

## WELFARE REFORM COMMITTEE

### THE FUTURE DELIVERY OF SOCIAL SECURITY IN SCOTLAND

#### WRITTEN SUBMISSION FROM THE JOSEPH ROWNTREE FOUNDATION (JRF)

##### **Social security and employment support powers: Can further devolution drive poverty reduction?**

Poverty in Scotland and the UK in 2015 is costly, risky and wasteful, in economic as well as social terms. But it is not inevitable. The Joseph Rowntree Foundation's vision is a UK without poverty, including a prosperous and poverty-free Scotland. We contribute to this through research and development activities across the UK. We are pleased to respond to the Welfare Reform Committee on the question of how devolution of some social security powers to Scotland could enable faster, sustained progress towards this goal.

“For JRF, further devolution is part of the story of poverty reduction but it is not the plot. Looked at internationally, the evidence is mixed. Devolution of powers is not intrinsically a surer route to poverty reduction. A great deal depends on the macroeconomic environment, combined with the political will, culture and delivery capacity which favours this goal – ideally across all tiers of government.

Nor is it only the domain of government, national or local. Employers, housing providers, education authorities and the media have a distinct role as well. The decisions made by individuals and families, reflecting constraints as well as choices, also have a bearing on the risks they face. However, the evidence also indicates that where there are important local or regional variations, not least in the jobs market and in housing opportunities, moving powers closer to that level can lead to more responsive policy making, provided sufficient policy and delivery capacity is available”.

(JRF response to the Smith Commission, October 2014)

## SUMMARY

- JRF approaches the challenge of future social security powers by asking how they can contribute to a prosperous and poverty-free Scotland. We support planned devolution, since this can help alignment with existing powers and responsiveness to ‘place-based’ drivers such as the variable geography of housing and the labour market.
- We believe the anti-poverty potential of Universal Credit can be substantially improved. Devolution of some housing cost flexibility retains the coherence of UC and leaves the door open to bringing Council Tax Reduction within UC (or a rebating scheme for any future form of local taxation), which would simplify the taper rate and modestly improve work incentives. Other key elements of support to families remain to be addressed, e.g. delivery of any future Scottish programme for reducing childcare costs through the tax system or UC. Improving both take-up levels and the experience of contributors and claimants should be a primary concern.
- International evidence on employment (welfare-to-work) programmes can inform future Scottish policy. Elements that may improve job outcomes include decentralisation, appropriate commissioning models and the development of adequately resourced support within more integrated delivery systems. While the rationale for welfare-to-work policies varies, the evidence suggests programmes can have significant impacts. The critical decision for Scotland is whether to stick with a ‘narrow’ employability regime (the Labour Force Attachment model) or shift towards a ‘broad’ approach (the Human Capital Development model) which involves greater investment in skills development and thus the longer-term earning potential of jobseekers.
- *Welfare-to-work reform, job retention and progression:* Achieving greater job sustainability and wage progression would improve the cost-effectiveness of employment programmes. There is growing policy interest in better ways to combine job placement, retention and progression support and the delivery methods/partners most likely to improve such outcomes. Long-standing programmes, e.g. in Australia and the Netherlands, have improved job outcomes and reduced costs over time. However, in both countries competition between providers based mainly on price was abandoned. Too much focus on cost reduction served to undermine service quality.

