BRIEFING

Graeme Cooke, Matthew Pennycook and Alfie Stirling

January 2015
© IPPR 2015

PROMOTING CONTRIBUTION
BOOSTING EMPLOYMENT OPPORTUNITY FOR ALL
The UK’s leading progressive thinktank. We are an independent charitable organisation with more than 40 staff members, paid interns and visiting fellows. Our main office is in London, with IPPR North, IPPR’s dedicated thinktank for the North of England, operating out of offices in Newcastle and Manchester.

The purpose of our work is to conduct and publish the results of research into and promote public education in the economic, social and political sciences, and in science and technology, including the effect of moral, social, political and scientific factors on public policy and on the living standards of all sections of the community.

IPPR
4th Floor
14 Buckingham Street
London WC2N 6DF
T: +44 (0)20 7470 6100
E: info@ippr.org
www.ippr.org
Registered charity no. 800065

This paper was first published in January 2015. © 2015
The contents and opinions in this paper are the author(s) only.
Over the last year the employment rate has recovered strongly, albeit amid ongoing concerns about weak productivity and sluggish wage growth. Even if the labour market continues to strengthen, there is no guarantee that the benefits will be widely shared. Despite 15 years of unbroken growth from the early 1990s, a substantial minority remained out of work.

This paper focusses in particular on the position of people with health conditions and disabilities and those facing long-term unemployment, who face considerable disadvantages.¹ ²

- The employment rate of people with a disability stood at 35.3 per cent in the first quarter of 2013, compared to a non-disabled employment rate of 78 per cent.³
- Almost one in five (17 per cent) of the economically active disabled population were unemployed during 2013, more than double the unemployment rate for the economically active non-disabled population (7 per cent).
- During 2013, half (50 per cent) of those disabled and unemployed had been looking for work for more than a year, compared to a third (33 per cent) of the non-disabled unemployed population.
- Over half (56 per cent) of the disabled population as a whole were inactive in 2013, compared to around one in seven (15 per cent) of the non-disabled population.
- The employment rate for disabled people in the UK lagged well behind a number of leading northern European countries – including Sweden, Denmark and Germany – in the late 2000s (OECD 2010).⁴
- Despite a fall towards the end of the year, on average during 2013 there were 880,000 people looking for work at any given time who had been unemployed for over a year, with more than 455,000 unemployed for over two years.
- Almost nine in 10 (89 per cent) of those who are inactive due to temporary or long-term sickness, or are discouraged from work, claim at least one state benefit or tax credits.

The labour market disadvantages faced by those with a health condition or disability appear to be structural in nature, largely impervious to the economic cycle. The number of incapacity benefit (IB) claimants (latterly employment and support allowance, or ESA) remained broadly flat between 1996 and 2008, despite uninterrupted growth and a rising employment rate. While three-quarters (75 per cent) of those leaving the jobseeker's allowance (JSA) have claimed for up to six months, nearly two-thirds (65 per cent) of those coming off IB/ESA have been in receipt of the benefit for more than a year.

Moreover, traditional back-to-work policies are least effective for those with a health condition or disability. The traditional jobseeker activation regime, which has evolved since the mid-1980s, has proved effective in holding down the headline claimant count and maintaining a rapid rate of benefit off-flow for the large majority of JSA recipients. However, there are good reasons for thinking that this model is poorly suited to boosting the employment rate and reducing economic inactivity.

Lessons from employment support for sick and disabled people in this country and abroad

Building on the New Deal for Disabled People and Pathways to Work, this government decided to incorporate new ESA claimants (and those transferred from IB) into the Work Programme, alongside mainstream jobseekers. Its ‘blackbox’
contracting model aimed to give providers the freedom to tailor support to participants’ particular needs, underpinned by a financial incentive – through higher outcome payments – to focus on ESA claimants. Providers would also face competition within contract areas, with a greater share of referrals directed to effective providers.

