Personalised Welfare

Rethinking employment support and Jobcentres

Ed Holmes
Edited by Matt Oakley

Policy Exchange

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Acknowledgements

Executive Summary

This report sets out a new approach to employment support that, by providing personalised support and conditionality, will reduce unemployment, reduce government expenditure, increase fairness in the welfare state and provide a much needed boost to growth. It is the second in a series of reports on welfare reform from Policy Exchange setting out the further steps we believe are necessary to reduce long-term welfare dependency.

The first report, *No Rights Without Responsibility*, showed that a belief in a right to benefits has developed in Britain. The introduction of the Universal Credit might move 300,000 workless households into work, but this will still leave another 3.6 million working age households with no-one in work and dependent on the state. To tackle this, we proposed that claimants who are not doing all they can to find work should be required to spend the equivalent of a full time working week looking for work; that sanctions should be toughened up and made more effective at changing the behaviour of those who continue to shirk their responsibilities; and that the link between contributions and benefit should be re-established.

This would make the welfare system fairer and re-instate self-reliance and personal responsibility at the heart of the welfare state. However, we also recognised that the Government has a responsibility to give more help to those furthest from the labour market. It would be unfair to ask more of people without helping them to tackle the barriers to work that they face. At the moment, this support is inadequate and does not effectively target help at some of the most vulnerable. This is both unfair to those involved and leads to higher unemployment and costs to the state and society. This report puts more detail on our proposal that the Government must do more to understand the unemployed population and properly target intensive support on those with the greatest needs.

The current system

The support and advice unemployed people currently receive is in general determined by two factors: how long they have been claiming benefits; and what type of benefits they are claiming. But this means those who are furthest from the labour market have to wait up to a year to get the help they need. By this time disadvantages have deepened, motivation has been sapped and significant new barriers to work will have arisen.

To ensure that those with the greatest needs get the help they require more quickly and cost effectively, this report outlines how these individuals can be identified earlier so they can receive the specialist support they need ('segmentation'). The first part of this approach will require the state to collect far more information about claimants. However, more information is not enough on

its own: this data will also need to be used in a better way. This means that the Department for Work and Pensions and Jobcentre Plus (JCP) will also need to operate in a new way. They will have to gather extensive information on the characteristics of individuals, their barriers to work, how to overcome them and reflect these priorities in future private welfare-to-work contracts. This more sophisticated approach is already used in many countries (such as Australia) with much better outcomes than we see in the UK. Indeed, by implementing this sort of approach, Australia managed to deliver efficiency savings of 20% and cut overall costs by half.[1]

> **We argue that better segmentation would both reduce average durations spent on benefit and re-engage many long-term jobseekers with the labour market**

This shows that we cannot underestimate the potential benefits for a new approach to benefit claimants that effectively segments the claimant population and applies personalised conditionality and support. Replicating the success of Australia would realise over £700 million in efficiency savings alone.[2] But the benefits would be much wider than this. We argue that better segmentation would both reduce average durations spent on benefit and re-engage many long-term jobseekers with the labour market. This would deliver savings to the benefit bill and dramatically reduce the personal and social costs that are associated with long-term unemployment and the poverty that it leads to.

The problem is that the current structures and systems within JCP would not be well suited to delivering this sort of system. This means that unless major reforms are implemented in JCP, the government is unlikely to achieve its goal of reducing long-term welfare dependency. This report sets out what those reforms should look like. We argue that JCP can play a vital role in the relationship between the state and the individual: providing a clear and coherent gateway into a number of services and support. This would cover access to employment support; a unified benefit delivery service (rather than the current system of a mixed delivery between JCP and local authorities); a combined skills, employment and careers advisory service; and wider support like access to childcare and family support. This CommunityLink would be at the heart of the relationship between the state and the individual and JCP has both the experience and delivery network to take on this role.

However, we argue that CommunityLink should not be responsible for the provision of employment support. Instead, we must be more ambitious and allow the private and third sector experts tasked with finding employment for the hardest to help through the Work Programme to deliver employment support to everyone who needs it.

Since these methods are untested in the UK, we do not propose that this approach is adopted overnight. Instead we outline how JCP can be reformed now to ensure that efficiency savings and reduced unemployment are delivered and so that these methods can be effectively developed and tested. **A more innovative approach, which uses continual evaluation and testing to adapt and build on identified success, is vital to ensure that the most vulnerable receive the most help**. Without this, the current system and other reforms currently going through Parliament will continue to apply additional conditions to claimants without giving them the necessary assistance to return to employment.

1 Finn D, 'Lessons for contracting out welfare to work programmes in Australia and the Netherlands', 2008, http://www.jrf.org.uk/publications/lessons-contracting-out-welfare-work-programmes-australia-and-netherlands

2 Calculated from Jobcentre Plus Annual Report and Accounts, 2010/11, Department for Work and Pensions 2011, p. 51, http://www.dwp.gov.uk/docs/jcp-annual-report-and-accounts-2010-2011.pdf

Segmentation

The first step in delivering better support for those with the greatest needs is to accept that better segmentation and targeting of support is needed. We believe segmentation should happen earlier and be used to provide earlier and more intensive support to those with most needs. It should be delivered from day one of a claim and it should encompass:

Greater data gathering from the claimant. At present, advisers at JCP know little more than a claimant's basic details (such as name, address and claimant history going back two years). We propose that more information (such as entire claimant history, qualifications and sanction history) should be made available to advisers to determine the most appropriate interventions. Advisers should also be given access to other information the government may hold on a claimant – through the NHS, the police and the justice system, for example.

In addition, **we propose developing a Jobseeker Classification Instrument (JSCI)** to identify specific barriers to work so that support can be better targeted. This technique is used in Australia and is being piloted on a limited basis in the UK. It embraces a whole host of information not taken into account by JCP or the Work Programme rubric. For instance, it can include things like family circumstances, language skills, ethnicity, living arrangements, country of origin, transport, workplace support needs, geographic location (especially remoteness from centres of employment), recent work experience, homelessness, criminal record and qualifications.[3]

In addition to the data collected in the Australian system we believe that the JSCI would be greatly improved by the use of profiling data. Information services firms and marketing and credit rating firms all gather large quantities of information on their customers, for example to identify how to advertise a product to a specific customer group and decide whether someone should be given car insurance or have their credit card limit extended. These techniques are now being pioneered in the public sector – tackling benefit fraudsters and tax evaders, for example – but not in targeting employment support. By adding this approach and data to the JSCI tool we believe that a robust and effective segmentation tool can be built to identify which clients are at most risk of long-term joblessness. This will be a large reform of the current system. However, existing research proves that it can be done. The Department for Work and Pensions must work with JCP and Work Programme advisers, along with academic experts and private sector data providers to develop this tool and ensure that it is constantly evaluated and adapted to build on its success.

We believe that this tool can be extremely effective. However, even when such technology is used, complex barriers may not be visible from available data. To tackle this problem we argue that the tool should be combined with greater adviser flexibility. **Personal advisers must be given more power to identify at-risk claimants.** The available evidence suggests that personal advisers are better able to assess a claimant's likelihood of long-term unemployment the more experienced they are and the more time they spend with the client. We thus propose *extending the Accelerated Flexibilities Pilot* currently taking place in JCP, allowing advisers more scope to personalise the type of support and interventions they provide. We also believe that advisers should be incentivised to provide personalised support and conditionality which might not be captured by the techniques above.

3 Review of the Job Seeker Classification Instrument, Australian Government Department of Education, Employment and Workplace Relations, p. 27. http://www.deewr.gov.au/Employment/JSCI/Documents/JSCIRevie wReport.pdf

Managing short-term costs

Developing this system will increase short run costs to the Department for Work and Pensions. In the longer-term the profile of costs associated with an employment claim will also change: a system of segmentation and personalised support will come with greater up-front costs. While we argue that these costs will be more than offset by reduced costs flowing from efficiency savings and reduced durations on benefit, we recognise that this approach might be viewed as risky. To counter this we believe that it would be prudent to divert people from the system in the first place. This could be done by **increasing work search requirements before benefits can be claimed.**

Unlike many systems, the UK tries to get claimants to look for work once they are on benefits rather than demanding job search up front as a condition of aid. The waiting period between the point that a person applies for benefits and the point at which they begin to accrue is just three days – against a typical length in the United States of a month. We therefore propose that: **Claimants should only be eligible for means–tested working benefits if they can demonstrate that they have looked for work themselves for two weeks.** Those in need can apply, as at present, for hardship payments or crisis loans. Such an approach would reduce the flow of claimants into JCP and reduce costs associated with new claims, meaning that more money could be moved into creating an effective segmentation tool. This is just one tool for leveraging savings out of the current system and improving the conditionality system. The segmentation tool we outline can also be used to target conditionality more effectively. A future report will consider this topic in more detail.

Jobcentre Plus reform

The system of segmentation and personalised support we have outlined would be a dramatic step away from the current approach. We believe that, in its current form, JCP is incapable of delivering this system effectively. While JCP is effective at processing large numbers of claimants quickly and cheaply, it is poor at identifying and targeting help at the most at risk and using staff productively. It has multiple problems which need to be addressed. This is most obviously demonstrated by the views of people that use JCP. Less than a third of employers use JCP and while small companies create around 80% of new jobs, only 20% of them use JCP to advertise. A similar story can be told of claimants, with **only 29% of claimants expressing satisfaction with the outcome of their experience at Jobcentre Plus, and only 33% for the overall experience.**[4] The following quotes from employers and claimants highlight that serious changes are needed.

> *'They send really inappropriate people. We told them the job spec, but they just send anyone who is out of work.'*
>
> *'On a few occasions I have had a very negative experience. You're put on hold for 15, 20 minutes and then cut off.'*
>
> Employer comments on Jobcentre Plus.[5]

> *'I've never found one job through the jobcentre... I've been sent on a lot of courses, but when you come in here, use the job points and make a phone call, nine out of 10 times they've all gone. You lose motivation to keep coming back.'*

'The main problem seems to be that the whole system is geared towards finding low/ unskilled work'.

Comments from Jobcentre Plus users.[6]

In the long-term: from Jobcentre Plus to CommunityLink

These failings of JCP underpin our belief that we need to be more ambitious and challenge the need for JCP as it is currently set up. We believe that a fundamental reform of the purpose, nature and ethos of JCP along with its relationship with private providers of employment support is needed. Only this will bring a welfare system that asks all it can of claimants while giving all it should to support them into work. As we have outlined, we need to be clear that as a major deliverer of services to millions of citizens, JCP has a vital part to play in the transformation of public services that Ministers envisage through the integration of frontline service delivery.

Government agencies have traditionally focused on delivering the services for which they are directly responsible with at most very limited consideration of, or support for, a person's broader needs. Our vision for the future is that a smaller JCP will act as a 'one-stop-shop', not just for benefit claimants, but for skills and careers advice, childcare and other core government services and support. This would extend the role of the Jobcentre far beyond just providing benefits and employment support. **It would require a new cross-department organisation to be established: CommunityLink.**

Of course, this would take JCP a long way away from its current role. As such, it would be unreasonable and unrealistic to expect JCP to take on these further tasks while still maintaining the role of a provider of employment support services. Therefore, to facilitate the creation of CommunityLink we propose that, **in the long-term, responsibility for employment support is transferred completely to the private and voluntary sector.**

When this new system is implemented, CommunityLink would use the segmentation tools we outlined above to make an initial assessment of the barriers to work that all benefit claimants face and estimate how long it is likely that each claimant would spend unemployed without intervention. It would then send all of those who require employment support to private and third sector contractors.

The use of this segmentation tool would allow us to explore alternative pricing models for future employment support provision. At the most basic level, this should extend the approach of the Work Programme, where a payment is given to providers to deal with the problems of each client and they are rewarded for finding the claimant a long-term sustainable job. Using the segmentation tool we outline above, this payment should be differentiated according to a prediction as to how long (from a non-interventionary base) that particular client would likely be on benefits.

This will be an ambitious reform to the welfare state and the interaction between the individual and the state more generally. It will take time to develop an effective segmentation tool, to pilot its operation and to revise it in light of the findings of its evaluation. There are also several reforms already taking place within JCP. For these reasons we recommend that the creation of CommunityLink is staged over a number of years, beginning with pilots. At the latest, the CommunityLink could be introduced when all claimants have been transitioned to Universal Credit,

in 2017/18. This would allow time for an effective segmentation tool to be developed and for the Work Programme to become fully functional.

There are, however, clear steps that need to be taken for this to happen effectively. For this reason we outline short-term reforms that will allow for a smooth transition to CommunityLink and the new system of employment support.

Short-term reforms: preparing for CommunityLink

As the first step towards this new system, the government must announce its intention to move the provision of employment services completely to the private and third sector. It is important to be clear of the intention so that enough certainty is created in order for providers to build up capacity. This will undoubtedly bring uncertainty in JCP, meaning that the government must also implement reforms now to prepare the ground for CommunityLink. We propose that, in order for a smooth transition to the CommunityLink, the functioning of JCP is split into two distinct roles now:

- *Segmentation/claim management:* One part of JCP will be responsible for new claims and segmentation as far as it already exists and for day to day management of the conditionality regime. With the reforms we outline below, this part of JCP will look and act like the CommunityLink to be introduced later.
- *Employment support:* The second part of JCP will be responsible for providing employment support for those people not yet eligible for the Work Programme as far as it already takes place in JCP. This part of JCP will be taking on the role that private and third sector providers will take on when the CommunityLink is created.

The importance of splitting JCP now is that each of these distinct segments will be able to build expertise and experience in delivering the services that they will when the CommunityLink is introduced. It will aslo allow the segmentation tool to be developed and tested. There are also potential advantages in terms of the retention of JCP experience of providing employment support and the transfer of this knowledge to third sector providers in the longer-term.