- *Devolving welfare-to-work powers:* A strong trend towards decentralisation has occurred in many countries, to integrate welfare-to-work support with other services and adapt them to the specific needs of service users and localities. There is no automatic relationship between decentralisation and more effective delivery or improved user experience. Achieving these gains depends on the managerial, fiscal and delivery capacity of local authorities and delivery partnerships. Flexible strategies will be needed within a coherent policy framework with clearly-defined minimum standards across Scotland. This is especially important where programme participation is mandatory.
- Further devolution also needs to meet an 'incentives test'. As things stand, we are concerned that future work programme providers will face a divided form of accountability – reporting to the Scottish Government and Parliament on financial/programme performance, but to DWP in applying UK-wide conditionality rules. This risks creating a 'jagged edge' for providers, to the likely detriment of many participants. A better approach to devolve conditionality rules to Scottish programmes. A fuller set of incentives – balancing out costs (risks) and savings (rewards) – should be transferred to the Scottish budget. Further decentralisation should also be explored. In the Netherlands, for example, municipalities have budgetary powers to commission 'reintegration' services and to invest savings from reduced spending on unemployment support. Each area has an incentive to achieve sustainable results.
- *Commissioning welfare-to-work services:* Commissioning approaches are only as effective as the policy goals, resources and skills of lead agencies. Evaluation evidence is mixed, but well designed contracts can cut delivery costs, offer access to specialist support and bring innovation to service delivery. The consistent risk is that providers 'cherry-pick' more job-ready claimants, park those facing greater barriers to work and exploit other weaknesses in contract design. Controversy over such issues has marked the UK Work Programme and previous policies. Achieving better outcomes for those who face the greatest barriers to work is likely to need increased funding to improve tailored support. The nature and intensity of support required will vary across labour market types in Scotland.
- Serious consideration should be given to fostering greater diversity of providers and choice for service users – both factors associated with improved outcomes in Australia. This would require smaller contract

areas size and more providers in Scotland. By aligning contract areas with local authorities (or clusters), greater integration could be achieved with existing support for training, apprenticeships, colleges, business growth, health and social care, housing and addictions – the advantages of decentralisation would be more likely to emerge. Stronger incentives for providers to improve skills and support participants into better paid jobs, taking into account household circumstances, would also contribute to poverty reduction. In the Dutch case, substantial investment in skills training, wage subsidies and other forms of specialist support have emerged.

- *Accountability and outcomes:* Good design of performance frameworks and payments is key to ensure the culture and behaviour of providers in all sectors support policy goals. Progress for some Work Programme participants has been overshadowed by concerns of perverse target-driven behaviour, and a major rise in sanctions. JRF believes future Scottish programmes need to develop and track measures of *employment sustainability and earnings progression*. These could also facilitate the development of *in-work support* as an integral feature.
- Service-user choice should exist between providers, with switching allowed at any time if individuals are dissatisfied with their experience. For third sector providers in other countries, concern has been expressed about ‘mission drift’, especially policing sanction rules. Public authorities must avoid the use of ‘gagging clauses’ and enable providers to retain an advocacy role on behalf of service users. Other accountability concerns related to limited requirements on contracted providers to scrutiny and upholding service-user rights. The remit of the Scottish Public Services Ombudsman and Information Commissioner should be expanded to include employment services paid for by the public purse, irrespective of who the provider is.
- *Using data to improve employment and poverty reduction outcomes:* The introduction of UC and the Scottish Rate of Income Tax should make available high volume, low cost data through which to track longer term trends in employment and pay. This offers the possibility of much greater insight into approaches that generate net benefits for public finances, through higher quality jobs and poverty reduction, as distinct from services that only deliver short-term savings. Such data should be used to shape future commissioning, service delivery and performance targets. Data-sharing protocols between the Scottish Government, DWP and HMRC will be needed if these potential benefits are to be realised.

## Introduction

1. We approach the challenge of improving and changing future social security powers by exploring the contribution they can make to achieving a prosperous and poverty-free Scotland. In this response, we begin with a brief look at the second of the Committee's workstreams – Universal Credit flexibility – and then focus mainly on the third workstream, employment programmes to be devolved.
2. The independent Expert Working Group on Welfare<sup>1</sup>, which reported in June 2014, set out a vision of a reformed social security system, offering a springboard back into training and employment as well as income security for those unable to work or seeking work. Reducing poverty requires action on all fronts, not limited to welfare benefits and tax reforms. Nonetheless, social security has played a major role in efforts to reduce poverty and can do so again, both through the contribution of devolved powers in Scotland and reserved powers across the UK.

## Universal Credit

3. To date, Universal Credit has been a complex and troubled reform: it is behind schedule, available to only some claimant groups in Scotland and generates the potential for increased risks to low-income households – as an 'all-or-nothing' reform, delays, errors and increased waiting days could become magnified relative to separate benefit payments currently. As proposed, UC will create winners and losers, improving work incentives for some at the expense of others. Nonetheless, JRF supports many of the aims behind UC, not least smoother transitions for people who make multiple transitions in and out of insecure work, ensuring when people do claim they automatically receive all or most of the benefits they are entitled to with one application, and creating a smoother rate of benefit withdrawal compared to the cliff edges in the existing system. We believe its anti-poverty potential can be substantially improved through various design changes<sup>2</sup>, including treatment of childcare costs and the work allowance for second earners<sup>3 4</sup>, but we support the reform as one based on important principles.

