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Whither welfare-to-work?

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This is a great opportunity to try and explain Conservative Party plans for the Welfare to Work arena. I want to take you through the thinking and rationale behind the programme that we announced last month – the *Get Britain Working* programme. The policy came out a little over a month ago now and I've been very pleased with the response to it, a lot of which has been positive.

I'll start off with what we're trying to do on the welfare reform front.

Essentially, the challenge here is no different to what it was when I first started trying to develop policies in this area 3 years ago. My role is simply to get a substantial proportion of the economically inactive back into the workforce. That's whether they are on or coming from Incapacity Benefit (IB), whether they're on Employment and Support Allowance (ESA), Job Seekers Allowance (JSA), or whether they're lone parents.

I think the rationale is very simple: preventing people from work – because that's what a lot of our benefits do – is actually not good for them. That's something that was made brutally clear in the Waddell and Burton Report (*Is Work Good For Your Health and Well-being?*, 2006). Quite apart from the poverty effects of being out of the workplace, it's clearly not good for the tax payer. I did an estimate on what the long-term IB population cost, and in fiscal terms my estimate is £25 billion a year, every year. That is just the fiscal impact of people not being in the workforce. If you take the other social costs there are entirely credible estimates at £80 billion and above, because when you're in this category you tend to be a high absorber of other services. And finally, and this is an area which many books have been written on, it's not good for society to have a lot of people in a dependant state.

We've seen the rise of intergenerational worklessness, lack of role models and, dare I say it, the rise of anti-social behaviour. There's a whole nexus of problems which are intimately connected with the dependency culture. Now, the government has been moving along the lines that I proposed, and indeed we were advising last year on implementation in terms of the Welfare Reform Bill which got through both Houses of Parliament today. But that's the bill as it was conceived a couple of years ago.

With the onset of recession we really need to turbo-boost our efforts in this area, and it has become two problems, not one problem. It has become a problem of not just the groups which are excluded from the workplace, but also the people who are cyclically unemployed, ie the people who were effective in the workplace but have been driven out of it because there simply aren't any jobs around – and those are two rather different communities. So we developed the *Get Britain Working* strategy over several departments to tackle that.

I'll talk first about the Welfare to Work element which we are calling *The Work Programme*. We're calling it a new programme because we want to bundle a good number of the programmes into one programme, rather than having them in several. And the question I guess you will ask me is, '*What is the rationale for scrapping a brand new programme, the Flexible New Deal, which only started last month and the second round will be going in next year?*'

The reasons are several:

First, we thought that it didn't quite fit anymore. When you think of it, it was devised when there were a group of people who were circulating round the system from *New Deals*, to short-term jobs, to JSA, back round the system. Suddenly, with the recession, the number of people on the *Flexible New Deal* (FND) is much, much bigger. The FND has moved from being a programme which starts to build the industry into being the main event.

The second thing that's happened is the introduction of the *Work Capability Assessment* which takes over from the *Personal Capability Assessment*. Many fewer people are failing to go onto the ESA than was expected. At the moment all we're doing is looking at the flows of new people applying to go on ESA. It's a very sharp reduction – 70% of people are being put straight onto JSA, and the remaining 30% are being split between the 'support' and the 'work-capable'. We don't yet know what will happen when IB claimants are transferred through the *Work Capability Assessment* into ESA which both parties, the government and the Conservatives, are committed to doing over a 3 year period. But it is clear that a substantial proportion, much more than expected, are expected to go straight on to JSA. So suddenly a lot of people are moving off IB and, depending on how they're categorised, they either join the ESA or join the JSA. You cannot convince me that the needs of those people and the costs of those people are radically different. One lot is put into the FND, one lot is put into *Pathways* or its replacement and treated differently. They've actually got very similar problems – the fundamental reason a lot of these people are out of the workforce, regardless of what they're on, is because they've actually found it very difficult to find a placement in the jobs market. The cost of getting them back into the jobs market is going to be high and having this artificial distinction of whether they happen to be in the work-capable ESA or they happen to be recategorised into JSA doesn't help us at all if we're trying to deliver effective help to those people to get back in.

The third thing that worries us a lot about the way the FND works is the structure is designed for the better times for which it was envisaged – in that the client goes to the provider consortia for a year or exceptionally 18 months, but of course if you're in the middle of a recession and there are no jobs or not enough jobs, you as a provider might look at the economic incentives and say '*Actually I'm better off spending as little as possible on this person this year, right in the heart of the recession. And when we start next year we'll be, in jobs terms, right in the heart of the recession even though technically it might be over, so I will spend little money in the heart of the recession and keep my powder for the job flow as we come out of recession.*' That is exactly what we don't want to happen. We want the first tranche to be kept sharp, work capable. Actually it's quite a tough job to keep them alert and work ready, and the incentive is not to do that because just when the jobs come back on this model, you send the people back to Jobcentre Plus. So we're very concerned to have the providers hold on to the people for longer than the one year period.