Another key advantage to having a defined part of JCP providing employment support is that new models of public service provision may be employed before the creation of CommunityLink. For instance, we have already seen social workers move out of local authority control and set up their own *Social Work Practices* to manage foster care provision for children. In the interim between now and CommunityLink being set up, a similar scheme could be introduced for JCP staff. When CommunityLink is set up and the employment services market opened up to the wider private and third sector, the mutuals and social enterprises should have built up the capability to both compete for prime contracts and to be subcontractors of the larger providers. This would both introduce competition into the market and also mean that the expertise currently present in JCP would be maintained and built upon in the new system. Provider capacity issues would also be effectively tackled as they would have a ready-built supply chain of expert advisers.

We believe that this approach would bring significant benefits in the short-term through better service provision. However, there are other reforms

that need to be implemented to allow this approach to work. Again these would bring JCP practices, in both segmentation and in employment support, closer to those that have been proven effective in both the private sector in the UK and in other countries. They would also prepare JCP for the move to the CommunityLink and build capacity and experience of personalisation and segmentation techniques. We outline these reforms below.

Short-term reforms: delivering a better service now

Improved IT in Jobcentre Plus – the jobs database: The current Jobcentre Plus jobs database is very poor. Claimants are frustrated and many unemployment advice organisations complain that the system is largely filled with 'spoof' vacancies and recommend avoiding it entirely.[7] Many employers (especially small ones) and jobseekers have given up on Jobcentre Plus, forcing them to rely on expensive advertising, recruitment agencies or word-of-mouth. Though small companies create around 80% of new jobs, only 20% of them use Jobcentre Plus to advertise.

Jobcentre Plus is looking to replace this system, including a better jobs search and CV building tools, but could do more. We believe that **all income–related, active job search claimants should be required to write a CV at the initial point of the application process and a national CV database should be created.** Individual accounts for each claimant could show how long each claimant has searched for jobs, how many they have applied for and, through semantic search and natural language processing IT, whether the jobs searched and applied for are appropriate. This should provide an easy verifiable form of job-search conditions; perhaps requiring claimants to look for work for a certain amount of time online, as well as apply to a number of CV-relevant jobs. This would allow those not complying with their Claimant Commitment (for example, by not spending enough time looking and applying for jobs) to be 'flagged' automatically, allowing more intensive help to be targeted at vulnerable groups as adviser time is freed up. It would also make the process more like a professional employment agency with semantic job match, applicant database and easy monitoring of jobs filled. Though this cannot replace the role of informal non-IT job search, these conditions could be stronger for the long-term unemployed.

> **The current Jobcentre Plus jobs database is very poor. Claimants are frustrated and many unemployment advice organisations complain that the system is largely filled with 'spoof' vacancies and recommend avoiding it entirely**

Improved IT in Jobcentre Plus – freeing up adviser time: For a large portion of claimants we suggest using electronic sign-ins at Jobcentres on a fortnightly basis (with code numbers through Jobpoint stations, for example), perhaps at changing times for claimants without childcare responsibilities, or group sign-ins doubling as job clubs (such as for claimants with low IT skills). With great pressure on advisers, it makes very little sense for JCP advisers to see all claimants (often for only a few minutes) regardless of need – a space of time too short to give meaningful help (help which the evidence suggests in most cases is not needed). These measures would free up personal advisers to concentrate on at-risk groups while preserving the conditionality of mandating attendance at JCP.

Improved IT in Jobcentre Plus – better data management: Data on claimants is currently badly managed within JCP. Advisers know very little about a claimant's history or circumstances. To start to move towards a system where segmentation is possible it is essential that a permanent record for all claimants is created. This would include a full claim history, periods of work, training and interventions. A significant advantage of our proposed model is that a (far more sophisticated) client profile is created, added to by private providers and remains with the client if they are returned to CommunityLink. Under the present system, claimants who return to the benefit agency usually start with an entirely 'clean slate', with only the basic administrative data available through the Labour Market System remaining. With fully integrated IT and a single 'one-stop-shop' approach, claimants would have a permanent record, helping providers and CommunityLink have a much better picture of the characteristics of 'cyclers' and the long-term unemployed than exists at present and allow records to be continuously updated.

Change the culture, behaviour and incentive structures of Jobcentre Plus advisers. Personal Advisers in JCP are paid on national salary scales and are evaluated by multiple, group-level 'soft' targets that bear little relation to sustainable job outcomes (though some of these were removed in April 2011) and do not adequately reward effort or performance. This pay scale has a very small band for progression (determined by length of tenure rather than performance). Instead, personal targets linked to job sustainability should be used as the key basis for performance reviews and remuneration – rather like recruitment agencies or Work Programme providers in the private sector. Advisers should also begin to see employers as their clients rather than the Department for Work and Pensions (DWP). An emphasis on finding the right people to match to available jobs would produce better outcomes for claimants and employers.

A vision for the future

This report will outline that our current system of employment support is both unfair and ineffective. It does not provide a personalised service. This means that some claimants with significant barriers to work are left without support and with a strict conditionality regime for up to 12 months before being able to access effective employment support. This is costly to both the state and to the individuals involved. With more effective and better-targeted support, we can realistically expect average times on benefit to reduce and job matches to result in more sustained employment. This will save the exchequer money and reduce unemployment, poverty and social exclusion.

To reach this point, significant reforms to how we provide employment support are needed. We have outlined that an effective segmentation tool needs to be introduced. This would use both information from DWP and other government departments along with data from the private sector in order to estimate the length of time claimants would be likely to spend on benefit in the absence of employment support. This information should then be used to target employment support effectively from day one of a benefit claim.

We have argued JCP is unlikely to be able to deliver this new system and that in the longer-term a new organisation, CommunityLink, should be created to

provide a one-stop-shop service for access to a range of government services and support, from access to employment support to benefit delivery, childcare and careers advice. This would leave the private and third sectors to provide personalised employment support for those who need it, with payments to these organisation based on a measure of the barriers to work that claimants face and facilitated by our suggested segmentation tool. We have outlined a transition strategy to ensure both that unemployment support is improved now and that a thriving market is promoted when the private and third sectors take on responsibility for all employment support.

These reforms will finally provide personalised and targeted employment support for the UK. They will draw on best practice from around the world, and from the experience of the UK. On their own they will improve outcomes for the unemployed and reduce state expenditure. In combination with the reforms we set out in other parts of this series of reports they will fundamentally change the nature of the welfare state in the UK. Our reforms will re-balance the welfare state to ensure that the mutual obligations of the state and the claimant are re-built at the heart of the system. They will put work first and provide individuals and families with the support they need to get into sustainable jobs. They will reduce expenditure while improving outcomes. In short, they provide the framework for a modern and effective welfare state.

Introduction

The end game for financial incentives reform

Reform of the British welfare system is an ongoing process that has received widespread support from all parts of the political spectrum for many years. Reforms have largely focused around improving financial incentives for people to enter employment: 'if only we could make it worth people's while to work, they would'. This idea underpinned the Conservative Party's Family Credit in 1986 and the Labour Party's introduction of the Working Families Tax Credit in 1999. The announcement that the Universal Credit will be introduced by the Coalition in 2013 is the logical apogee of this policy direction. It should finally eliminate the financial incentive for a small group of households and individuals not to work – in particular, and in contrast to the tax credits system that it subsumes, it will provide incentives to work in mini-jobs of less than 16 hours a week.[8,9]

As with all major reforms, there are many issues still to be ironed out – particularly the difficulty of including the administration of Council Tax Benefit, the inclusion of childcare costs and how to operate passported benefits. Along with these policy issues, as with all major government IT projects, there are also real delivery issues with joining up systems between HMRC and DWP and making real time adjustments to benefits as household earnings change. There also remain issues around making work pay for second earners and for those with high childcare or transport costs. These issues are the subject of much debate,[10] but it seems likely that, compared to the current system, the Universal Credit will provide a more streamlined, straightforward welfare system with better returns to work. However, there are limits to this approach to welfare reform.

The problem

The problem, as we explored in our previous report *No Rights Without Responsibility: Rebalancing the Welfare State*,[11] is that reforming financial incentives alone is unlikely to lead to a significant reduction in worklessness in Britain. The principal reason is that a large body of evidence suggests that responses to financial incentives among workless households tend to be relatively small and that people are not *homo economicus*. In other words, we do not always make decisions based purely on price based incentives. This means that although better off in work calculations have formed a key (if complicated) part of personal advisers' roles in Jobcentre Plus for years – and for the vast majority of claimants it has always 'paid to work' – many people will not be moved into work just by improving financial incentives.

A key explanation for this is that work is not an entirely (or even mostly) economic act. People respond to cultural expectations and social networks. They

8 'Escaping the Poverty Trap', Policy Exchange 2010, http://www.policyexchange.org.uk/images/publications/pdfs/Poverty_Trap_-_Mar_10_WEB.pdf

9 Although note that even now, there are doubts to the extent to which Universal Credit can make work pay for everyone – no matter what their circumstances. See http://www.resolutionfoundation.org/media/media/downloads/Childcare_support__the_hours_trap.pdf

10 For example, see http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/743/743.pdf

11 Oakley M, Saunders P, 'No Rights Without Responsibility: Rebalancing the Welfare State', Policy Exchange 2011, http://www.policyexchange.org.uk/assets/No_rights_w-o_responsibility.pdf
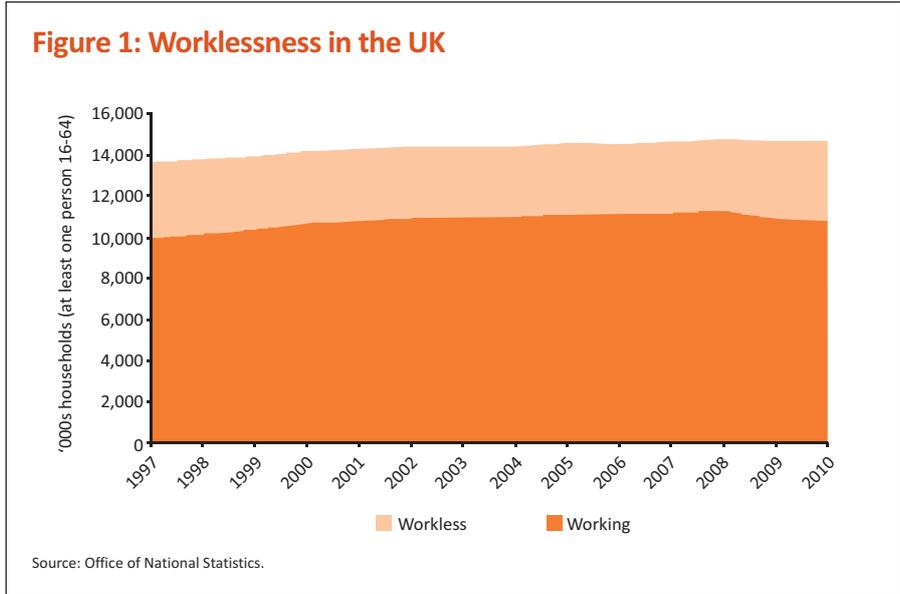
respond to what other people in their community do, to what their friends say and do and to the norms acquired from close family members. Importantly, this means that the perception (or otherwise) that working is the right thing to do is key to making a choice between working and living a life dependent on benefits. The problem is that there is a huge pool of individuals with little cultural expectation or experience of work and in whose social networks employment is not the norm. Around 5 million people are receiving out-of-work benefits of one sort or another. Two million of these have never worked at all; 1.4 million have been on benefits for nine of the past ten years. Almost one-fifth of households have no one in work – having serious consequences for the life chances of 1.9 million children – because these negative attitudes are mutually reinforcing.[12]

This is clearly underlined by recent evidence from the Department for Work and Pensions (DWP) which found that 11% of benefit claimants 'feel fully justified being on benefits and believe they have discovered that life without the added complication of work has much to recommend it'. Another 9% felt that 'to work or claim benefits is simply a choice individuals should be free to make – there is no right or wrong about it'. A further 11% felt that 'job search is less urgent as they make the most of the benefits of not working'. Nearly a third of benefit claimants are not doing all they can to get back to work. This is neither fair to those in low paid work, struggling to earn enough to make a living for their family, nor fair for those who are on benefits but doing all they can to get back into work.

For the welfare state to function effectively, it is essential that it has support from the public and that it is based on an understanding of a mutual obligation between the state and the individual. We highlighted in our previous report that the erosion of the contributory principle has been a key reason for this understanding of mutual obligation being undermined. By removing the links between contribution and entitlement, the erosion of the contributory principle has fuelled the belief that receipt of benefit and wider state support is a right. Tackling this minority belief in the right to welfare has to be the priority in welfare reform.

Our previous report highlighted that more reform, focused on the responsibilities of both individuals and of the state, was needed. Some have criticised the idea of welfare reforms in the near future as badly timed. They have argued that the state cannot do more than it is currently doing to help the unemployed to get back to work and that the contributory principle is one we cannot afford. But these arguments fail to appreciate the true extent of the costs of benefit dependency and that we can do better to target support on those most in need. Many have also argued that high unemployment arising from the recession makes requiring more of benefit recipients unfair on those who have lost their jobs during the period and been unable to find new ones. However, we would contest that the group we wish to help has been largely unaffected by the recession – just as it was largely unaffected by the preceding period of economic growth. Perhaps surprisingly, the 'long boom' and subsequent recession have had almost no effect on this very large 'core' of long-term workless households and individuals:

12 Bradley B et al., 'The Dynamics of Child Poverty in Industrialised Countries', CUP 2001; Vlemickx K, Smeeding M, 'Child Well-Being, Child Poverty and Child Policy in Modern Nations: What do we know?', Policy Press 2001.

Figure 1: Worklessness in the UK

Source: Office of National Statistics.