So far, however, the performance of the Work Programme for ESA claimants has been extremely disappointing. Between June 2011 and December 2013, a total of just 6 per cent of new ESA claimants achieved a job outcome, dropping to less than 2 per cent for those having transferred from IB (DWP 2014a). Poor performance is partly a product of the weak economy during the programme’s early stages and problems with referrals from Jobcentre Plus. More significantly, the nature of the funding model means that weak performance leads to lower funding for participants later in the cycle (Riley et al 2014).

In practice, only a small minority of the total IB/ESA caseload participate in the Work Programme. The vast majority have little engagement with any support, beyond a work-focused interview at Jobcentre Plus every six months for those in the work-related activity group. There is no mandatory engagement with those in the support group, who make up a growing as a share of all ESA claimants. The most recent data on completed work capability assessments (WCAs) shows that over half were assigned to the support group. Since they were introduced, just under two-fifths (38 per cent) of completed WCAs have resulted in a claimant entering the support group.

While tweaks to the payment structure and referral process might make some difference, there are deeper problems with the Work Programme model for ESA claimants. There is little evidence of significant innovation for this group (beyond supported job-search, CV maintenance, interview preparation and some employer brokerage). Indeed, a prime contractor plus payment by results model militates against the kinds of integrated funding and support – across health, housing, probation, skills and social care – that are likely to be essential. Partnerships between Work Programme providers and other local services are inhibited, given that financial rewards (and penalties) accrue with a narrow, national contract.

The specialist disability employment programme Work Choice has produced better employment outcomes, but is relatively expensive and supports only a small number of participants, who are largely on JSA rather than ESA. Access to Work, which funds workplace aids and adaptations, has helped hundreds of thousands of disabled people to stay in work and delivers a strong return on investment.

To enter work, a disabled person needs an employer willing to take them on, which can be hampered by reasonable risks and concerns, as well as outright discrimination. However, mainstream employment programmes, focusing on an individual’s employability, tend to neglect these factors.

By contrast, so-called ‘supported employment’ strategies directly confront these kinds of ‘demand-side’ barriers. An example of the ‘place, train and maintain’ approach is individual placement support (IPS), often lead by mental health trusts. Its key elements are: a positive culture rooted in the belief that anyone who wants to work can do so; employment support integrated with clinical treatment; a focus on rapid job-search rather than long periods of generic pre-employment training; and tailored, long-term support to employees and employers. Studies suggest that IPS is effective in supporting participants into work, at a unit cost that is not dramatically higher than for mainstream employment programmes, but it does not yet operate at a significant scale.

The challenges facing the UK in relation to the employment rate of those with a health condition or disability are shared by other advanced economies. Effective strategies tend to be those that respond to the distinctive circumstances of sick and disabled people, rather than seeking simply to extend traditional ‘activation strategies’ to this group.
We have identified a range of key lessons from the experiences of peer-group countries.

- **Reduce the inflow to disability benefits from sickness absence** – such as by increasing employers’ liability and their role in monitoring and managing sickness absence (as in the Netherlands) or progressively increasing work obligations and opportunities during the period of sickness absence (such as the so-called ‘rehabilitation chain’ in Sweden).

- **Assess support needed to work, rather than just policing a gateway to benefits** – such as by determining the level of wage subsidy available (in Denmark) or the types of job that could be performed (in the Netherlands). Countries such as Australia and Ireland have introduced profiling tools to assess claimants’ productive capacity and support needs.

- **Strengthen participation obligations for claimants of sickness and disability benefits** – such as through formal requirements to exhaust opportunities for rehabilitation in existing or similar jobs before accessing disability benefits, and obligations to participate in back-to-work support (for example, in Germany, Austria and Switzerland).

- **Pursue ‘supported employment’ strategies, not just supported job-search** – such as targeted ‘place, train and maintain’ programmes, like the Work with Assistance scheme in Norway and Sweden’s Special Introduction and Follow-Up Support (SIUS) programme, which combine active job-brokerage and ongoing in-work support.

- **Improve the incentive to hire and addressing employer risks** – such as the Dutch ‘no-risk policy’ where the state meets the cost of sickness absence among former disability benefit recipients or those with a pre-existing health condition. Another example is the Danish Flexjob scheme that provides wage subsidies for those with long-term disabilities.