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<sup>1</sup> <http://www.gov.scot/Publications/2014/06/7760>

<sup>2</sup> Barnard (2014) 'Cost of childcare for low-income families must be tackled in the Budget' Blog for JRF, 4 March [www.jrf.org.uk/blog/2014/03/budget-must-tackle-childcare](http://www.jrf.org.uk/blog/2014/03/budget-must-tackle-childcare)

<sup>3</sup> <http://www.jrf.org.uk/sites/files/jrf/jrf-budget-submission-2015.pdf>

<sup>4</sup> <http://policyinpractice.co.uk/wp-content/uploads/2014/06/Universal-Credit-A-Review-by-Policy-in-Practice.pdf>

4. We want to see improvements to Universal Credit. In our response to the Smith Commission last October, we envisaged three options. The first was to retain UC as a reserved power, but provide Scotland with the power to supplement elements of UC from within its own budget. The second was to form a partnership agreement with the UK Government over the delivery of UC in Scotland. For example, some flexibility over UC elements and related powers could be devolved to improve integration of employability, training and welfare-to-work programmes, recognising the concurrent nature of powers. Accountability for funding and performance of these elements would then be directed towards Scottish Ministers rather than Westminster. Third, in time, UC could be devolved in full. This would give the Scottish Parliament powers to vary the design and offer scope, for example, to switch from income-based subsidies towards increased supply of affordable housing and childcare over time. From a poverty-reduction angle, capacity to deliver a high quality service to claimants is as significant as getting the policy right, which is why this option was regarded as likely to be a long time in transition, if it was thought desirable.
5. The Smith Commission and now the Scotland Bill proposals extend to the second of these options: devolution will encompass some flexibility over UC payment frequency, split payments within households and the housing element going direct to landlords. In addition, some employment services will be devolved (see below). JRF supports these proposals, as they can help meet our tests of alignment or integration with existing devolved powers and place-based powers. They retain the coherence of UC as a single basket of benefits protected. They keep the door open on bringing Council Tax Reduction into UC, or a rebating scheme for any future form of local taxation following the 2016 Scottish Parliament election, thus simplifying the benefit taper and modestly improving work incentives. However, we believe other key elements of support remain to be explored – for example, how any future Scottish programme for reducing the childcare costs faced by families can be delivered, through the tax system or Universal Credit.
6. How to collect revenues and administer benefits in Scotland is an important consideration. JRF has not commissioned research in this area, but we would observe that any major reform creates risks and uncertainties for service users. Improving both take-up levels and the experience of contributors and claimants should be a primary concern.

## **Employment services: welfare to work programmes**

7. JRF has published two reviews of UK and international evidence on the contribution of welfare-to-work programmes to improving employment outcomes and reducing poverty<sup>5</sup> including an assessment of practice in the Netherlands and Australia, two countries with at least 10 years experience of welfare-to-work contracting for the long-term unemployed<sup>6</sup>. Each may provide important lessons for future policy and practice in Scotland.
8. Some of the public service reforms that may contribute to better employment outcomes include decentralisation, inter-agency collaboration, appropriate commissioning models, performance management and the development of frontline employment services within more integrated delivery systems. While the rationale for welfare-to-work policies and programme design vary from country to country, the evidence suggests they can have significant impacts.

## ***Welfare-to-work reform, job retention and progression***

9. Reforms in countries such as Australia, the USA, Germany and the UK have been comparatively successful in enabling benefit claimants to get into work, but many of the jobs they access are low paid and short lived: employees often return quickly to unemployment. This reflects a combination of factors, including the poor quality of available jobs and the circumstances of jobseekers (including limited skills and a lack of recent work experience). In the UK, the evidence suggests that greater employment sustainability and earnings progression would improve the cost-effectiveness of welfare to work programmes and contribute more effectively to the task of long-term poverty reduction. This has led to increased policy interest in how to better combine job placement with retention and progression services, and the delivery methods and organisational partners most likely to improve such outcomes.
10. There has been much debate about how to improve the effectiveness of Jobcentre Plus (JCP) and the Work Programme (WP) in their capacity to place, sustain and progress service users into better quality employment. There has been significant criticism of the lack of integration between employment services and skills provision – one remaining a reserved function, the other being mainly devolved to Scotland. Proponents of reform suggest