The chart above demonstrates that even at the height of the economic cycle up to 2008, nearly 3.5 million working age households had no-one in work and this expanded by only 471,000 during the recession.[13] In other words, the number of workless households was 88% of its post-recession total even at the height of the employment boom. It is thus clear this 'hard core' of unemployed was not created by the recession – nor is it likely to go away during the economic recovery.

Figure 2: Workless household rate, 1975-2010

Source: Centre for Economic Performance (Jonathan Wadsworth), Office for National Statistics.

Looking back further, the chart above shows that this problem is more related to structural problems which are post-recession rather than the economic cycle per se. Worklessness on this scale is a relatively new phenomenon, spiking upwards during the recessions of the early 1980s and 1990s, but not falling back significantly during subsequent growth: perhaps due to lack of reskilling after the

13 2006-2010. Labour Force Survey, Office for National Statistics.

creative destruction of traditional economic bases and increased off-flows onto Incapacity Benefit. The consequence is that a 6.5% workless household total in 1975 almost tripled to 17.9% by 2010. The percentage of workless households as a proportion of the total was approaching 20% in both 1996 and 2010, never having dipped below 15% throughout the 'long boom'.

But might all this be due to lack of financial incentives? That does not appear to be the case. In the Impact Assessment published alongside the Welfare Reform Bill, the DWP claims that it expects a 'reduction in the number of workless households of around 300,000...within two to three years of implementation'. If achieved, this will only make a small inroad into the total workless household stock of 3.9 million – less than 8%. Even then, most of these households will not actually leave welfare but will continue to claim some welfare payment, along with some part-time earnings.

The facts suggest that purely financial incentives alone will not reach the people we need to reach. This leads us to conclude that welfare reform based solely on improving financial incentives will not be effective in tackling the very real problems of worklessness and welfare dependency that the country is facing. And in fact, an approach based only on financial incentives has driven some of the growth in the belief in a right to welfare that we now see. The emphasis placed on 'making work pay' over the last 15 years of welfare reform has put responsibility on the state to provide incentives to work rather than making it the responsibility of the individual to move off benefits and take work where it is available.

What can be done to change these attitudes and improve the chances of benefit claimants finding work? Our previous report argued that the answer is a new approach to welfare reform that has four key elements:

- *Improving the weak and poorly applied conditions for claiming benefits.* Conditionality for most unemployed people is extremely weak (reading the paper or surfing the internet count as 'looking for work' – and is almost never checked). The only requirement of a claimant is that they should take more than 'one step on one occasion in any week'[14] – including steps which are not likely to lead to employment. The ambition should be that job search becomes more like the typical 35 hour week of those in employment.
- *Reforming the sanctioning mechanisms which are imposed if these conditions are not met.* Even if sanctions are applied for non-compliance with these small requirements, they normally take weeks to process and are often rejected on the flimsiest of pretexts. Even where they are applied, emergency loans and social funding usually step in to render them irrelevant (sometimes meaning that the claimant is not even aware they have been sanctioned). To tackle this, instead of impacting on only one part of one benefit, as is currently the case, sanctions should be more closely related to total benefit eligibility. To ensure that dependents do not suffer, the use of benefit cards that limit the types of good purchased should be considered.
- *Reinstating a link between contributions and benefit receipt.* In order to re-establish a 'something for something' approach, a stronger link needs to be created between the National Insurance Contributions (NICs) individuals make and the benefits they can receive if they fall on hard times. This could include stronger conditionality for those without a contribution record and higher benefit levels for those who have contributed.

● *Targeting help more quickly and effectively at those furthest from the labour market.* This would involve developing mechanisms to identify those most likely to be long-term unemployed and give them appropriate help as early in their claim as possible.

These reforms would make the system fairer and re-instate self-reliance and personal responsibility at the heart of the welfare system. The reforms also recognise that the government has a responsibility to give more help to those furthest from the labour market so they can make the most of their potential. At the moment, this support is inadequate and too generally targeted. We believe these reforms would also be popular – Policy Exchange polling evidence suggests that the public are strongly in favour of stronger conditionality and work requirements.[15] This may sound tough – but we do not believe that leaving people who can work on benefits without giving them the right assistance to return to employment is a 'nice' thing to do. Getting people back into work not only benefits the working population by reducing welfare spending and sharing the burden of public expenditure more widely, it brings economic, social and psychological benefits to those people, their families and their communities.

This is the second report of our Reducing Welfare Dependency Series. We have argued that the role of personal responsibility and self-reliance has been diminished in the British welfare state. In its place welfare dependency and the concept of a right to welfare have grown. We have outlined the case that people should do more for their benefits and should have less time to search only for 'preferred work'; that more effective sanctions should be applied; that there should be a link between contribution history and benefit receipt; and that better segmentation and earlier referral needs to be achieved in order to protect and provide support to the most vulnerable.[16] Future reports will focus on the first three of these objectives. This report will focus on the last of these objectives and in particular, the necessity of having a professional and efficient benefits and employment agency to achieve this.

15 O'Brien N, 'Just Deserts? Attitudes to Fairness, Poverty and Welfare Reform', Policy Exchange 2011, http://www.policy exchange.org.uk/publications/pu blication.cgi?id=237

16 Oakley M, Saunders P, 'No Rights Without Responsibility: Rebalancing the Welfare State', Policy Exhchange 2011, http://www.policyexchange.org.u k/assets/No_rights_w-o_responsibility.pdf

1
Delivering Better Segmentation

'Claimants should have the choice over how to get back to work, not whether they should go back to work. We want a work culture, not a welfare culture and we can only achieve this by reforming the system so that it demands personal responsibility.'[17]

James Purnell, 2008

Many of the reforms we have suggested focus on the role of the individual. They promote personal responsibility and link the benefits people can receive to the contributions they have made. However, this is not a one sided relationship. If we are to expect more from individuals, we also need to recognise what the state needs to provide to help people back to work.

Some individuals claiming unemployment benefit have significant barriers to work that mean that, regardless of the strength of conditionality and sanctions, they are unlikely to find work without significant support from the state. However, the majority of claimants have no, or relatively small, barriers to work. The key problem is that how people claiming Jobseekers Allowance (JSA) are treated and the employment support and advice they receive from the state is principally determined by how long they have been claiming, what benefit they are claiming and how old they are, not by the types of barriers they face. This means those who are furthest from the labour market have to wait up to a year to get the help they need. By this time disadvantages have deepened, motivation has been sapped and significant new barriers to work are likely to have arisen. In short, they need extra support, targeted at the barriers that they face, much more quickly. But we cannot simply provide personalised support to everyone from day one of their claim. This would cost too much and create too much deadweight cost, as we would be providing targeted support for those who would find work quickly without support.

This is a long-standing problem with the welfare state. In his 2008 report to the government, Paul Gregg argued in favour of a personalised approach to conditionality and support. This would allow extra help to be targeted at just those who needed it.[18] Despite rhetoric pointing in this direction this approach has never been adopted.

This report will take this principle forward and show how it can deliver a reduction in worklessness and be cost effective. Ensuring that those with the greatest needs get the help they require more quickly and cost effectively necessitates a strategy to identify these groups earlier so they can receive the

17 Quoted in the *Northern Echo,* 25th June 2008, http://www.thenorthernecho.co. uk/news/2364292.private_firms_ to_run_job_centres_in_bid_to_e nd_regions_welfare_culture/

18 Gregg P, 'Realising Potential: A Vision for Personalised Conditionality and Support', DWP 2008, http://www.dwp.gov.uk/ docs/realisingpotential.pdf

specialist support they need. This 'segmentation' is possible and will save money, but it requires significant reform to how Jobcentre Plus (JCP) delivers its services. Not least, it will require the gathering of extensive information on the characteristics of individuals and their likelihood of returning to work, as well as data sharing between different government agencies.

It is also essential that this data is used correctly. This means that the DWP and JCP need to operate in a new way. It is only natural that to achieve more effective segmentation and to apply conditionality in a personalised way, we focus on the first port of call for benefit claimants: Jobcentre Plus. Without an effective organisation at the outset to segment claimants efficiently, apply appropriate conditions clearly and consistently and direct the most vulnerable to the help they need, it is unrealistic to believe that subsequent interventions will be successful. Unless major reforms are implemented in JCP, we are sceptical that the government will be able to achieve its goal of reducing long-term welfare dependency.

> " Unless major reforms are implemented in JCP, we are sceptical that the government will be able to achieve its goal of reducing long-term welfare dependency "

These reforms to what we know about claimants, how we segment them and how JCP is run may be difficult, both politically and logistically. But we believe that this approach is vital *to ensuring that the most vulnerable receive the most help*, and recognises that it would be unfair to apply additional conditions to claimants without giving them the necessary help to return to employment.

Segmentation
What segmentation will look like following the Welfare Reform Bill

In the current system, segmentation is predominantly about determining the level of conditionality it is appropriate to place on each benefit claimant. In the first instance, the benefit system attaches different participation conditions to different groups, largely dependent on the type of benefit they receive and, to a limited extent, their circumstances. There are essentially three categories of these conditions:

- 'Active job search', where claimants have to demonstrate that they are looking for work (e.g. jobseekers, lone parents, couples with older children);
- 'Keeping in touch', where conditions are focused on advisers providing information, mainly around preparations for returning to the labour market in the future (e.g. lone parents or carer with a child between the ages of one and five), with no requirement to seek work; and
- 'No conditionality', where the state provides an unconditional right to welfare assistance (e.g. the disabled, those with a long-term health condition or the parent of a child less than twelve months old).

The new welfare system being introduced by Universal Credit will add a fourth category: 'Work preparation', a category below 'active job search'. It is not clear

as yet how this will differ from 'keeping in touch' but is likely to involve more specific objectives on steps taken in preparation to re-enter the labour market.

These groups are demonstrated in the diagram below.

Figure 3: Conditionality and benefit types in the Universal Credit system

Benefit claimed	Conditionality
• Jobseeker's Allowance (including joint claims where the youngest child is five years old or over).	**Active job search** Requirement to actively seek and be available for work
• Work Related Activity Employment and Support Allowance claimants (excluding lone parents with a child younger than five years old).	**Work preparation** Requirement to take steps to prepare for work
• Lone parents with a child over one but under five years old claiming Income Support or Employment and Support Allowance. • Partners of benefit recipients.	**Keeping in touch** Requirement to attend Work Focused Interviews
• Support Group Employment and Support Allowance Claimants. • Carers. • Lone parents with a child under twelve months old claiming Income Support or Employment and Support Allowance.	**No conditionality** Assistance provided unconditionally

Source: 'Universal Credit: welfare that works', Department for Work and Pensions.

This highlights that the purpose of this basic segmentation is to identify those groups at which conditionality at varying levels should be applied. It is not about identifying barriers to work and adjusting requirements and support at a personalised level. This means once a claimant is placed in one of the four categories, their level of support and conditionality are largely pre-determined, without regard to their personal needs.

This series of reports is focused on those who are deemed to be able to and capable of work, meaning that the remainder of this report will focus on the group identified as the 'active job search' group. We will see that, while this is an extremely diverse group in terms of the barriers to work faced, little or no attempt is made at segmenting the group and identifying those that may need extra support.

The lack of segmentation for the active job search group is effectively highlighted by the diagram below that demonstrates the typical customer journey for those claiming JSA.

Figure 4: Segmentation in the JSA claim process: a standard customer journey

An unemployed person applies to a JobCentre Plus Contact Centre (usually over the phone).
The contact centre takes information to identify the claimant and new information about circumstances.

Information provided by the claimant is verified in an initial meeting with an Assessor. This also includes a check as to whether the claim is considered a continuation of a previous one (i.e. if another claim has been made in the previous six months as per the 'linking' rule).

The Contact Centre passes information onto the Benefits Delivery Office (BDO), which is where segmentation, insofar as it happens in the current system, takes place. The BDO assesses a claimant's eligibility for a JSA claim, primarily on the basis of contribution history, savings and working couple status.

The claimant has a New Jobseeker interview with a JCP Adviser, during which the obligations of the claimant to seek work are discussed and established in a Job Seeker's Agreement (or following the Welfare Reform Bill, the Claimant Commitment). JCP take an average of ten days from first contact to the time a final decision is made.

The claimant attends compulsory fortnightly interviews with an assistant adviser with a job search 'diary' specifying what job search related activities they have done (legally, this must be more than one a week)

Source: Department for Work and Pensions.

At no point are barriers to work considered and no segmentation is undertaken to identify personalised support needs or conditionality. The impact of this lack of effective segmentation is highlighted by the observation that the 'active job search' group will contain:

- People who have a strong work history (i.e. those who may well be claiming Contribution-based JSA);
- People with difficult underlying barriers to work, such as drug or mental health problems;
- Young people new into the job-market;
- Returnees to the job-market (such as former Incapacity Benefit claimants and those with caring responsibilities, some of whom may have been claiming other benefits for a long time);
- Those who have 'cycled' in and out of work repeatedly; and
- Those who have been unemployed for a long time.

This is a very diverse group of claimants and as such it does not seem useful for the expectations and treatments of this diverse group to be broadly similar. While the reforms passing through Parliament include mention of 'Personalised Conditionality', there is little detail on what this might mean and in practice a large group of claimants will be treated the same with no recognition of the barriers they might face and the costs to society and the individual coming from the long-term unemployment that this leads to.

It is only after six months of claiming benefit that another, longer, interview is undertaken with an adviser and more intensive help and training may be given. However, again, this is neither personalised nor undertaken as part of a systematic process of segmentation. Generally, only after twelve months of continuous unemployment will claimants be sent to receive more personalised and intensive employment support through the Work Programme.