In this country, the reform of IB and the old personal capability assessment were aimed at generating a more ‘active’ disability benefit regime. However, in practice, neither ESA nor the WCA have been effective in pursuing this goal, with most of the old problems being recreated. Despite the rhetoric, the focus is still on the gateway to accessing benefits rather than any plan to return to work. At the same time, large numbers are entering the support group, which rules out further engagement about potential employment.

Moreover, mainstream employment programmes in the UK have not developed innovative strategies or practices to address the demand-side challenges, such as by directly working with potential employers of disabled people or explicitly addressing the extra risks and costs they face. Access to Work and the Disability Discrimination Act (and now the Equalities Act) aim to level the playing field for disabled people, but proven supported employment programmes (such as IPS) remain marginal compared to the scale of the Work Programme.5

**Strategies for boosting employment opportunity for all**

The path of growth in the economy will be the most significant factor in headline labour market trends over the coming years. However, our argument is if everyone is to have real employment opportunities, traditional activation strategies will need to be substantially amended and augmented. Supported job-search plus slices of extra provision (such as for skills, IT or confidence-building) will not be sufficient to enable employment among those with a reduced work capacity. Instead, we suggest a plan to raise the employment rate of disabled people and radically reduce long-term unemployment – with four core elements:

---

5 For more information, see the background paper which accompanies this briefing.
**Recommendation 1:** The next phase of the Work Programme should be focused on supporting long-term jobseekers and those ESA claimants recovering from temporary health conditions, with contracts based on meaningful economic geographies and followed by a job guarantee to prevent long-term unemployment.

When it is recontracted in 2016, the Work Programme should be focussed where it can be effective (and cost-effective): supporting those who need intensive but relatively standardised and finite support to access sustainable employment. As such, it should cater for JSA claimants who have not found work during a year with Jobcentre Plus. However, among ESA claimants, only those who are close to recovering from a temporary health condition should continue to participate in it.

This segmentation should be determined by a WCA that is reformed to better distinguish between temporary and chronic limitations to work capacity. As a guide, 84 per cent of referrals to the current Work Programme up to the end of 2012/13 were JSA claimants, while over 90 per cent of provider outcome payments up to the end of 2013 were paid on behalf of JSA claimants (IPPR calculation based on DWP 2013 and DWP 2014a).

Contracts for the next Work Programme should be let on the basis of local enterprise partnership (LEP) geographies, matching the boundaries of combined authorities where these exist. This would promote connections between employment support and local economic development strategies, while enabling stronger partnerships between providers and local councils, employers and colleges. And it would more than double the number of contract areas from 18 to 39, thus opening up the market to a larger number of potential providers, while still leaving scope for choice and competition (see Davies and Raikes 2014).

Given that central government would continue to fund the Work Programme and assume the risk of higher benefit payments resulting from provider underperformance, it should retain the lead commissioning role. However, local authorities and LEPs (as well as employers) should be able to feed into the design of local contracts, and be formally consulted when providers are shortlisted and chosen. Areas with stronger institutional arrangements, such as combined authorities (and the devolved administrations), should be given co-commissioning powers, alongside central government, if they commit to aligning additional resources and provision with the programme. In November 2014, such an arrangement was included in the Smith commission’s recommendations for further devolution to Scotland.

The next Work Programme should continue to reward providers when participants secure a job and subsequently stay in work for a certain period. However, an ‘attachment’ payment for every participant should remain throughout the contract period. This guaranteed funding for providers should be matched by minimum service entitlements for participants. Participants should spend a maximum of one year on the next Work Programme if they have not found work during this period (but longer if they have). To sharpen provider incentives, if a participant does not secure a job during this 12-month period, a portion of the attachment fee should be recouped by the government.