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<sup>5</sup> 'Welfare to Work Policies and Poverty' by Dan Finn in *Reducing Poverty in the UK: A collection of evidence reviews*, pp.72-75 <http://www.jrf.org.uk/publications/reducing-poverty-in-the-uk-evidence-reviews>

<sup>6</sup> Dan Finn (2008) *Lessons from contracting out welfare to work programmes in Australia and the Netherlands* <http://www.jrf.org.uk/sites/files/jrf/2307.pdf>

that greater flexibility and decentralisation would enable local government and/or other partnerships to improve the policy effectiveness and value for money of employment services and better adapt mainstream employment and skills policies to local conditions.

11. In Australia, for example, the Job Network (JN) programme since 1998 has achieved better job outcomes for around half the cost of the previous approach. In the Netherlands, the Reintegration Market (RM) has been in place since 2002, where municipalities (local authorities) and the social insurance agency purchase 'reintegration' services from various providers. Here as well, costs fell so that by 2007 higher job entries were achieved with a saving of around one-third. Typically, there is a short-term improvement of 5% - 10% in job entries, and these occur sooner than in 'standard' programmes used previously. But some of the gains are offset by higher transaction costs involved in operating a market where public agencies commission services from a range of voluntary and private providers, rather than providing services directly. There are also clear risks of parking highly disadvantaged jobseekers. In both countries, competition between providers based mainly on price was abandoned. Too much focus on cost reduction undermined service quality – providing a timely reminder that achieving better long-term job outcomes can't be done on the cheap.

### ***Devolving welfare-to-work powers - rewards and risks***

12. A strong international trend has occurred towards decentralisation of welfare to work policies and employment service delivery, with a view to better integrating support services and adapting them to specific needs (of service users and of localities). The evidence suggests devolution may carry risks as well as rewards, especially where local delivery diverges from policy goals. There is no automatic relationship between decentralisation in employment and skills services and more effective/integrated delivery or improved user experience. Achieving these gains depends on managerial, fiscal and delivery capacities of lower tiers of government and/or local delivery partnerships. There is also the potential for poorly designed incentives that may have unintended results, and, as in the USA, the emergence of wide variations in cash benefits, services and user experiences. Where areas can draw on a strong and diverse network of local agencies and provision, while others have few such supplementary resources, inequalities in outcome can widen.
13. In the Netherlands, 415 municipalities have budgetary powers to commission reintegration services. Most of them are much smaller than the average local authority in Scotland – 10% of them have fewer than 10,000 people. Although there is a trend towards amalgamating into fewer, larger areas – seen as well

in Denmark among others – the key point is that each municipality has the power to reinvest savings from reduced spending on unemployment support, either into reintegration or other local services. Each has a clear incentive to achieve sustainable results.

14. JRF supports the Smith Commission's conclusion and the Scotland Bill provision for devolving employment service powers in what is currently filled by the Work Programme and Work Choice. We believe this meets our test of alignment with current powers and appears to make sense in the context of devolving powers that are in some way 'place-based' – in this case the variable economic geography of the labour market. But to ensure future decisions in this area make a substantial contribution to poverty reduction, Scottish policy-makers will need to deliver flexible, localised strategies within a coherent and equitable policy framework with clearly-defined minimum standards across Scotland. This is especially important where programme participation is mandatory.

15. However, on whether further devolution meets our 'incentives test', we told the Smith Commission there could be a case for devolving conditionality powers to match programme design in this area. This would properly transfer the range of incentives – balancing out costs/risks and savings/rewards - to the Scottish budget. The Scotland Bill doesn't currently provide for conditionality rules to be devolved. We are concerned that future programme providers will face a divided form of accountability – reporting to the Scottish Government and Parliament in terms of financial and programme performance, but facing DWP in Whitehall in applying UK-wide conditionality rules. We believe this creates a 'jagged edge' for providers, to the likely detriment of many programme participants. A better approach would be to devolve related powers and enable Scottish programmes to design appropriate forms of conditionality, spanning incentives as well as penalties and allowing for flexibility for participants where appropriate.