Segmentation in the JSA claim process: the Work Programme

Of course, some groups of claimants are fast-tracked to the Work Programme where more intensive employment support is given by private sector providers, on the basis of payment by results. Again however, the eligible groups are largely identified by basic characteristics like age rather than by reference to the barriers that they face. Indeed, the payment structure for providers is limited to just eight broad categories of people with little or no flexibility for advisers in Jobcentres. The rationale, based on previous New Deal evidence, is to minimise the 'deadweight' cost of excessive provision to those who do not require it because they will get back into work quickly without any help. It was originally mooted that the Work Programme would involve referrals to back-to-work providers from the first day of the claim, ranging up to six months for claimants more likely to return to work unaided. Instead, due to cost concerns, mandatory referrals will only begin at three, nine and 12 months (depending on the customer group).

All in all, this means that most JSA claimants will only be transferred to extra support under the Work Programme after a year of unemployment, continuing the problems discussed earlier.

This lack of effective segmentation is unsurprising when we consider the fact that Jobcentres have very little information about either a claimant's work history (except that volunteered by the client) or their personal characteristics when they have contact with them. In fact, the administrative system available to JCP advisers only provides details on:

- *Personal characteristics:*
  Gender, age, whether a lone parent, Government Office Region, existence of a bank account (via "Method of Payment").
- *Claim history:*
  For Income Support, Jobseeker's Allowance, Employment and Support Allowance or Incapacity Benefit: number of days spent claiming in the last two years; number of individual claims in the last two years and the pattern of claims ('string').
- *Income information:*
  Amount of each benefit being paid, excluding Housing Benefit and Council Tax Benefit; total capital and other income.

It is apparent that this information is available in order to assess eligibility and how a claimant should be paid, rather than to assess a claimants needs. Throughout this process very little information is gathered on the characteristics of the claimant nor what needs they have (except, in a perfunctory sense, during the specification of the Claimant Commitment). Without this we cannot ever expect effective segmentation to take place. Amongst other things, it is not possible to determine:

- Whether a person has been claiming for more than two years.
- Anything about claim history prior to two years, for instance whether they have previously claimed Incapacity Benefit or Income Support.
- How long the person has claimed in total (i.e. whether they have been 'cycling' in and out of the system).
- Anything about the person's employment history (via a CV for example).
- Any information about extraneous barriers to work (anti-social behaviour or a history of addictions treatment, for example).
- Indirect barriers to work (such as obesity or difficult home life).
- A person's criminal history.
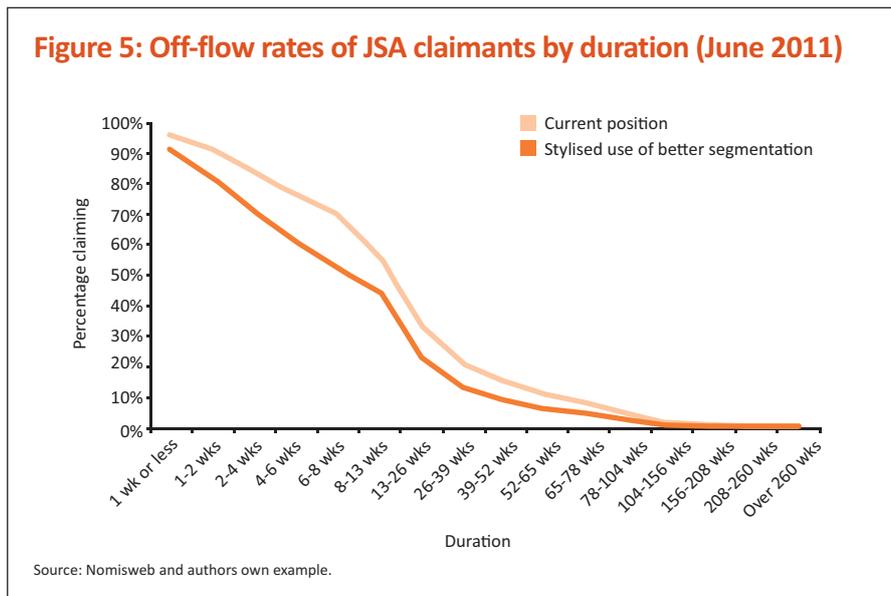
Problems with current segmentation

Without access to this sort of information, the DWP has to base identification of claimants who require additional support primarily on the time the jobseeker has been claiming – the greater the length, the greater the support. The main argument in defence of this approach is that it will give ample time for the claimant to find a job without the cost of private providers. On the face of it, this is a strong argument given that, even during the recession, more than 50% of JSA claimants left benefit within three months – and 75% within six months – only slightly down from the 80% of pre-recession levels.[19] The minor diversionary affect created by the condition of the Fortnightly Jobsearch Reviews ('signing-on') are also low-cost and sufficient assistance for a large portion of claimants.[20] Limiting support to later stages of a claim is also, in a sense, equitable – claimants generally get the same treatment until the six month stage. Most claimants will not need help at all, while others may have a good chance of getting back into work with only limited support.

But this is no reason for not being ambitious and trying to improve on this situation. First, these figures are distorted by the fact that claimants often fail to attend Jobcentres on the right day, meaning that they are 'signed off' only to sign back on shortly afterwards. This leads to an over-estimation of the extent of off-flows, with many of these claimants returning to benefits within six months. Second, any reduction in the length of time spent on JSA can lead to substantial savings in both JSA expenditure and wider benefit costs. In essence this means shifting the 'off-flow' curve of those on benefits to the left in Figure 5.

The purpose of better segmentation would be to determine from the outset, to a reasonable degree of accuracy, how long a claimant would be out of work in the absence of intervention, and then target cost effective help earlier in the claim.

19 DWP, 'Ready for work: full employment in our generation', Cm 7290, December 2007, p. 52.

20 "Jobseekers Allowance Intervention Pilots Quantitative Evaluation", Middlesmas, J. http://campaigns.dwp.gov.uk/asd/asd5/rports2005-2006/rrep382.pdf

Figure 5: Off-flow rates of JSA claimants by duration (June 2011)

Source: Nomisweb and authors own example.

For example, if on the first day of a claim we estimated that a jobseeker was likely to spend at least a year on benefits before finding a job, this person could be immediately fast-tracked to the extra support that the Work Programme provides, rather than having to wait for a whole year before this happened. Conversely, for some individuals within groups who are currently fast-tracked, we might find that we expect them to move back into work quite quickly even without support. This would suggest that we delay their move onto the Work Programme.

To illustrate this, imagine two people who are newly unemployed. The first is a mid-level career professional who has worked since graduation from university. The second is a serial offender just released from jail after ten years for a serious violence offence. On paper, the priorities look obvious: the mid-career professional requires little help to find a job, the former prisoner will need a lot. This is precisely how the current system would treat them: the former prisoner will be fast tracked to the Work Programme, the career professional will receive little assistance for at least the first six months. Yet now imagine that the former criminal has developed skills and qualifications in prison. He has grown out of his violent tendencies and has worked in a prison workshop for a decade. He fully intends to continue using his skills and finds a job very easily without any assistance from the Work Programme provider. On the other hand, the career professional has major problems: she has alcohol and debt problems, refuses to change industries and becomes severely depressed. Knowing this, we can see that the priorities should be switched – the ex-con should receive little help, the career professional a lot. Of course: not all ex-convicts are brilliantly capable of finding work and all mid-career professionals entirely incapable. But by ignoring this grain detail, serious inefficiencies (by paying Work Programme providers too much for people who need little help and not enough for people who need a lot) are likely to result.

We accept that a personalised approach such as this might lead to larger costs on day one of the claim (in terms of more in-depth assessment and earlier interventions for some groups). However, by more effectively targeting support it could lead to significant savings overall by ensuring the claimant returns to work sooner.[21]

21 Bimrose, Barnes et al., 'Skills Diagnostics and Screening Tools: A Literature Review', http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep459.pdf

But this is not just an issue of money. There are some claimants who do not have a good chance of getting back into work without extensive help – or, who without extra help may 'cycle' in and out of work without the ability to sustain employment in the long-term. For some claimants, even a short spell of unemployment can result in many problems which exacerbate the difficulties of returning to the labour market such as loss of self-esteem, purpose and the habits of a working routine. And there is a large group of claimants who have been exposed to these problems for a lot longer than a short-term stint: 1.4 million have been on JSA for nine of the past ten years. The impact on adult and child poverty are obvious to see, as are the wider social impacts of the formation of a group of society detached from work life and responsibility. The impacts are also personal: the long-term unemployed are more susceptible to depression and even suicide.[22] They are also around twice as susceptive to psychological disorders than those in employment.[23]

In essence, it is simply unfair to continue to treat all claimants in largely the same way rather than targeting our resources at those who need help the most. The taxpayer costs of these problems are also clear to see through the costs of trying to alleviate child poverty through cash hand-outs and the costs of the benefit system. But we can also see that the financial costs are wider through the costs of treating these symptoms through the NHS and through our social work and justice systems. Not applying a personalised system of support is unfair to individuals and it is costly to the state. Allowing this lack of effective segmentation to continue is not an option we can afford.

The problem is that no effective tool has been developed in the UK that will distinguish between those claimants with few needs and those with many. For this reason, we believe that a more sophisticated method is needed to determine which claimants may need more intensive help at an earlier stage – both to allow different treatment of claimants connected to JCP in terms of assistance and conditionality and to allow smarter fast-tracking of claimants to the back-to-work providers for those furthest from the labour market.

Determining who these groups are and segmenting them accordingly forms a crucial element of welfare reform and will need further consideration if the government is to meet both its economic and social goals. **We believe the key issue is one of fairness.** It is unfair to place greater conditions on the unemployed without giving them appropriate help and it is wasteful to allow them to 'linger' on unemployment benefit without that help. Conversely, those who need little or no help should not be given costly and unproductive interventions, nor should providers be rewarded for getting them back into work which they would have found independently. Getting it right depends on the effectiveness of mechanisms to identify those at risk of long-term unemployment and the efficacy of that intervention. The evidence suggests that early intervention can be very effective (as in the Employment Zones, for example); the more difficult problem is identification.
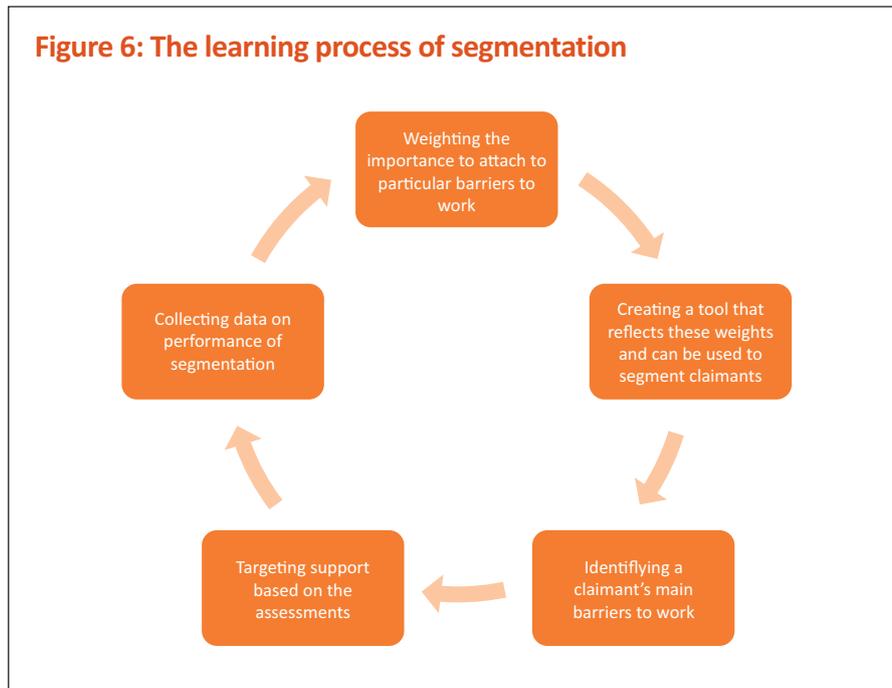
How can better segmentation be achieved?

Resistance to more sophisticated segmentation has been based on the fact that it is difficult to do and hard to prevent deadweight costs. However, the seriousness of the difficulties outlined above and the unfairness caused by not addressing them necessitates an attempt to design a workable segmentation system. We contest that

22 Claussen B 'Suicidal ideation among the long-term unemployed: a 5-year follow-up', University of Oslo, http://onlinelibrary.wiley.com/doi/10.1111/j.1600-0447.1998.tb10123.x/abstract;jsessionid=743BD8B999B03F57D385DB89050D4B0B.d02t04

23 *Northern Health and Social Wellbeing Survey 2001, "Equality and Inequalities in Health and Social Care in Northern Ireland: A Statistical Overview,* DHSSPS, 2004, p. 68.

the process of getting to efficient segmentation is a 'learning curve' (as was the case in Australia, for example) and thus to prove that the approach can be effective we propose that the reforms we outline here should be implemented on a pilot basis in the short-term. This would show what elements of the approach were cost effective and which elements needed changing. The diagram below shows how the approach might be adapted over time as we learn more about what makes an effective tool.

Figure 6: The learning process of segmentation

The key problem with this approach in the short-term is that there is a significant lack of data that JCP have to identify barriers to work and the potential impact they have on the chance of a claimant finding work. We propose filling this 'data gap' and performing segmentation by:

● *Collecting more data on claimants:* JCP should be able to have access to more information about the claimant that is held by government (particularly on evidence of 'cycling' and the frequency of claims going back more than two years). This should be supplemented with both more extensive data being collected from the claimant at the start of a claim and by data held by private sector companies;

● *Using this data to employ client profiling techniques used in other countries and in the private sector.* Obvious examples are the use of claimant classifications tools (as in Australia) and making use of techniques used in credit ratings agencies; and

● *Allowing greater personal adviser responsibility in Jobcentre Plus* (as per the Accelerated Flexibilities Pilot currently taking place, allowing advisers more scope to personalise the type of support and interventions they provide) and more direct incentive structures. This would give advisers a say if they think that the classification tool has not been effective for a particular claimant.

These areas are covered in more detail below.