If someone has not found work after a year on the Work Programme then they should be guaranteed paid work experience and be required to take it up, thus placing an upper limit on the duration of unemployment. This ‘job guarantee’ should involve 25 hours a week of work for up to six months, paid at least the minimum

---

6 Or later, if the government decides to extend the existing round of contracts, as seems likely.
7 Consistent with wider IPPR proposals, we argue that unemployed young people under the age of 22 should be guided through a distinct work, training and benefits track, rather than being supported by the Work Programme. For more details, see Cooke 2013.
wage, with another 10 hours a week of training and help to look for a permanent job. People should not be able to continue receiving JSA if they refuse this offer.

The job guarantee should be organised on the same geographies as the Work Programme, with its delivery led by either a consortia of local authorities within an LEP, a contracted provider, or the local Jobcentre Plus. Public, private and voluntary organisations should be able to bid for funding to offer paid work placements, with unit funding of around £4,000 provided to cover wage costs, employer national insurance contributions, and a small sum for training and programme administration. There should be a small ‘bonus payment’ for the local organising agency if participants move into sustained employment after the end of their job guarantee placement.

We estimate that around 105,000 people a year might become eligible for the job guarantee, which would cost £420 million. This could be part-funded by scrapping the government’s Help to Work scheme, which would save around £200 million a year, and from resources recouped from the attachment fee for participants who do not find a job on the Work Programme. To fill the gap in funding, we propose raising the higher rate of capital gains tax. For instance, an increase from 28 to 35 per cent would raise £400 million a year – more than enough to finance the policy.

Recommendation 2: Those with a long-term health condition or disability that reduces their capacity to work should participate in ‘New Start’, a new, locally-led supported employment programme for ESA claimants, with integrated budgets and incentives for success.

The dominant framework for thinking about the design of employment support is ‘distance from the labour market’. This wrongly assumes that everyone on benefits is on a journey towards resolving or overcoming a barrier to work. This is true in many cases, but there are a significant number of people who have a long-term health condition that will affect their capacity to work for a long time, possibly permanently. This could affect the hours or type of paid employment they could undertake, but need not prevent them from working altogether.

The Work Programme model is not well suited to people who have a reduced capacity to work, who require more specific and long-term support to enable them to enter employment. Our argument, therefore, is that most ESA claimants should participate in a qualitatively different but equally work-focussed ‘supported employment’ programme.

We suggest such a programme be called ‘New Start’, with a clear goal of sustainable employment for its participants. This should be pursued through the ‘place, train and maintain’ model, which aims for rapid entry into paid work, and involves both active job-brokering and intensive (and potentially ongoing) support for both the individual and the employer. This approach seeks to directly confront the demand-side problem, by working with specific employers to make a successful job match possible – and then providing practical help to make it sustainable.

New Start should seek to combine the core components of effective ‘supported employment’ with scope for creative partnerships and innovative practice. Rather than just preparing claimants for the labour market, it would seek to address the problem of employers being less likely to hire disabled people. Key elements of supported employment include a positive, pro-employment culture; a belief in self-motivation as a key factor in gaining work; the centrality of specialist employment advisers; active and sustained employer engagement; the use of job-matching and tailoring of jobs to suit specific abilities; and structured, ongoing support in the workplace for employers and employees.

---

8 This excludes all those under the age of 22 and is calculated on the basis of a unit cost of £4,000 per participant on the job guarantee. For more information, see the background paper which accompanies this briefing.
This new approach should have a positive and empowering culture designed to nurture and unlock individuals’ talents and capacities. Participants should not be mandated to participate in particular activities, but there should be an obligation on ESA claimants to engage with an employment adviser and agree a personal employment plan. Sanctions should only be triggered in the event of persistent non-engagement and after a face-to-face meeting with a personal adviser to review activity and better understand any underlying problems that are getting in the way of employment.

Central to the success of New Start would be its ability to draw together a range of services and support – across employment health, housing, skills, substance abuse and so on – in a way that a nationally commissioned, prime contractor model cannot. We therefore recommend that this new approach should be led by local areas, tapping into local leadership and relationships. Top-tier local authorities should be responsible for leading the New Start programme, holding the budget, brokering or commissioning provision, and being held to account for performance.