16. A fair balance will also need to be struck between incentives that encourage sustainable employment outcomes, expenditure savings and poverty reduction. Balancing Scottish and local priorities will require an agreed and transparent performance framework in which the Scottish Government, Scottish Parliament and independent bodies including Audit Scotland have responsibility for analysing performance, assessing and evaluating the impact of local strategies and holding delivery agencies to account.

## ***Commissioning welfare-to-work services***

17. Welfare-to-work commissioning will only be as effective as the policy intent, investment available and skills of lead agencies. The critical decision for Scotland ahead of further devolution is whether to stick with a 'thin' employability regime (known internationally as the Labour Force Attachment model) which has been described as "continuing to throw claimants at the job market until they stick" or shift towards a 'broad' approach (the Human Capital Development model) which involves greater expenditure on skills development and thus an investment in the longer-term earning potential of jobseekers.
18. Commissioning the delivery of employment services has been a complex undertaking in all countries reviewed. Authorities tend to make frequent adjustments to contract design and incentives in response to delivery problems and changing external conditions. Evaluation evidence points to mixed results overall, but the more positive findings suggest that well designed contracts can reduce delivery costs, give access to skilled staff and services not usually available in mainstream public employment services and bring innovation to service delivery. The consistent risk is that providers simply help more job-ready claimants (relative deadweight, cherry-picking), 'park' those hardest to help and otherwise exploit weaknesses in contract design. Controversy over such issues has marked the UK Work Programme to date and the outsourced programmes that preceded it. Although conclusions are tentative, some of the improvements needed are now clear.
19. The design of the Work Programme has made some contribution to the overall goal of poverty reduction by rewarding providers for longer-term employment sustainability. Findings suggest that employment retention has been higher than anticipated for some groups. However, the Work Programme has not worked effectively for those with additional barriers, especially those receiving disability benefits. Achieving greater impact for those who are more disadvantaged in labour market terms is very likely to require increased funding to improve tailored support. Moreover, the nature and intensity of support required will vary geographically. Those seeking work in areas of Scotland with lower employment rates will face tougher competition for jobs, and often experience poorer outcomes, than in areas with high employment rates. See Annex A on the range of local employment rates in Scotland.

20. Serious consideration should be given to fostering greater diversity of providers and choice for service users – both factors that have been associated with improved outcomes and participant experience in the case of Australia. This would require a reduction in the size of contract areas and an increase in the number of providers in Scotland. By aligning new contract areas with local authorities (or clusters of authorities) greater integration could be achieved with existing support for training and apprenticeships, further education, business growth, health, social care, housing and addictions – the advantages of decentralisation would be more likely to emerge.
21. Stronger incentives for providers to improve participant work experience and skills and to place them in better paid jobs, taking into account the participant’s household circumstances, would also contribute to poverty reduction. Gradually, incentive payments have emerged to encourage service innovation (see box), backed in the Dutch case with substantial investment in skills training, wage subsidies and other forms of more costly support.

**More personalised employment services: Australia and the Netherlands**

A feature of both countries’ recent experience has been the use of ring-fenced budgets for individual use – an element of self-directed support for jobseekers. This can be used for training investment e.g. the Australian Jobseeker Account (AJA) and can offer a more personalised service for those claiming social insurance (the equivalent of contributions-based JSA) through Individual Reintegration Agreements (IROs) in the Dutch case. These approaches enable a degree of choice between alternative providers rather than the very limited scope for choice within the current Work Programme. IROs provide service users time to negotiate the kind of employment assistance available, building ownership and involvement. The results so far are considered promising. With greater flexibility and decentralisation, areas of Scotland might develop specialist disability provision, support for recovering addicts or ex-offenders.