Adviser Flexibility

How can segmentation and early identification occur? An effective solution frequently used in the private sector is to trust the judgement of existing personal advisers (PAs). Studies suggest that advisers become more capable of assessing jobseekers later in the claim as they get to know them better.[24] The effectiveness of targeting support in this manner is being tested through Adviser Flexibilities in JCP. Discretion by JCP staff to schedule follow-up appointments or reassess referrals to the Work Programme should be allowed if existing data is not consistent with their own observations and the claimant discloses more information about their circumstances.[25] This is consistent with recommendations following the Australian experience.[26] Private employment organisations often emphasise that allowing their advisers considerable discretion in how to help clients is key to their efficiency.[27]

In general, we believe this is a good direction. JCP staff should be able to adapt for the needs of particular individuals and local labour markets. They should be given more discretion on what conditions and particular help a claimant is given through effective diagnosis and assessment of people's needs. This could include identification of an at risk individual and compulsory referral to the Work Programme at an earlier or later stage than would occur otherwise. A key element to this is measuring an adviser's value-added to returning the claimant to sustainable employment and making this the key factor in their personal performance. Stronger performance targets could be linked to higher rates of pay and job security. Advisers who consistently underperform should be let go, as in the private sector. These elements of JCP management and policy are discussed later in more depth.

However, adviser discretion is not everything. Building a relationship with a client is a long-term process and advisers may not be able to determine the appropriate course of action quickly enough to perform effective segmentation early in the claim and thus prevent the deleterious effects of long-term unemployment. Advisers may not have the skills, training, nor time in the present system to make such a determination of every claimant and, as we argue below, they are not given appropriate incentives to motivate this outcome. For these reasons, we believe that adviser flexibility provides only a partial – though significant – part of the solution. We also need more automatic, predictive tools to determine what degree of help is required. This makes it essential for us to make better use of data already available to Jobcentre Plus, to start collecting more data on claimants and employ statistical profiling techniques to help advisers do their job more effectively.

Statistical Profiling

We have highlighted that Jobcentre Plus knows relatively little about the claimants that it is trying to help back to work and have suggested that it needs to start collecting more data. However, we realise that, on its own, more information is not going to be effective at tackling unemployment. We also realise the premium placed on making government processes efficient and collecting and storing data can be costly and time consuming.

However, international experience has shown us that better use of data can lead to significant savings whilst also having a positive impact on unemployment levels, customer satisfaction and speed to placement. Key examples from Europe are detailed in the box below.

24 Jobcentre Plus: Delivering effective services through Personal Advisers', National Audit Office, 2006.

25 'Delegated Flexibility Pilots', Department for Work and Pensions, http://www.dwp.gov.uk/docs/delegated-flexibility-pilots.pdf

26 See http://www.deewr.gov.au/Employment/JSCI/Documents/JobsAustralia.pdf, p. 6.

27 'Jobcentre Plus: Delivering effective services through Personal Advisers', National Audit Office, p. 16. http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/312/312.pdf

The German Federal Labour Agency

The German Federal Labour Agency undertook a large-scale analysis of historical data on customers, including the interventions taken and how long different groups of claimants took to find work.[28] Its purpose was to determine more appropriate methods of intervention for different groups. It analysed outcome data for its placement programs, eliminating or improving those which were not performing. It is now able to better identify and evaluate claimants with particular needs, allowing better targeted interventions. It resulted in a reduction in spending on active labour market policies from €13.5 billion to €4.3 billion between 2003 and 2010: a fall of 68%. The system has also delivered more for less in that it has contributed to a 27% fall in unemployment over the same period. At the same time, the time taken for claimants to find work was reduced, user satisfaction increased and the number of erroneously paid benefits fell by a fifth. Its IT – a virtual labour market system – uses automated algorithms to sort through large quantities of data, doing a significant amount of claim processing and job matching automatically and freeing staff to concentrate on how to help claimants find work. It analyses job data, including records of vacancies, hiring rates by region, and the skills of the unemployed and provides strategy mapping of the labour market, identifying skills gaps or overcapacity and responds accordingly (such as filling specific skills shortages with training programmes, or facilitating labour mobility so claimants can be matched to places where there is a demand for their skills).

ROME III

Rome III is a competency based matching platform used in Europe to optimise the job match between an individual's competencies and labour market needs. Identification of affinities allows training to be targeted at the jobs current available and develop new or existing competencies. Where skills gaps are identified it joins up employment with available training and educational provision. It:

- Identifies activities and skills required for each job;
- Identifies similar jobs or occupations which are close in content and may be rapidly accessible;
- Identifies jobs or occupations which may be accessible with some development, after a period of adaptation or after some skills development.

By focussing on competencies and their transferability across occupations and relevance in the current labour market, the platform is able to address issues around bottleneck vacancies and skills matching through a cost-effective 'work first plus' approach thereby enlarging the scope and prospect of individual career progression.

Rome III also provides a common basis for exchanges between the various stakeholders in the labour market such as employers, jobseekers, co-contractors, partners, service providers and institutions so jobseekers can connect virtually with potential employers and service providers. This is facilitated by the user friendly interface which makes data capture as light as possible with only necessary data collected from individuals. The majority of data is inputted behind the scenes by combining various agency databases. Rome III also uses a common technical and functional language validated by relevant stakeholders which also makes data capture easier and allows users to access vacancies and opportunities across national and European labour markets.[29]

28 'Big data: The next frontier for innovation, competition and productivity', McKinsey Global Institute, 2011, pp. 59-61, http://www.mckinsey.com/mgi/publications/big_data/pdfs/MGI_big_data_full_report.pdf

29 See http://ec.europa.eu/social/main.jsp?langId=en&catId=105&newsId=1025&furtherNews=yes

The examples above show how statistical profiling can be used to deliver more effective and cheaper employment support. It is not only in the welfare system that such approaches have been used. Many tax agencies (including our own HMRC) frequently use large datasets to examine case histories, risk of default, income level, and demographic profiles. The use of automated, rule-based algorithms such as artificial neural networks can identify anomalous claims and allow staff time to be targeted at those most likely to need further examination – reducing erroneous or fraudulent claims. This has had a transformative affect on public service delivery, for example in reducing tax avoidance by targeting resources on the highest risk groups.[30] There is no good reason why such algorithms should not be used in welfare reform and DWP will soon be using such approaches in order to tackle benefit fraud.[31]

However, there seems to be little appetite in DWP to apply these methods to target employment services and resources more effectively. This is mainly due to the fact that attempts at this in the UK have been largely unsuccessful. The real test of statistical profiling methods such as these will be whether they are able to identify jobseekers likely to reach six months or one year on benefit. With this in mind, the DWP has made efforts to identify claimants who are likely to be unemployed for 12 months or more, based on existing administrative data, with little success. Based on this experience, DWP and JCP have concluded that statistical tools are less effective than Personal Adviser discretion.[32]

DWP rightly believes that the benefits of providing earlier support for at risk groups will only become cost-effective if much greater accuracy and predictive power can be achieved. But these techniques have been used successfully in many parts of the private sector for years: in banking, insurance, supermarkets and marketing agencies among others. The greatest barrier to making use of these methods in the welfare system seems to be the extremely limited nature of existing data collection, which, as we have seen, is confined to purely mechanistic information necessary for distributing JSA (financial circumstances, gender, age etc.) without covering issues more relevant to a claimants' chances of long-term unemployment. The 'risk profile' of a particular claimant (as actuaries approach the risk profile of insurance policy applicants) is largely impossible to determine from existing DWP data collection. We outline below what data might be needed to employ statistical profiling techniques.

However, limited data is not the only problem, since data that is available to DWP and JCP is not currently put to full use. For instance, even analysis of a postcode can tell a great deal about a persons' characteristics and potential behaviour, without the disclosure of any more personal information.

A key example of how such information can used is from the private sector, where information services firms regularly build risk assessments of things ranging from risk of default on a loan to the likelihood that a particular household has not fitted a smoke alarm. Much of this simply involves evaluating the importance of different geo-demographic variables such as property tenure, previous income, age, social class and property value. They use various techniques, such as logistic regression or micro-simulations and are successful in their work (as otherwise they would not be profitable). The box below highlights one such system.

30 'Tackling tax avoidance', HM Treasury 2011. http://cdn.hm-treasury.gov.uk/2011budget_taxavoidance.pdf

31 'Tackling fraud and error in the benefit and tax credits systems', DWP October 2010, http://www.dwp.gov.uk/docs/tackling-fraud-and-error.pdf

32 'Jobcentre Plus: Delivering effective services through Personal Advisers', National Audit Office, p. 10. http://www.official-documents.gov.uk/document/hc0607/hc00/0024/0024.pdf

<div style="border:1px solid #000; padding:1em;">

Mosaic UK[33]

Experian's Mosaic UK divides the UK population into socioeconomic and lifestyle groups. 155 person types can be used to aggregate household, individual or postcode level characteristics, giving detailed information on each person's demographics, behaviours and lifestyles through 440 data elements. This can be used to optimise the allocation of resources to customers with particular needs, as well as developing personalised messaging and communications to change behaviours. Its public sector version incorporates data from various public and commercial data sources. Identification right down to the individual level can be achieved by matching them to a UK Consumer Dynamics Database.

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Still more sophisticated techniques have been pioneered, including voice risk analysis[34] and search engine data to predict future economic changes.[35] Effective analysis, including testing for robustness, discrimination and correlations, can achieve validation and interpretation of these techniques. Use of input weights once the data is put together allows the relative importance of each variable to be reflected in the classifications.

The obvious conclusion is that if the risk of loan default or a lack of smoke alarm can be estimated, it seems likely that such an approach could be part of a workable model for likely length of benefit claim. Indeed, a crucial element of the efficacy of these forecast variables for our purpose is that they already include an assessment of job sustainability. This is not unusual as companies already pay such information services firms to calculate the impact of unemployment risks on delinquency rates for customers paying their utility, credit card or council tax bills for example. There is thus a considerable wealth of experience and data to tap in to. With as little as a postcode, information can be determined about the local area, customer profile and key drivers of behaviour.

All of these examples show that statistical profiling can be, and already is, used to drive improved employment services at lower costs. However, to make statistical profiling an achievable goal we desperately need to collect and use more data on benefit claimants.

Collecting more data on claimants

The government is likely to hold a great deal of information on a claimant even before an application for support is submitted. Contact with doctors, the police, HMRC, local authorities and other public services are all likely to have left a data trail which will tell us a great deal about the claimant and his or her needs (all benefits claimed in their lifetime, for example). At the same time, private information services companies have developed sophisticated techniques to understand their clients: from what goods and services they are likely to buy to credit scores determining whether a customer is likely to pay back a loan. Crucially, these credit risk tools also model the likelihood of long-term unemployment. However, none of this data – from other departments or private companies – is used in DWP's current segmentation process. For this reason we recommend that Jobcentres routinely collect three types of data on claimants:

33 'Mosaic Public Sector Brochure', Experian, http://publicsector.experian.co.uk /Products/~/media/Brochures/M osaicPublicSector_Brochure_final. ashx

34 See http://www.public service.co.uk/news_story.asp?id= 8886

35 For example, see http://www.markpack.org.uk/goo gle-data-helps-predict-future-course-of-economy/?utm_campai gn=wp-to-twitter&utm_medium =twitter&utm_source=twitter

1. More comprehensive data on benefit claims and work history and data held by other government departments;
2. Data collected from claimants when they attend Jobcentres; and
3. Data from private sector data sources.

By bringing these data feeds together and evolving models based on them, we believe that a far deeper understanding of the claimant can be constructed, allowing more sophisticated segmentation and targeting of appropriate help at the most at-risk clients as well as saving money. The precise data captured and how it is used will need to be considered carefully and, as highlighted above, adjusted over time to reflect evaluation of how successful the segmentation tool is proving to be. Below we highlight examples of the sort of data that might be collected from each of these sources.

Data from government
- Full benefit history. At the moment, Jobcentre Plus only has information about the previous two years of benefits history. Previous benefit history is a key predicator of the length of time an individual might spend on benefits, so Jobcentres must start recording and keeping information on full claim history;
- Employment history (including tax records);
- Health records (including spells of long-term illness);
- Criminal record;
- Benefit combination claimed;

Data from claimants
- Living arrangements (who lives with the claimant, terms of tenure, etc.);
- Childcare arrangements;
- Language skills (first language);
- Social network circumstances (e.g. whether parents were employed during childhood);
- Claimant's perception of barriers (what is holding them back, what support they think they require);
- Qualifications;
- Access to transport;

Data from the private sector
- Comparative data on age group profile;
- Postcode and associated unemployment risk;
- Relative levels of financial stress;
- Behaviours and lifestyle profiles;
- Claimant proximity to job markets;
- Phone contactability.

We recommend that DWP works with Work Programme Providers, JCP Advisers and experts from Australia and Germany to build a manageable list of information that is obtained for claimants of unemployment benefit when they first make a claim. Indeed, DWP have already attempted to collate relevant data from their own records and the private sector.

The DWP working age customer base project

The Department of Work and Pensions undertook a detailed analysis of all working age benefit customers during 2009 and 2010 in a joint project between its Customer Insight and Information Directorate teams.[36] First, it took the Department's administrative data, from:

- The National Benefits Database
- Single Housing Benefit Extract Database
- Basic Skills dataset
- Labour Market System Client Extract
- New Deal Evaluation Databases

This gave details such as age and gender, duration of spell on benefit, the amount and their location for matching data around one million working age benefit claimants randomly selected for a 'snapshot' data capture in September 2009. This was combined with other external sources such as HRMC's P45/46 databases, the English Indices of Multiple Deprivation and external socio-demographic profiling information in Experian's Consumer Dynamics Database for areas where the Department lacked comparable information. Cluster analysis using SAS Business Analytics was then used to create 10 segments based on shared characteristics through iterative estimation:

- Young jobseekers
- Long term benefit dependent
- Middle aged, middle class, long term sick
- Empty nesters supported by spouse
- Working class, 'retired' onto sickness benefits
- Lone parents
- In-and-out of work; poor
- In-and-out of work; better off
- New to sickness benefits
- Recession-hit middle class

Further breakdowns were conducted to compare these segments such as age group, benefit combination claimed, employment record and relative levels of financial stress. Data was also mapped at a very low-level ('Lower Super Output area'), for segmentation density and relative deprivation levels. Although individual mapping is possible, this was not done due to data protection issues.