If they chose to do so, local authorities should be able to work together over larger areas, through combined authorities, for example. In the first instance, while the capacity of local areas is developing, the Department for Work and Pensions (DWP) should provide strategic guidance and input into the development of local plans and commissioning arrangements. Where local areas are not able to demonstrate their capacity to lead and manage a successful New Start programme, there should be provision for the DWP, via Jobcentre Plus, to take lead responsibility for an interim period.

It should be for local authorities to determine the design and structure of the New Start programme in their area, within some national parameters. This could involve establishing a local New Start Trust to plan and commission provision, bringing together senior representatives of local services, employers, the voluntary sector and disabled people. Alternatively, health and wellbeing boards could take on this responsibility. Local areas should publish their strategies for boosting the employment of residents with health conditions and disabilities (including service-user involvement).

Based on (planned) expenditure on back-to-work support for ESA claimants, the DWP contribution to a future New Start programme could be around £200 million a year across Great Britain. If devolved, this level of funding should be at least matched by local authority (and devolved administration) resources – most plausibly and appropriately from public health budgets.

Assuming that funding continues at current levels after 2015, committing £200 million a year to New Start would equate to just 7 per cent of public health spending across England. In addition, local councils should aim to draw in further capacity and resources from primary and secondary health services in their area. This could involve gaining the active involvement of GPs, and securing agreement for the local clinical commissioning group (CCG) to commission occupational health and mental health services that are consistent with the local New Start plan. There would also be a strong case for a share of European Social Fund resources, controlled by LEPs, being spent to support New Start, as well as opportunities to mobilise social finance, given the programme’s social justice mission and potential to generate a long-term return from reduced benefit expenditure.

To give a sense of how many people might participate in a New Start programme of this kind, in 2012 (the last year of complete data) just over 250,000 people gained employment through the Work Programme and Work Choice.
entitlement to ESA following a WCA. Of these, 115,000 were placed into the work-related activity group, and 138,000 entered the support group (DWP 2014b: table 4). Furthermore, between April 2012 and March 2013, 430,000 people became entitled to ESA after being transferred from incapacity benefit (205,000 went into the work-related activity group, and 289,000 into the support group) (ibid: table 10).

If average unit funding was £2,000 per participant, an annual allocation of £400 million from DWP, local councils and the devolved administrations would fund places for 200,000 ESA claimants a year. This would enable 60 per cent more ESA claimants to engage in back-to-work support than under the Work Programme, with almost three times the level of funding per participant. If this funding could be further matched by CCGs and LEPs across the country, New Start would have an annual budget of £800 million, meaning the programme could work with 400,000 ESA claimants – more than three times the annual number who have participated in the Work Programme.

At this scale, New Start would have the potential to make a substantial impact on the employment rate of people with long-term health conditions or disabilities, while significantly reducing expenditure on ESA and related benefits. Local areas should be free to give participants the right to take New Start support as a personal budget. To ensure a strong focus on successful employment outcomes, bonus payments should be made to local areas in respect of ESA claimants who stay off benefits for a sustained period, so that they share the resulting benefit savings with the Treasury.

**Recommendation 3:** Stronger obligations should be placed on employers and employees to exhaust rehabilitation opportunities during sickness absence, to reduce the flow onto ESA.

Although most periods of sick leave last for just a few days, in a minority of cases people spend long periods away from work, with some ending in a benefit claim. Just over half (51 per cent) of new claimants for ESA were previously in work, while a little under a quarter (22 per cent) had previously exhausted a period of sick leave. Therefore, keeping more people healthy and in work could make a big difference to the number of people who enter the benefit system.

With this in mind, the government is currently in the process of introducing a ‘health and work service’ to provide voluntary advice and support to employers and employees. It is also providing tax relief for employers’ spending on occupational health. However, there is a case for stronger interventions to help to keep people connected to the labour market and reduce flows onto ESA.

During the statutory sick pay (SSP) period, there are few obligations on employees to take active steps to return to their job, despite the fact that this becomes progressively less likely over time. There are also few requirements on employers to make adjustments to work duties or working conditions, or to offer an alternative job, to facilitate a return to work. Given the relatively low rate of SSP (£87.55 a week), the financial incentive for employers to support an employee on sick leave to get back to work is limited.