The final area of concern is: *what counts as getting back into the workplace?*

This was an argument that I, in my original report, was very explicit about. Getting someone a job for 13 weeks does not cut it, especially when that person has been out of work for a very long time. In the set of principles that were launched 2 years ago the idea was to 'pull out' that sustainability. If FND 'pulls it out' to 26 weeks for people who have been on IB for a long time, that still is not long enough and our concern is that if you just trickle it out another month or two you're not going to force the provider community to redesign their business model. So, in *Get Britain Working* we talk about a period between 1-3 years. The expectation and the hope of doing it like that is that providers actually design a very different business model where they have to have a very close relationship with their clients, and actually it's likely they're going to need a very close relationship with their employers, because getting someone a job when they've been out for a long time does not cut it.

People need to have a series of building experiences to get back into the workplace and that does not happen in 13 or 26 weeks. It takes a much more sustained relationship in our view. So that is why we took the decision to switch over from FND into the *Work Programme*. You will ask me the practicalities of that. Clearly the immediate issue is what happens with the FND Phase 2 which has already started. We will not sign FND Phase 2 contracts, but what we hope we'll be able to do is roll that process over into the *Work Programme* with minimal loss of time. The exact way that will happen is clearly something that is both sensitive and commercial, but that would be our hope and expectation at this stage. So we are not expecting to lose very much time.

Under the *Work Programme* everyone transfers through the same programme, but you transfer at different stages, depending on requirements. Again, we're being not absolutely explicit there, but I can give you a flavour. Clearly, the people who have

been in the workforce, they have been made redundant – the cyclically unemployed – do not need to be messed around too early. There are natural market disciplines and one would want the market to work. So stretching it out towards 12 months would seem reasonably logical especially as the curve starts to flatten at that point (the dead weight curve). The people who have come off IB, whether it's into ESA or JSA are facing an entirely different set of problems and our view is that we have to move very quickly to transfer them as rapidly as a bureaucracy can, because they will need one-to-one help. I will come back to the fact that the dead weight there is likely to be minimal.

There is one other area in which we're sharply different to present government plans, and that is what we do with young people. As you all know, at the moment, young people are diverted effectively away from FND at the 10 month stage into various programmes on the *Future Jobs Fund* and the *Young Person's Guarantee*. We had a very hard look at that. It's a very acute issue when you're planning a budget for the next year because the *Future Jobs Fund* disappears after its two years. There is very little money around and we have to make up our mind how to fund looking after young people. What we decided was this: we said we will put them through the providers and pay a fee for doing that. We call it an *Attachment Fee*.

The job of the provider is to decide what is the best thing for that youngster. At the moment you've got some programmes, but there's no rhyme nor reason to which one the youngsters go to or why, or whether it will help them. If you have someone, a provider, that says *'I've got some things that I can do with these youngsters. When they've done them they will come back to me and my job will be to get them a job and I'll get a proper fee for succeeding in doing that'*, you've got an intermediary whose interest is to make sure that whatever that youngster does it actually adds to their future employability. And that is how we have structured our intervention for the youngsters, and we thought that the six month stage was the time to do it. As you know, a lot of youngsters go on JSA so we're talking about JSA claimants, and it's rather interesting because we did a lot of modelling round this and many of you will be familiar with all the dead weight costs and issues of moving things from 6 or 12 months because that kid may have found a job anyway so you've wasted your money on a proportion of them. That's the dead weight issue. Interestingly, when you look at the statistics, the difference between a kid finding a job between 6 and 12 months is small. If they haven't found it in 6 months there's not going to be much difference in whether they've found it in 12 months.

The next thing in this model is differential payments. Some people are very difficult to place and need a lot of input, and others are much easier and therefore cheaper. There's no way that you can have a one-price model that doesn't get quite crude – parking, creaming and all the other things. And I'm not going to throw up my hands in horror at parking and creaming. We will always have some, and indeed some may not be undesirable. (That's a real politicians way of saying some may be desirable!)

The really big gains for all of us is to find jobs for the people who find it hardest to get into the market, and to spend the amount of money that we need to. There's no way we can do that without some kind of formula [ie differential pricing]. And many of you will be familiar with the now infamous DEL:AME Switch.

The DEL:AME Switch simply means that if a provider succeeds in getting someone a job for a period, we can use the money which we save in benefit savings (the net savings) to reward them, and that of course is big sums of money. Just as a frame of reference, if you were to save just three years of benefits for a person on IB you're talking about exactly £6,000 a year. Three years of savings gets you to £18,000. That's the kind of money that's entirely rational to spend to get someone a job.