These groups were not preconceived and were based on their distinctiveness and business relevance. Through the analysis, personal, benefit and geographical characteristics can be used to map service demand and enable some limited planning. The Department recognises that it provides 'an alternative to using type of benefit and life stage as the primary means by which to define customers.'[37]

However, these segments are very broad and do not encapsulate needs or barriers to work. In particular, they do not attempt to estimate the length of time a particular claimant or claimants in a particular area will take to leave benefits, nor the cost of getting them back to work more quickly (or at all). However, this data is sophisticated

36 Department for Work and Pensions, http://www.dwp.gov.uk/docs/cpa-analysis-customer-base.pdf

37 Department for Work and Pensions, 'Analysis of the DWP working age customer base', http://statistics.dwp.gov.uk/asd/asd1/wacb/wacb_nov2010.pdf, p. 2.

enough to achieve this outcome. With further analysis, there is no reason why this should not be achieved:

> 'This analysis proves that it is possible to successfully create distinct and meaningful segments of DWP customers from DWP administrative data and which are not solely based on primary benefit type. The resulting segmentation is an important asset as DWP develops and implements plans for the Work Programme and Universal Credit. In addition, the experience gained and lessons learnt will be invaluable for future segmentation development within DWP.'[38]

Data sharing and security

We realise that increasing the types and level of data collected and held by DWP will bring criticism. A key reason for this will be that data sharing and security has been a high-profile topic in recent years, with several controversial cases of mishandled or lost data. This has included the loss of child benefit claimant data and finding personal claimant data at the home of a private DWP contractor.[39] These cases have generally involved CDs, hard drives, laptops misplaced through theft, carelessness or loss during transport. Much of these problems might be solved by increased use of encrypted networks and 'cloud computing', which do not require the physical storage of sensitive data on a physical, portable device.[40] But it will be up to the government to rebuild public trust in its ability to keep personal data safe.

DWP's model of data sharing is principally built on the idea of the consent of the claimant or certain administrative data as specified in legislation.[41] Disclosure of data except as specified in law is prohibited by the Social Security Administration Act 1992.[42] There is a history of agencies being forced into greater costs due to these restrictions (Warm Front not having access to DWP data, for example). The legislation thus limits data flow between JCP and the back-to-work providers. However, statistical data, in which personal information is anonymised, is freed from some of these restrictions. Where personal data is unavailable, information services firms are able to use proxy data, giving a rough picture of an individual which can be used for similar purposes as the real data. Proxies rather than real data can be effective when the real data is missing or unavailable (due to privacy concerns for example). But some techniques (such as data matching to detect fraud and error) can only be used with personal data.

To some degree, the effectiveness of segmentation is constrained by how much more data sharing it is possible to do. An integrated, tailored service can be achieved in many ways: from generic administrative data, proxy data (if the specific data is not available) or individual data. Greater use of anonymised data would be a positive step. But more sophisticated techniques would necessitate a reassessment of just what data Jobcentre Plus and the private providers are able to access, as well as how this is joined up with other organisations.

Big Brother?

One potential criticism of this approach is that it provides too much information about the claimant – to Jobcentre Plus, potential employers and the state. However, we do not believe a more paternalistic approach is inappropriate to

38 http://statistics.dwp.gov.uk /asd/asd1/wa

39 http://www.telegraph.co.uk /news/politics/1574687/Governm ents-record-year-of-data-loss.htmlcb/wacb_nov2010.pdf, p. 10.

40 http://www.ece.iit.edu/ ~ubisec/IWQoS09.pdf

41 http://www.communities. gov.uk/documents/localgovernme nt/pdf/143675.pdf

42 http://www.dwp.gov.uk/ docs/datasharingguide.pdf

reduce welfare dependency. Claimants form a contract with the state in which they undertake to provide certain information and do certain things in return for their benefits. The state also has an obligation to the taxpayer to ensure that the claimant finds work as quickly as possible – and, in turn, to the claimant, to minimise the deleterious effects of long-term unemployment. Given the large pool of workless households, we do not believe it is unjust to require claimants both to provide more information and to comply with greater conditions in order to improve their chances of employment and quality of life as well as reducing the burden of welfare expenditure. That government makes better use of the information already available to it is a logical step to improve the tailoring of assistance and driving out costs.

What does this look like in practice: the experience of Australia

The use of statistical profiling techniques in employment support are not new. The box below gives a brief overview of the system used in Australia since 1998.

Job Seeker Classification Instrument

Used from 1998 (in its current form from 2009) in Australia, the Job Seeker Classification Instrument (JSCI) assesses claimants for referral to Job Services Australia, using 49 questions to identify 18 risk factors of long-term unemployment as well as other information likely to influence their employment prospects.[43] This is done by the claimant answering multiple choice questions each of which carries a point score: the more points awarded, the greater the additional help that the applicant receives. These scores are used to categorise claimants by the relative level of need for assistance, with each sub-set having its own level of funding and associated conditions.

Where clients with particular barriers to work are identified, an additional Job Capacity Assessment is undertaken so that they can be referred to the most appropriate service (not necessarily those with the most points).[44] For example, there is a focus on new migrants due to their low levels of English, qualifications, job searching strategies, work experience, networks and familiarity with the local workplace culture, placing them at risk of long-term unemployment or low-skilled employment.[45]

The points are added together to put claimants into three streams, with entry to the fourth stream (the most intensive) being determined by the Job Capacity Assessment. This classification system thus embraces a whole host of information simply not taken into account by JCP or the Work Programme rubric. It can include things like family circumstances, language skills, ethnicity, living arrangements, country of origin, transport, workplace support needs (if disabled), geographic location (especially remoteness from centres of employment), recent work experience, homelessness, criminal record and qualifications.[46] The instrument has been amended several times for additional circumstances (for example, the addition of whether the claimants' first language is English and the potential threat of homelessness). Ongoing econometric analysis looks for ways to improve the JSCI's reliability in judging what level of support claimants require.

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43 These risk factors are:
- Age and Gender
- Geographic
- Recency of Work Experience
- Proximity to a Labour Market
- Job Seeker History
- Access to Transport
- Educational Attainment
- Phone Contactability
- Vocational Qualifications
- Disability/Medical Conditions
- English Proficiency
- Stability of Residence
- Country of Birth
- Living Circumstances
- Indigenous Status
- Ex-offender Status
- Indigenous Location
- Personal Characteristics

See http://www.deewr.gov.au/
Employment/JSCI/Documents/JSC
Ifactors.pdf

44 Review of the Job Seeker Classification Instrument, Australian Government Department of Education, Employment and Workplace Relations, p. 4. http://www.deewr.gov.au/Employment/JSCI/Documents/JSCIReviewReport.pdf

45 AMES Research & Policy, 'Review of the Job Seeker Classification Instrument (JSCI)', p. 4. http://www.deewr.gov.au/Employment/JSCI/Documents/AMES.pdf

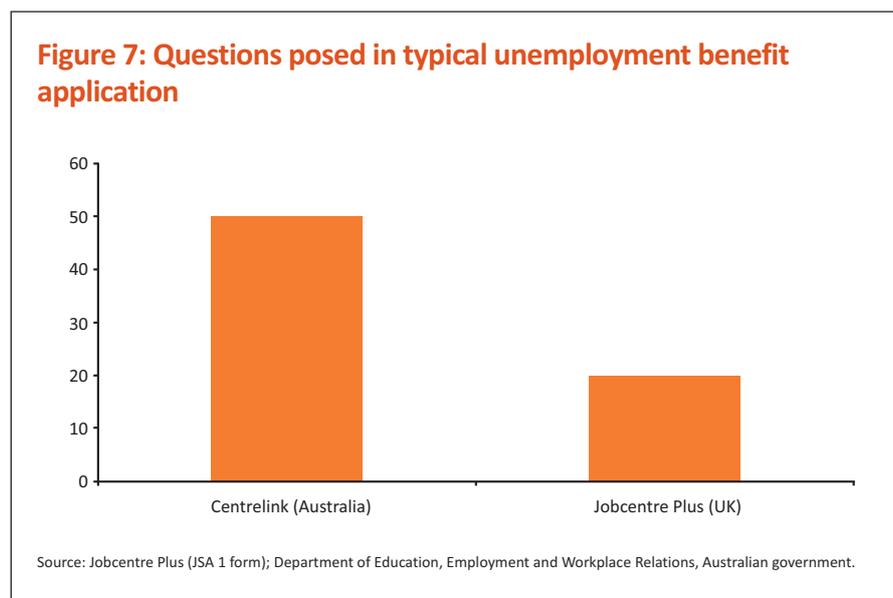46 Review of the Job Seeker Classification Instrument, Australian Government Department of Education, Employment and Workplace Relations, p. 27. http://www.deewr.gov.au/Employment/JSCI/Documents/JSCIReviewReport.pdf

Approaches such as the Australian model are attractive – they are more sophisticated than the JCP/Work Programme approach and capture a great deal more information to be used both in pricing mechanisms for private sector providers and for personal advisers to assist claimants.

Figure 7 below shows that in crude terms, the Australian method poses far more questions: normally 49 against the UK's 20. But even this underestimates the scale of the information gap. The Australian classification instrument is overwhelmingly concerned with collecting information pertinent to the risk of long-term unemployment (see box). In contrast, most of the UK data is purely administrative (address, NI number etc.), concerning eligibility (circumstances of partner and dependent children) or largely irrelevant (for example, whether the claimant has recently done jury service). Perhaps more importantly, the Australian model *uses* the data it collects to tailor support to overcome specific problems and target help at the most vulnerable claimants. The Australian system is popular too: assessments show broad satisfaction amongst relevant stakeholders about the use of the JSCI both to identify disadvantage and to determine factors which trigger further assessment.

Figure 7: Questions posed in typical unemployment benefit application

Source: Jobcentre Plus (JSA 1 form); Department of Education, Employment and Workplace Relations, Australian government.

A limited UK pilot has already been introduced. This has sought to test whether those at risk of long-term unemployment can be identified based on characteristics and attitudes collected from a telephone interview. The results are then being tested against the actual length of claim that a claimant makes. However, the pilot will not actually test segmentation in practice as it will not result in any claimants being fast-tracked to more intensive support. As such it will never be able to demonstrate the potential savings or impact of such an approach.

However, the evidence from Australia[47] shows that the approach delivered efficiency savings of 20% and they have successfully managed to develop a system of segmentation that can be adapted over time and lead to accurate classification. This suggests that delivering such an approach in the UK is possible, meaning that we could provide assistance to the most needy at an earlier stage, save benefit costs

47 Grant Tidswell, Deputy Chief Executive Officer, Centrelink, Australia, 'Making Citizen Centric Public Service Delivery Happen', Public Service Summit 2010; Centrelink Cost Efficiency Review, Boston Consulting Group, 2002.

and prevent claimants from being left without support for several months (during which time they may move even further from the labour market). However, we recognise that some problems persist and these would need to be considered before introducing a system such as this in the UK.

Problems with the JSCI and other classification instruments

In Australia, many back-to-work providers have claimed that the methods of JSCI are not as effective as they might be.

- Though the original intention was to conduct one-on-one interviews, the JSCI is now more commonly done over the phone due to costs. Time is often limited and does not encourage maximum disclosure. Call-centre staff may accept any answer and adopt a 'tick and flick' approach.[48] Employment service providers retain the right to appeal the terms of the JSCI to Centrelink if necessary – if new or changed circumstances arise. But this has resulted in problems obtaining reassessment on the basis of additional information, with providers sometimes asked to repay funding obtained through incorrectly applied reassessment. Some providers are reported to be reluctant to report any reassessment for fear of being accused of behaving incorrectly. It has been suggested that external employment consultants might be used instead.[49]

- Some providers have emphasised the importance of a primary point of contact in which the claimant can 'open up' and provide the necessary information in a non-threatening environment.[50] The problem is that claimants may choose to 'open up' to the provider over several meetings – likely revealing more information about their circumstances – but overcoming this time-lag is one of the principle reasons for this form of early assessment.

- There is also a problem that claimant awareness of the increased activity requirements which could result from their responses, could change their answers to ensure that lower conditionality was required. Since the JSCI is also an income-support claim interview, claimants are less likely to reveal information they may believe would adversely affect their claim.

- Claimants are sometimes unaware of their own barriers to work or unwilling to disclose them. The view of Salvation Army Employment Plus, consistent with many others, is:

> "…the JSCI is currently unable to identify job seekers who require specialist assessment when: (a) the job seeker lacks insight into their condition. This is particularly prevalent for job seekers with mental health or substance abuse issues; and (b) the job seeker is unwilling to disclose particular factors including disabilities/medical conditions, ex-offender status and other relevant JCA triggers."[51]

While some of these issues have been addressed by refining the questions sequence, privacy and introductory statements,[52] as with greater personal adviser flexibility, we do not believe that the JSCI offers a fix-all solution to segmentation on its own.

What it does provide is an example of how more data and statistical profiling techniques can be effectively applied to target employment support. Adopting an approach like this in the UK would provide a great deal more information about

48 http://www.deewr.gov.au/ Employment/JSCI/Documents/Job sAustralia.pdf, p. 4.

49 http://www.deewr.gov.au/ Employment/JSCI/Documents/Job sAustralia.pdf, p. 4.

