are likely to mean that modifications will be made in (e.g.) Northern Ireland and Scotland which can be used to monitor the impact of Universal Credit, at least in terms of implementation (payment methods etc.).

The Work Programme is also intended to promote innovation in services to help people into work by giving providers freedom to design their own services to suit local socio-economic conditions. There is no data available as yet, however, on the extent to which providers have introduced innovative practices, or how successful these have been.

There were numerous evaluations of active inclusion measures (such as Pathways to Work and the Flexible New Deal) under the previous Labour governments, as noted in our previous reports; but these are of limited relevance to the current government's specific policies, and so reports on these are not repeated here.

It is too early as yet to evaluate the impact of the Work Programme, which only started in late 2011. A consortium of research organisations has been contracted to evaluate it over a period of three years. The evaluation has a number of complementary strands:

- (a) a 'commissioning strand', to investigate how the novel method of commissioning services affects the provider market and the decision making of the Work Programme providers;
- (b) a 'provider strand', to explore how providers deliver their services in their local labour markets; (c) a 'claimant strand', to explore the end-to-end experience of the Work Programme from initial recruitment to sustained employment.

The evaluation uses surveys, analysis of management information, in-depth qualitative studies and documentary analysis. The evaluation commenced in early 2012. As noted above, a first wave of findings is expected to be published in late 2012.

In the meantime, this means that the only assessments of the Work Programme are via comments and analysis which fall short of full evaluations. A report by a committee of MPs⁸⁵ 'commended' the speed with which the Work Programme (the new welfare-to-work programme) had been set up. But it warned of risks associated with the payment-by-results approach: it said that no contractors should be paid until their performance was properly monitored, and warned against 'cherry picking'.

There has also been increasing awareness that the charitable sector did not gain many of the prime contractor slots, and that its potential is being underutilized by the policy.⁸⁶ There is growing concern about the growing proliferation of unpaid work experience, both for claimants and others.⁸⁷ In addition to internships for graduates at one end of the labour market (which the government intends should provide paid opportunities, but which are still sometimes unpaid),⁸⁸ high numbers of claimants have to do unpaid work as part of their activation programmes. At the end of June, two judicial review cases relating to this are being brought against the government. From 2013, people unemployed for more than two years who have not secured sustainable employment will have to do community work.⁸⁹ Sector-based work academies give a combination of training and unpaid work for up to six weeks. The 'black box' approach to the Work Programme means that it is not always possible to find out how long unpaid work experience lasts.

The government is beginning to discuss the evaluation of Universal Credit and has set up an external advisory group, including academics, for consultation purposes. The impact of the housing benefit changes are being reviewed specifically as a result of a commitment given in parliament during the debates on welfare reform.

The major welfare to work schemes introduced by successive governments over the past 15 years have all been subject to evaluation research independent of

⁸⁵ House of Commons Public Accounts Select Committee (2012), *Department for Work and Pensions: The introduction of the Work Programme*, 85th Report (Session 2012-13), HC 1814, London: The Stationer Office.

⁸⁶ Damm, C. (2012), *The Third Sector Delivering Employment Services: An evidence review*, Working Paper 70, London: Third Sector Research Centre.

⁸⁷ See, for example, John Harris, 'Back to the workhouse', *The Guardian*, 9 June 2012.

⁸⁸ Institute for Public Policy Research, cited in *The Guardian*, 9 June 2012.

⁸⁹ Press release 8 November 2011, 10 Downing Street.

government. An important meta-review of the evaluations was published by DWP in 2010.⁹⁰ The lessons that it drew for 'what works' included the following:

- the need for a holistic, rather than a one-dimensional, approach to provision;
- the personal adviser, working intensively with a client, is pivotal in whether people make progress;
- the importance of getting the timing of interventions right for individuals;
- the nature of the provider of services (Jobcentre Plus, a private sector provider or some other organisation) has no systematic impact on effectiveness;
- working with employers was limited, and under-exploited.

It is important to note that these lessons have not been translated directly into the requirements or conditions imposed on Work Programme providers. The thinking behind the Work Programme is very different to the thinking behind state-run welfare to work programmes in the past. As explained in section 1.1.3, Work Programme contracts allow providers to design services as they wish (the 'black box' approach). The payment structure is intended to provide the financial incentives for providers to adopt effective practices and services. Some critics have argued that the Work Programme is not sufficiently based on systematic and robust evidence, a view reflected in a statement in January 2012 by Margaret Hodge MP, Chair of the House of Commons Committee of Public Accounts: 'It is shocking that the business case and essential justification for the Work Programme were devised after the key decisions had already been made, and that no alternatives were considered.'⁹¹

5. Recommendations

5.1 Recommendations to strengthen / develop integrated / comprehensive active inclusion strategy

The UK government has not developed coherent policies for job creation. It argues that an expanding private sector will absorb people who lose their jobs because of recession and policies to reduce the deficit (such as large scale redundancies in the public sector). There is little evidence to date that this strategy is working. The government could consider more seriously its approach to deficit reduction so that public finance could be used to advance job creation, particularly for young people for whom levels of unemployment are at their highest for a generation.