Therefore, we propose a requirement for an occupational health plan to be agreed between an employer and employee after 13 weeks of sickness absence. Employees should be obliged to engage with this plan, consistent with their health, and employers should have obligations to consider reasonable changes that would facilitate a return to work.

At present, employees are entitled to statutory sick leave for up to 28 weeks. If they then claim ESA, they initially enter a 13-week ‘assessment phase’ before undertaking a WCA. During this initial period there is little support to find work and no obligations to take steps to return to work. Most European countries provide longer periods of employer-financed sick pay or a state-funded sickness benefit,
which prevents those with temporary conditions being caught up in an inactive disability benefit system.

Therefore, as part of the implementation of universal credit, we recommend that the ESA assessment phase should be scrapped, as it automatically delays the point at which people switch their focus from claiming benefit to returning to work. For those who have exhausted employer-funded sick pay, there should instead be an equivalent period of conditional, state-funded sick pay.

The employment contract should be protected during this period, in order to give employees longer to return to work, matched by obligations on them to take steps to do so. The employee should have to agree an updated back-to-work plan with their employer, an occupational health expert and a Jobcentre Plus adviser. The objective is that they should exhaust every opportunity for rehabilitation and a return to work, including a requirement to accept an alternative job offer from their current employer.

This short period of state-funded sick pay should be paid at the ESA assessment phase rate (the same level as JSA), and would therefore involve no additional cost to the government (or extra employer liability). For those making a claim for ESA that does not follow a period of sickness-related absence from work, the consequence of scrapping the assessment phase would be to remove the inbuilt three-month wait before a WCA is carried out.

**Recommendation 4:** The risk of hiring those with a health condition or disability should be reduced by the state taking on sick pay liability for ex-ESA claimants, starting with small firms.

Many disabled people who want to work are held back because they cannot find an employer willing to give them a chance. Overt discrimination against disabled people remains a considerable problem in the workplace, but employers can also have reasonable fears about the risks of hiring someone who may need to take time off work in future because of a health problem. Small firms in particular may struggle to absorb the costs of sick pay.

Previously, small firms were able to recover a proportion of the cost of SSP from the government if it represented a large share of their national insurance liability in any given month. However, this so-called ‘percentage threshold scheme’ was not well targeted, in terms of where employer risks of high sick-pay costs were likely to be greatest, and in any case it was abolished in April 2014. Therefore, to support the New Start programme, we recommend that small firms should be allowed to recover virtually all of the SSP costs they incur for individuals hired directly from ESA.

Specifically, we propose that small firms should be able to recover 92 per cent of relevant SSP costs, mirroring the amount that large companies can claim back for statutory maternity and paternity pay. Requiring employers to bear a small portion of the cost would retain an incentive for them to help people on sick leave to return to work quickly. To control costs and assess impacts, this policy should initially be limited to the first year in employment and focussed on small firms (with fewer than 50 employees). We estimate that a system of SSP recovery along these lines would cost the government around £25 million a year.12

---

12 We estimate that 80 per cent of sickness absence spells among former ESA claimants would average 5.02 days per spell and the remaining 20 per cent would average 52 days (Reetoo et al 2009). This gives a total of 1.05 million weeks of absence for all firms. The final cost was calculated by scaling down the number of weeks in line with estimates for the proportion of employees working for a small firm (29 per cent) and taking a unit cost of £86.70 a week, with a 92 per cent recoverability rate. For more information, see the background paper which accompanies this briefing.
Together, these proposals aim to chart a new course in employment support for people with disability and health-related issues, who have been failed by existing mainstream programmes. Delivering the reforms suggested here would represent a serious bid to improve the employment prospects of those who would otherwise face a high risk of long-term worklessness, and to divert public expenditure from meeting the costs of economic and social failure into social investments in human potential.

References

Cooke G (2013) *No more NEETS: A plan for all young people to be learning or earning*, IPPR. http://www.ippr.org/publications/no-more-neets-a-plan-for-all-young-people-to-be-learning-or-earning