50 See http://www.deewr.gov.au/ Employment/JSCI/Documents/Bo ysTown.pdf, p. 4.

51 Review of the Job Seeker Classification Instrument, Australian Government Department of Education, Employment and Workplace Relations, p. 7. http://www.deewr.gov.au/Employ ment/JSCI/Documents/JSCIRevie wReport.pdf

52 Caswell D, Marston G and Larsen J, 'Unemployed citizen or 'at risk' client? Classification systems and employment services in Denmark and Australia', Critical Social Policy, 2010.

the client, which can be used both in more effective segmentation and in pricing arrangements for future Work Programme contracts, complementary to existing administrative and profiling data.

We therefore propose that system similar to that of the JSCI is adopted in the UK. However, unlike the Australian model, we propose that:

- *The questionnaire should be supplemented with data from other government departments and the private sector.* This would both reduce the number of questions needed to be asked of the claimant and increase the likelihood of accurate predictions from the tool.
- *The questionnaire should be completed by the claimant face-to-face with a personal adviser.* This should improve the quality of answers and mitigate a 'tick and flick' approach. The time to do this should be 'freed up' by the adoption of automatic benefit sign-ins.
- *There should be separate interviews for benefit assessment and job help.* It should be made clear to the claimant that their answers are purely to ensure that the right kind of help is given to get them back into work rather than their ability to receive benefits by completing the eligibility questions first and separately with another adviser. This should encourage customers to be more open in their responses.
- *Adviser discretion and flexibility remains a key part of the process.* This would mean that advisers were able to 'overrule' the decision of the segmentation tool should they believe that a particular claimant needed more or less support.

Managing short-term costs

Developing this system will increase short run costs to the Department for Work and Pensions. In the longer-term the profile of costs associated with an employment claim will also change: a system of segmentation and personalised support will come with greater up-front costs. While we argue that these costs will be more than offset by reduced costs flowing from efficiency savings and reduced durations on benefit, we recognise that this approach might be viewed as risky. To counter this we believe that it would be prudent to divert people from the system in the first place. This could be done by **increasing work search requirements before benefits can be claimed.**

Benefit systems in a number of countries include explicit upfront diversion policies that "aim to keep families from ever receiving welfare in the first place [by] expanding the requirements that families must meet in order to be eligible for assistance and providing more targeted assistance to address their needs."[53] This can be achieved in a number of ways (for example, an initial interview typically reduces the number of claims by between 5% and 10%[54]), including stronger work search requirements *before* benefits can be received. In concert with other reforms, these new requirements reduced the number of welfare recipients in the United States from 4.6 million in 1996 to 1.6 million in 2008. Various estimates show that at least one-third, and up to one-half, of the fall in welfare numbers can be directly attributed to the impact of the change in the welfare rules.[55] The 'anticipation effect' of future pressures made a major contribution to this[56]: about half the reduction in US welfare rolls was achieved

53 Maloy, K. A, and George Washington University. Center for Health Policy Research. Diversion as a work-oriented welfare reform strategy and its effect on access to Medicaid: An examination of the experiences of five local communities. Center for Health Policy Research, George Washington University, 1999, p. 6.

54 Cited in R. Goodin, 'False principles of welfare reform' *Australian Journal of Social Issues* vol 36, 2001, 189-206

55 A recent paper for the OECD by Herwig Immervoll estimates one-third ('Minimum income benefits in OECD countries'). See also: D. Besharov and P. Germanis, 'Welfare reform four years later' in Besharov et al, Ending Dependency (London, Civitas, 2001); R. Rector and P. Fagan, 'The continuing good news about welfare reform' Heritage Foundation Backgrounder 1620, Feb 2003. For a comprehensive overview, see Jeffrey Grogger and Lynn Karoly, Welfare reform: effects of a decade of change Harvard University Press, 2005.

56 Finn, Dan, and Rosie Gloster. Lone Parent Obligations: A review of recent evidence on the work-related requirements within the benefit systems of different countries. The Centre for Economic and Social Inclusion, 2010, p. 4.

because people did not sign on in the first place. Many studies have found that income rises and poverty falls among groups who chose not to enter welfare at all.[57]

The problem with the UK system is that it 'tries to get claimants to choose to work once they are on benefits, rather than demanding work *up front* as a condition of aid, as the American reform has done.'[58] About half of the States in the United States have programmes in which applicants apply for a stipend or loan, on condition that they would not claim any other benefits within a specified period. In some of these and others, advisers can reject claims if they are not convinced that claimants have attempted to find work by themselves. Administrative requirements can also create a level of hassle which will deter some from claiming; and waiting periods (for example, a month in West County, New York) are also extensively used. In contrast, the UK waiting period between the point that a person applies for benefits and the point at which they begin to accrue is just three days. Three days is enough to start looking for a job, but not enough to demonstrate that a person has engaged in a serious search and that they therefore need to rely on the state because they cannot find work.

> ❝ The UK waiting period between the point that a person applies for benefits and the point at which they begin to accrue is just three days. Three days not enough time to demonstrate that a person has engaged in a serious search and that they therefore need to rely on the state because they cannot find work ❞

We therefore propose that: *Claimants should only be eligible for means-tested working benefits if they can demonstrate that they have looked for work themselves for two weeks.* Those in need can apply, as at present, for hardship payments or crisis loans. Such an approach would reduce the flow of claimants into JCP and reduce costs associated with new claims, meaning that more money could be moved into creating an effective segmentation tool. This is just one tool for leveraging savings out of the current system and improving the conditionality system. The segmentation tool we outline can also be used to target conditionality more effectively. A future Report will consider this topic in more detail.

Conclusion

This chapter has argued that effective segmentation is essential to providing an effective and efficient employment service. A system without personalised support, facilitated by segmentation, is both unfair and economically and socially costly. Introducing cost effective segmentation in the UK will require DWP to combine data from several sources: its own benefits data; other departments such as HMRC, the Department of Health and the Ministry of Justice; information services firms; and the opinions of personal advisers. This data can then be used to run an effective segmentation tool using algorithms similar to those used in the private sector and other countries. This process should be piloted and the process developed as we learn what works over time.

Of course, segmentation is only the start of the process. After we have determined which individuals need greater support, we need to determine what

57 Grogger, Jeff, and Lynn A. Karoly. *Welfare reform: effects of a decade of change.* Harvard University Press, 2005.

58 Greenberg, D, V Deitch, and G Hamilton. *Welfare-to-Work* Program Benefits and Costs: A Synthesis of Research. MDRC, 2009, p. 45.

that support looks like. It is also clear that implementing these changes will require a large shift in the culture, behaviour and incentive structures of JCP. We believe this will only be achievable with significant internal reform to JCP which will fundamentally change the way it works. The next chapter discusses the implications of these changes for both employment support and JCP.

2
Jobcentre Plus

Jobcentre Plus today

Jobcentre Plus (JCP) has 740 branches across the UK, 75 main benefit delivery centres and 37 contact centres.[59] It has around £447 million of fixed assets and its net operating costs amount to £3.8 billion, including over £2.1 billion in staff costs for 75,000 permanent staff and 28,000 on part-time contracts.[60] A 9,300 headcount reduction has already been announced with total staff likely to be reduced further by the end of 2013/14.[61] In addition, JCP is undergoing a streamlining of its estate, with several benefit processing and contact centres likely to close to meet a total budget cut of 25%.

As an executive body, JCP acts on behalf of the Department for Work and Pensions in delivering unemployment benefit and job search facilities across Britain.[62] The demand for its services remains high with around 600,000 more new claims for Jobseeker's Allowance in 2009/2010 compared to the previous year.

JCP began operating under a new structure from April 2011 to improve efficiency and deal with budget reductions. As part of the changes, it cut the number of districts it operates across the UK from 48 to 37 larger areas. It also reduced its regional structure in England from nine areas to five. Its Chief Executive, Darra Singh, is to leave the organisation in September as part of the shake-up, which will eventually see JCP brought 'in-house' at DWP rather than operate as an independent agency.[63]

JCP plays an important role in ensuring that unemployment is kept low and that the welfare bill shrinks. While this has not always been the case, it is supposed to act as both a benefits office and an employment agency (see box below) and deals with millions of claimants each year. But we will show that the system is not working as well as it should and that to cope with future labour market demands and be as effective as possible in driving down unemployment, the system needs radical reform.

The history of Jobcentre Plus

The first labour exchanges were opened in 1910 by Winston Churchill as part of a package of social reforms including unemployment insurance and replacing the Poor Law workhouses of the nineteenth century. They mainly dealt with unskilled manual workers. They played a key role in jobmatching for women and military conscription during the two World Wars. Their role expanded after non-contributory unemployment payments were introduced by the 1946 National Assistance Act.

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59 Parliamentary Question, HC Deb, 20 July 2011, c1072W, http://www.theyworkfor you.com/wrans/?id=2011-07-20a.66797.h&s=jobcentre+plus#g 66797.r0

60 http://webarchive.national archives.gov.uk/+/http://www.hm-treasury.gov.uk/d/nar2007_chapt er19.pdf

61 *Telegraph*, 19th January 2011, http://www.telegraph.co.uk/finan ce/jobs/8267501/Jobcentre-Plus-to-axe-9300-jobs.html

62 Parliamentary Question, HC Deb, 8 December 2009, c243W, http://www.theyworkforyou.com /wrans/?id=2009-12-08b.301334.h&s=date%3A200912 08+column%3A243+section%3Aw rans

63 *Telegraph*, 7th April 2011, http://www.telegraph.co.uk/finan ce/jobs/8435109/Jobcentre-Plus-shake-up-pushed-through-despite -high-risk-warnings.html

> Labour Exchanges were characterised by poor facilities, little jobmatching and long queues. Originally, interviews were done in cubicles (later via partitions) and job details were written on cards by hand and displayed on large vacancy boards – or sometimes just kept in drawers to be handed out by advisers.
>
> These remained largely unchanged until they were rebranded as Employment Service Jobcentres in 1973, becoming more open-plan and 'user-friendly'. Jobmatching was done by two agencies: charged services via Professional and Executive Recruitment and an Occupational Guidance Unit for the long-term unemployed. The Benefits Agency (which was responsible for eligibility and payments) merged with the Employment Service in 2001 bringing together job search and benefit claims in the same agency.

Problems with Jobcentre Plus

The reforms we outlined above will introduce better segmentation into our welfare system. By more effectively targeting support on those with the greatest needs they will save money, lead to lower unemployment and produce better outcomes for the unemployed. But to implement them, major changes to the way Jobcentre Plus operates will be needed.

The basic problem is that although JCP is effective at processing large numbers of benefit claims quickly and cheaply, and that large numbers of people flow off benefits relatively quickly, we need to be more ambitious in our attempts to tackle unemployment and worklessness. Focusing on flows of claimants through JCP just leads to a situation where it is a revolving door for some as they move in and out of work, without receiving the necessary support. For others, who are further from the labour market, it is simply a place to wait until they can access the more effective support that private providers give under the Work Programme.

JCP is also poor at identifying and targeting help at the most at risk claimants and using staff productively.[64] Culturally, JCP remains wedded to its historical past as a benefits office – getting people onto benefits and administering them rather than providing effective back-to-work support. There are real questions over the extent to which it is able to cope with certain claimant groups, particularly those with multiple barriers to employment.[65] Even after the reforms that are currently being implemented, a lack of local flexibility and adviser discretion will mean that innovation will be virtually impossible. But this is not just a problem with the organisation or the staff, there are also severe limitations to effectiveness that come from legacy IT with persistent problems and limitations.[66] The current systems will not be able to cope with the extra information that is needed to segment claimants effectively.

Ultimately, these failings mean that unemployment is higher than it should be and that the government spends too much on benefits and on delivering a service that does not work as well as it should. This is unfair to the claimants that we place conditionality on. We cannot expect more of individuals if, in return, the state does not provide the support that they might need to get back to work.

At the same time, there are wider problems with JCP that need to be addressed. Despite its modern-looking offices, JCP is an essentially unreformed service, operating as an inefficient, highly centralised, unitary national network largely unresponsive to local or individual needs. It is neither organisationally nor

64 Knight, G, 'Jobseekers Regime and Flexible New Deal, the Six Month Offer and Support for the Newly Unemployed evaluations: An early process study', Policy Studies Institute, 2010, p. 102, http://www.psi.org.uk/pdf/2010/rrep624.pdf

65 'At the centre: finding the Plus for unemployed people during the recession', Consumer Focus 2009, http://www.consumerfocus.org.uk/assets/1/files/2009/06/Atthecentrefor-web1.pdf

66 For example, see 'Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System', House of Commons Work and Pensions Committee, 2006, http://www.publications.parliament.uk/pa/cm200506/cmselect/cmworpen/1648/1648.pdf

culturally suited to achieving effective segmentation. Its staff are not properly incentivised to match claimants with jobs that will reduce unemployment over the long-term.

These problem areas are explored below and comparison is drawn between how private sector providers and JCP operate.

Treatment of claimants

Perhaps the most significant difference between a claimants' experience at JCP and a private provider is the intensity of help and degree of conditionality they experience. It is not uncommon for a claimant to be expected to come to a provider three times a week – sometimes more – six times more than the once a fortnight requirement of JCP, often for far longer and for more intensive interviews and activity. This is in addition to mandatory attendance for the JCP sign in that continues alongside the contact with the provider. Job ready claimants are frequently expected to undertake fifty activities a week, including job

> **" Without effective employment support some claimants will be unable to tackle the barriers to work they face and will either remain unemployed or cycle continually between work and benefits "**

applications, job walks, cold calling and the use of social networks to find employment.[67] In contrast, the description of jobseeking activities allowed in the Jobseeker's Agreement at JCP are so wide (such as looking at a newspaper) that claimants need not necessarily have applied for any jobs at all. We have previously highlighted that this lack of conditionality leads to some claimants attending JCP spending as little as eight minutes a day looking for work. To increase this, JCP needs to take a lead from the private sector and require more of most claimants.