There is still little evidence that policies to help disadvantaged groups in UK society effectively coordinate the inputs and activities of key actors such as employers, employees, unemployed people, and health and other services.

The Work Programme is in the early stages of implementation. It is not yet known whether the policy of outsourcing employment services, payment by results, and allowing providers to design services as they see fit (the 'black box') will produce the desired outcomes of sustained employment for benefit recipients. The official evaluation of the Work Programme will produce evidence in due course. However, the regime of conditionality and sanctions is the toughest imposed on claimants to date

⁹⁰ Hasluck, C and Green, A (2010) *What works for whom? A review of evidence and meta-analysis for the Department for Work and Pensions, DWP Research Report No 407, Leeds, Corporate Document Services*

⁹¹ Posted on the Public Accounts Committee website –

<http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/Statement-from-PAC-Chair-on-NAO-report-on-the-Work-Programme/>

and has the potential to cause considerable hardship. Particular scrutiny should be paid in the coming years to the effects of this regime.

To sum up: the UK active inclusion strategy is being implemented in a period of deep recession with very high unemployment. The Work Programme has not yet been evaluated. Universal Credit which will replace the existing system of in-work and out-of-work benefits and tax credits is not due to start until 2013. It is therefore very difficult to make firm recommendations. Certainly the strategy would be more successful if labour demand became stronger. There are real anxieties that the Work Programme might collapse with present levels of unemployment.

5.2 Priority actions to strengthen policies / measures under each strand

5.2.1 Adequate income support

Universal Credit is a major reform of the UK social security system but will not be implemented until 2013, and will be phased in over several years. It is premised on its capacity to 'make work pay'. However, the taper rate of 65% currently proposed is higher than originally intended (early policy documents suggested a rate of 55% was desirable) and may undermine the argument that people will be considerably better off in work compared with benefit claimants. In addition, this rate is higher than the current one for some groups, including second earners who are key to reducing child poverty. The government should review the 65% taper rate at the earliest opportunity with a view to reducing it as much as public finances allow.

The current deficit reduction strategy includes a particular focus on reductions in benefits (see above, and also our first semester report); many of the cuts are yet to be implemented, but are forecast to have a serious impact on those of working age, in particular families with children. Already charities are experiencing an increase in demand on food banks. Leaving aside the controversial issue of whether such a strategy is the correct response to the current crisis and recession, if a deficit reduction strategy of this magnitude is to be pursued, the balance between public spending cuts and tax increases should be reconsidered; and in particular the proposed reductions to benefits should be revised. Many of these reductions will affect the groups that the government says are 'doing the right thing' (becoming couples, working etc.). This occurs in particular because the imperative of focusing resources on the neediest via means testing threatens to have this effect. In addition, this tends to exacerbate the recent trend in public opinion towards more punitive attitudes towards those on benefit of working age, in particular unemployed people and lone parents, which becomes a vicious circle. There is an increasingly urgent need to break this cycle and reassert the need for adequate social security provision (rather than the more pejorative 'welfare') as a necessary component of active inclusion strategies.

5.2.2 Inclusive labour markets

Similarly, the focus on paid employment as the route out of poverty will be counter-productive unless more attention is paid to ensuring that wages are paid at a decent level and that jobs are of good enough quality. This is also bound up with ensuring that there are routes to appropriate training both for those currently seeking jobs and for those in work but without the necessary skills to move on and up. There should be no dilution of employment or equalities rights, therefore, as suggested in the Beecroft Report.

5.2.3 Access to quality services

The current cuts in public services because of the implementation of the deficit reduction strategy must be the first focus. They are having a disproportionate impact on women as public sector jobs are lost, and with the current pattern of local authority funding they are also disproportionately affecting poorer areas.

In addition, whilst the impetus towards localisation is understandable, this is likely to result in a 'postcode lottery' which is uncoordinated and has disproportionate effects on some groups and those living in some areas. There is an urgent need for cumulative impact assessments of those measures which are resulting in greater localisation, and a reconsideration of this policy trend.

As we have said in our first 2012 semester report, cuts in legal aid are going to make it much harder for many low-income people to claim their rights to services, and should be reversed.

5.3 At EU level

It would be helpful to the comparative monitoring of the UK's active inclusion strategy if there were more synergy between its efforts and those of other member states via the Europe 2020 indicators. Similarly, it would be helpful if the resourcing of the dialogue between stakeholders (including those with direct experience of poverty) and the UK government about its strategy on social inclusion (including active inclusion) in an EU context could be resumed.

Summary tables

Table 1

To what extent has an integrated comprehensive active inclusion strategy been developed in your Member State?												
	Comprehensive policy design			Integrated implementation			Vertical policy coordination			Active participation of relevant actors		
	Yes	Somewhat	No	Yes	Somewhat	No	Yes	Somewhat	No	Yes	Somewhat	No
For those who can work		X			X			X			X	
For those who cannot work		X			X			X			X	

Table 2

To what extent have active inclusion policies/measures been strengthened, stayed much the same or weakened since 2008 in your Member State?									
	Adequate income support			Inclusive labour markets			Access to quality services		
	Strengthened	The same	Weakened	Strengthened	The same	Weakened	Strengthened	The same	Weakened
For those who can work			X			X			X
For those who cannot work			X			X			X