The reality of course is the actual benefit payments are the tip of the iceberg, there are a lot of other costs when people stay out of work and the Treasury's getting that for free. So it's a bargain for the Treasury.

The other implication of that is that the providers who are putting their own money into this investment are free to make their own decisions, so minimal state interference. There will have to be a little bit of state interference and there is state interference creep, and one of the most important things in running the system is that the black box is left as black as possible and not greyed down. I think one of the big effects of this is that the specialist providers who actually have been in danger of being edged out of the system under the one-price FND will be hauled back straight into the consortia because the consortia will start to pay out for the difficult people and use the specialists who have got a strategy to deal with them or help them.

If I jog back to the youngsters, what we've tried to find is a series of programmes underneath the *Work Programme* to which the providers can put the youngsters in. We thought '*let's think about this in terms of what adds value to that youngster in terms of their employability, rather than what can we do with them*'.

I'm not saying we're going to just rip up the *Future Jobs Fund* and all the programmes. Some of the programmes might be quite good and we'll look at them very closely. It's too early to tell yet. Fundamentally, we thought we should be worrying about adding value in terms of the youngster's employability. And don't forget many of these kids have difficulty in the jobs market any time because they have got low skills. About 100,000 unskilled or low-skilled kids are coming on the market every year in the next 3 years. Most of the money is coming from *Train to Gain* (we thought *Train to Gain* isn't a particularly effective programme as it stands – that programme needs to be better). Right now the priority is to get the youngsters able to be in the workforce, and so a really big boost out of that money will be for apprenticeships – an extra 100,000 apprenticeships and pre-apprenticeships a year. We've devised a programme which we're calling *Work Pairing*. Again, how do you help kids who are really pissed off about going to school? And the idea of *Work*

Pairing is that we team up with a sole trader and they have a 6-month experience of working with them and, in practice, set up a mentor relationship in many cases. We were attracted to that idea because there's no displacement. By definition a sole trader is not employing someone, that's why he's a sole trader. So we're not actually displacing a paid job with a subsidised job, we're actually finding a new job, so we want to do as many of those as we can. We've got a budget for 100,000 in the first two years.

We also want to try and dig back into the provision from 14 on. There's been a lot of talk about vocational technical schools and I was very impressed by what Kent have been doing. They've got some very good results in terms of how they get apprenticeships out. What they're doing is putting vocational centres in, catching the kids at 14 and suddenly getting them ready for apprenticeships and I think that model is something we will pursue aggressively.

The other shocking thing is that there is there nothing much being done on self-employment. In the late eighties there were about 100,000 people leaving unemployment for self-employment every year. It was extraordinarily successful. Most people were in work a year later and 20% of those were employing other people. It's a fantastic thing to do – in a recession it's even more fantastic because you can imagine that for a lot of people who've lost their job, this is the time and opportunity to actually say *'I'm going in a fresh direction – I'm ready to go out on my own now and start something up'*, so we want to give a big boost to that.

Self-employment has fallen down to 5,000 a year now – you can see how that's atrophied. We want to recreate the boost and the trick is to get a really effective support mechanism of, effectively, mentors. Why do that? There are a lot of practical things that someone who is your mentor can help you with – to quote Rumsfeld's wonderful expression *'You can't know what you don't know'*, and the job of a mentor is to tell people who are trying to run their own businesses what they don't know or even what they don't know they don't know, to make sure that they do it. Because if you miss one thing running a small business, you're finished. It can scupper you. You need to get all the bricks in a row.

There's another reason, a much more economic reason, to reward a mentor network. The mentors are paid on the success of their self-employed mentees. So clearly they'll help them. They'll make sure they get to know everything they need to.

There's a second effect as well, people who have become unemployed tend to go back into the area that they've been made redundant from. If you've been a van panel beater you will try and set up on your own in a van panel beating – even though it may be pretty apparent that this is not the future for this economy. That effect reinforces economic failure. So you have to have a system that tries to stop reinforcing economic failure and start to move people away from their comfort zone.

Tell people *'Look, you might have been a panel beater, but that's not going to be the growth industry. You have got a set of skills which allows you to do something else which will grow.'* and because the mentor has got an interest in the success of his mentees you will start swinging people into growth parts of the economy.

We're going to go at this very fast and hard. The providers who get the particular concessions will be able to find out what works and what doesn't. So it's the opposite of what happens now, which is a government run pilot, which goes for three years, it's assessed and then you do it more when the situation's changed. This is a much more dynamic process. People will find out as they do it what works, what doesn't. We'll have transparency which will be vital so people can see who is being successful and you'll start getting people copying, and that kind of transparent competition will start to drive best performance all over the place.

Finally, we'll have coherent, outcome-based funding which will actually give a clear target of what we want those people to achieve. So that's the combination and let's see how it works for real.

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