***Accountability and outcomes***

22. Good design of performance/contract management frameworks, targets and payments is key for effective incentives to ensure the cultures and behaviours of welfare to work delivery organisations in all sectors are aligned in support of policy goals. The previous UK Coalition Government dropped most of the targets it inherited, replacing them with objectives to move people ‘off benefit, into employment, as quickly as possible’ and to reduce the cost of fraud and error in the benefits system. The intention was to drive cultural change and give JCP district managers and advisers greater flexibility in the services they

deliver and in how they work with claimants. However, some early positive evaluation findings were overshadowed by concerns that the regime might have caused perverse target-driven behaviour, and contributed to the significant rise in sanctions seen across Scotland<sup>7</sup> and all parts of Great Britain.

23. A recent review for JRF endorsed recommendations made by others for the UK Government to refocus DWP and JCP targets more directly on *employment outcomes* and to develop and track measures of *employment sustainability and earnings progression*. Such targets would bring JCP into line with improved work incentives intended for many Universal Credit claimants and Work Programme participants. These could also facilitate the development of *in-work support* as an integral feature, not an add-on, to employment service design.
24. The emergence of real time information on earnings and UC income should make it feasible to measure and reward increased participant earnings. This happens already in some US programmes. Performance indicators that measure the *duration and quality* of employment outcomes, including improvements in earnings and skills, would contribute more to poverty reduction. In addition, given the concentration of in-work poverty in single-earner households, employment and earnings outcome measures for *households*, rather than only individuals, should supplement the extension of employment services and conditionality to the partners of the unemployed.
25. By commissioning service delivery, purchasers inevitably lose some insight into the 'why' and 'how' of what works and what doesn't. The contractor gains an advantage through valuable operational knowledge which intelligent commissioning by public agencies on service quality, contract management, audit and inspection may help to balance. But a pragmatic step might be to run a mixed economy rather than an 'all-out' service model with equivalent funding per jobseeker in both direct and commissioned service, to allow for comparison. Service-user choice should exist between sub-contractors, not just prime contractors if such a model continues in Scotland, with switching allowed at any time if individuals are dissatisfied with their experience.
26. For third sector/non-profit providers, however, concern has been expressed in these countries about 'mission drift' due to the requirements of commissioning, especially policing conditionality and sanctions rules. A review for JRF concluded that public authorities must avoid the use of 'gagging

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<sup>7</sup> <http://www.jrf.org.uk/publications/monitoring-poverty-and-social-exclusion-scotland-2015>

clauses' and enable non-profit providers to retain an advocacy role on behalf of service users. Other accountability concerns related to more limited requirements on contracted providers to public audit, scrutiny and upholding service-user rights. The remit of the Scottish Public Services Ombudsman and Information Commissioner should thus be expanded to include commissioned employment services paid for by the public purse, irrespective of who the provider is.

### ***Using data to improve employment and poverty reduction outcomes***

27. The introduction of Universal Credit and related changes in income tax and National Insurance data should, over time, make available high volume, low cost data through which to track longer term trends in employment and earnings. This opens up the possibility of more accurate evaluation and much greater insight into those employment services and programmes that generate net benefits for public finances, as against possibly cheaper services that simply result in short-term benefit savings. Such data should be used to shape future commissioning, service delivery and performance targets. The results should provide the Scottish Government, Scottish Parliament, service commissioners and providers with much better information on those approaches making the best contribution to higher quality employment and poverty reduction.
28. Data-sharing protocols between the Scottish Government, DWP and HMRC will need to be developed if these potential benefits are to be realised.

## Annex A: Employment rates by selected local authority in Scotland, 2011-13

	<b>Employment rate (2013)</b>	<b>Change (2011-13)</b>
<b>Scotland</b>	<b>71.0%</b>	<b>+0.3%</b>
<i>Cities</i>		
Aberdeen	77.3%	+1.4%
Edinburgh	71.7%	-0.1%
Glasgow	63.3%	-0.5%
Dundee	61.4%	-7.0%
<i>Rural authorities</i>		
Shetland Islands	83.2%	+2.9%
Aberdeenshire	78.6%	-1.0%
Highland	73.9%	-4.7%
Dumfries & Galloway	70.1%	+1.1%
<i>Others</i>		
East Dunbartonshire	77.1%	+3.5%
East Renfrewshire	74.2%	+1.1%
Fife	69.3%	-1.3%
West Dunbartonshire	65.2%	-3.2%
North Ayrshire	60.1%	-0.9%
<b>Range: high/low</b>	<b>23.1%</b>	<b>+2.8%</b>