Some would argue that JCP is overloaded and will not be able to cope with claimants coming in more regularly, meaning that they will be unable to monitor them – making the process pointless. But this assumes that we cannot change the role and nature of what JCP advisers spend time doing. For example, we do not believe it is necessary for advisers to see every claimant every two weeks. Lower risk claimants could perform their fortnightly 'sign in' electronically at Jobpoints (thus preserving the anti-fraud effect and 'hassle' of coming to the jobcentre office), at a stroke freeing up considerable time for JCP staff to concentrate on more challenging claimants.

Private providers are already achieving this. They are able to segment their caseload of claimants and provide a more personalised service. They require more of claimants while focussing extra support on those furthest from the labour market. They do this without the process being too costly. There is no reason why similar methods could not be employed within JCP.

While we think that reforms to make this happen would be achievable, we recognise that there is a real difficulty in delivering greater support while asking more of claimants in JCP. This is that advisers effectively have a dual function. First, as a 'gatekeeper' to ensure that claimants are claiming legitimately and actively seeking work and, second, to identify barriers to employment and assist claimants in overcoming them.

Each role is important in the process. Our previous report demonstrated that without conditionality, a culture of benefit dependency and the belief in a right

to welfare can easily build up. But without effective employment support some claimants will be unable to tackle the barriers to work they face and will either remain unemployed or cycle continually between work and benefits.

'Hassle' or 'help'?

A key dilemma is whether advisers are there to 'hassle' or to 'help'. Both of these roles require the adviser to get information from the claimant. If a claimant feels they may undermine their benefits by disclosing certain information, this can make it more difficult for the same adviser to obtain the necessary details to get the client back into work. The tension between the purpose of advisers – to help clients or enforce work – is problematic and could make the functioning of a new segmentation tool difficult.[68] The problem has previously been tackled by providing advisers with a largely mechanistic interviewing script. But this has significant drawbacks.

A recent York University study for DWP found that process-dominated interviewing techniques such as those employed in JCP frequently led to less positive subsequent behaviour than less formal interviews.[69] An approach which allows the adviser to capture complex information and respond accordingly is more effective than a more mechanistic approach. In field work undertaken in JCP and with back-to-work providers, the authors of this report were struck by how much more time advisers in the latter case were able to spend with clients, the quality of the interventions and the extensive experience employment adviser staff had. The Freud and Gregg reports also emphasised the importance of creating a more personalised system[70] and it is clear that such an approach matches with our desire for greater segmentation in JCP. But it is vital that this approach is compatible with the adviser also providing the 'hassle' role.

We believe that JCP should start to expect more from claimants and that the services they provide should become much more like that given by private providers, who have achieved better results (in Employment Zones, for example, getting 49% of people into jobs during the programme as against only 14% under the Flexible New Deal.)[71] We recognise that this will involve changes to what JCP currently does in order to free up time and resources and changes to the roles of advisers so that they can deliver hassle and help effectively. Our recommendations will consider what these changes may look like.

Jobcentre Plus Database

Another major problem in JCP is the system which it uses to advertise available jobs. This is one of the key tools in JCP as it is where claimants can access details of vacancies that might be suitable (and often forms a key part of conditionality as a component of a Jobseeker Direction). It is the UK's largest job website, with more than a million hits a week and has now been outsourced to a private provider, Hewlett Packard. The creation of the JCP network introduced touchscreen terminals, telephone and internet connections – allowing for job search anywhere in the UK (previously information was confined to the local labour market). Employers and employment agencies can register vacancy details online or via Employer Direct while liaison services are available for employers

68 Larry Mead, 'Government Matters', 2004.

69 Annie Irvine, Roy Sainsbury, Paul Drew and Merran Toerien, 'An exploratory comparison of the interactions between advisers and younger and older clients during Work Focused Interviews'. http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep634.pdf

70 David Freud 'Reducing dependency, increasing opportunity: options for the future of welfare to work: An independent report to the Department for Work and Pensions', 2007, p. 61. http://www.dwp.gov.uk/docs/welfarereview.pdf; Paul Gregg, 'Realising Potential: A Vision for Personalised Conditionality and Support', 2008, p. 6. http://www.dwp.gov.uk/docs/realisingpotential.pdf

71 'Personal Advisers in New Deal 25+ and Employment Zones', Department for Work and Pensions.

making large hirings or redundancies. However, it does not seem to be functioning as well as it might.

> *'I've never found one job through the jobcentre… I've been sent on a lot of courses, but when you come in here, use the job points and make a phone call, nine out of 10 times they've all gone. You lose motivation to keep coming back.'*
>
> *'The main problem seems to be that the whole system is geared towards finding low/unskilled work'.*
>
> <div align="right">Comments from Jobcentre Plus users.[72]</div>

These comments highlight some of the difficulties that claimants face in using the jobs database. Our own exploration of the system found similar problems. In particular, we found that:

- The system can make it difficult to narrow down search options as it has inadequate job filtering tools.
- Regional search criteria are also largely ignored, and categories can be as wide as 'various/UK wide/nationwide/potentially worldwide'.[73] This makes it very difficult to narrow down job searches.
- Vacancies are not updated promptly.
- A lot of entries are purely speculative to allow agencies to get jobless clients on their books.

The table below shows the results of some searches we undertook using the jobs database and the results that came up when we searched for jobs in certain areas and tried to limit the distance we were willing to travel. Paradoxically, results seem to be more regionally specific the wider the distance criteria.

Table 1:

Search criteria: Area, (maximum distance from postcode specified)	Examples of vacancy returns, job location, (actual distance from search criteria)
Leeds, LS16 (1 mile)	Brandon, Suffolk (179 miles), East Dulwich (178 miles)
Glasgow, G41 (1 mile)	Stoke-on-Trent, Staffordshire (317 miles), Sussex (465 miles)
Exeter, EX1 (2 miles)	Oxford (163 miles), Buckingham (202 miles)
Barnet, EN4 (5 miles)	Woburn, Buckinghamshire (44 miles), Erith, Kent (28 miles), Basildon (38 miles)

Source: http://jobseekers.direct.gov.uk/

But the problems are deeper than just location of jobs. The search function does not allow any means of narrowing down the search other than job title/reference, location, hours and how long the job has been listed. Searches are also often made difficult by narrow search terms and the inability to select multiple fields. While this could be viewed as a positive as it makes it harder for claimants to narrow their searches too much, this inflexibility means that claimants are often faced with a screen full of vacancies that have been filled, are not in their area or are not

suitable. This makes it cumbersome and time-consuming to find suitable vacancies and ultimately will lead to a lack of confidence in the system and could damage motivation.

The IT surrounding a jobs database may sound trivial. Yet without effectively matching up claimants with available jobs, frictional unemployment will be higher, welfare rolls longer and economic growth slower. And the frustration is not just from claimants. Many unemployment advice organisations complain that the system is largely filled with employment agency 'spoof' vacancies or jobs which have already been filled and recommend avoiding the Labour Market System entirely.[74] International evidence suggests that public employment service vacancies are generally used by the worst employers.[75] Identifying suitable candidates for vacancies has been identified as the key to improving employer relations in DWP's own research.[76]

Given the above, it is perhaps unsurprising that many employers (especially small ones) and jobseekers have given up on JCP, forcing them to rely on expensive advertising, recruitment agencies or word-of-mouth; a hidden market of unadvertised jobs is increasingly becoming the norm. This is readily demonstrated by the fact that, although small companies create around 80% of new jobs, only 20% of them use JCP to advertise. The Federation of Small Businesses has claimed that services are overly concentrated on large firms and multinationals.[77]

Again, how JCP works can be improved by moving towards the private sector. The standard model for commercial employment websites includes many more options under which searches can be restricted, such as industry, work categories/sub-categories, career level and educational attainment.[78] Private job sites use more 'semantic' word matching, meaning the search returns more suitable entries than a simple, linear search engine (the Rome III system outlined above, for example). Employing this technology in JCP is essential to providing a fit-for-purpose service for both claimants and employers. Since much of this technology has already been budgeted for in JCP's transforming labour market service project, we believe making use of these techniques could be done at minimal cost.[79] Any additional set-up costs could be defrayed by savings in personal adviser time flowing from these reforms.

Organisation and targets

The problems with JCP are not limited to the regime of engagement with claimants or the systems with which advisers have to work. We also have concerns about how JCP staff are recruited, rewarded and incentivised. Staff in Jobcentres are key to tackling unemployment and helping claimants find work and tackle the barriers that they may face. At the moment they are constrained by an overly bureaucratic and nationalised structure of working.

The first major constraint to providing proper incentives to JCP staff is the fact that personal advisers are technically Civil Servants compensated through a largely nationally-set pay scale and the Principal Civil Service Pension Scheme, with only small additional increments available for greater experience. This means that pay is only loosely related to performance and does not incentivise success effectively.[80] Many advisers also complain of little opportunity for advancement.

74 For example, see http://www.flexiblenewdeal.me.uk/newdeal/2009/dwp-corporate-abbreviations-rst/

75 Larsen C, Vesan P, 'Public Employment Services, Employers and the failure of placement of low-skill workers in six European countries', 2011, http://www.socialpolicy.ed.ac.uk/recwowepudisc/working_papers/rec-wp_02_11

76 Bukowski G, Jenkins S, Roberts H, 'A qualitative overview of vacancy filling services for employers: Target setting and performance Management', DWP 2010, http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep686.pdf

77 See http://www.fsb.org.uk/Reform_Jobcentre_Plus2009

78 For example, see Monster's website: http://jobsearch.monster.co.uk/StandardAdvanced Search.aspx

79 This project seeks to upgrade existing IT for job placing and job searching, including matching claimants to particular vacancies. See 'Jobcentre Plus Delivery Plan 2011 to 2012', Jobcentre Plus 2011, http://www.ersa.org.uk/downloads/jcp-delivery-plan-2011-2012-86Li2A.pdf

80 See Holmes E, Lilico A, 'Controlling Public Spending: Pay, Staffing and Conditions in the Public Sector', 2010, http://www.policyexchange.org.uk/images/publications/pdfs/Controlling_public_spending.pdf

Table 2: Payscales for Jobcentre Plus personal advisers (Executive Officer Band C)

National	Inner London	Outer London	Specified locations
Minimum	£23,240	£19,650	£21,910
Maximum	£27,850	£23,990	£26,680

Source: Written answer, 22 January 2009, http://www.theyworkforyou.com/wrans/?id=2009-01-22b.246580.h

This pay scale has a very small band for progression (determined by length of tenure rather than performance), as well as being lower than for private providers. Lack of performance related pay is compounded by a target based approach in which little focus is paid to reducing unemployment in the long-term and a plethora of 'soft' targets – without clear accountability or definition – are the norm. For example, Jobcentre Plus's Job Outcome target measures the number of customers entering work through benefit and tax data. Others include an Employer Engagement Target, Customer Service Target, Interventions Delivery Target and Average Actual Clear Time Target. These are aggregated targets not directly applicable to any one employee and fairly arbitrary (for example, precisely 1% of the Customer Service Target is determined by the percentage of calls made by 'mystery shoppers' to Jobcentres answered within 30 seconds, and 12% by whether these shoppers got the 'right treatment' when visiting Jobcentres).

The table below (showing only one out of the five principal targets JCP has) shows how complex and opaque this targeting process has become. None of these directly measures the sustainability of employment over the long-term. Blending these targets into highly macro-targets produces a lack of clarity over performance and lowers staff motivation.

Table 3: Complex and unfocused? The composition of Jobcentre Plus' Customer Service Target

What is measured	Contribution	Made up of			
		Right treatment	*Right result*	*Easy access*	*On time*
Jobcentre (calls)	15%	Mystery shopper 6%	Mystery shopper 6%	Telephony (% calls answered) 2%	Mystery shopper (% calls answered in 30 seconds) 1%
Jobcentre (visits)	30%	Mystery shopper 12%	Mystery shopper 12%	Mystery shopper 4%	Mystery shopper 2%
Contact centre (calls)	45%	Mystery shopper 18%	Mystery shopper 18%	Telephony (% calls answered) 6%	Telephony (% calls answered in 30 seconds) 3%
E-channels	10%	n/a	Website information (mystery shopper) 6%	Internet job bank and jobpoint availability time 4%	n/a
Total	100%	36%	42%	16%	6%

Source: Department for Work and Pensions. http://www.dwp.gov.uk/about-dwp/customer-delivery/jobcentre-plus/targets-and-performance/2010-2011/customer-service-target/

This problem is exacerbated by the fact that where incentives are in place to try to improve performance, they largely rely on team performance targets (though several of these were phased out in April 2011), rather than being linked to individuals. We recognise that designing an incentive structure that works effectively can be difficult – for example, in 2005 JCP shifted their 'number of job placements' performance measure to 'the number paying tax in the local labour market', which proved hard to track and created huge administrative difficulties – but a better solution has to be found.

The current system leads to JCP staff frequently complaining about a 'target driven' culture, such as excessive monitoring of average call times.[81] Advisers have complained of being assessed by 'off flows' and that there are several 'inventive' ways to achieve this.[82] Some have claimed that this has led to advisers having arbitrary targets for the number of people to be referred to a decision maker for sanctioning (DMA) and that advisers have been forced into 'tricking' claimants into being sanctioned.[83] But these are not the only complaints. Other common complaints range from poor IT (the Customer Management System for example, frequently necessitates entering the same information more than once), poor internal communications, lack of continuity of advisers, excessive form-filling, interruptions during interviews and customer lateness for appointments (which is not recorded) leading to lost time and lack of time to assess clients effectively. A 2007 survey estimated that advisers spend only 52% of their time interviewing clients compared to 80% in the private sector – the rest is taken up with paperwork, training and monitoring.[84]

This all leads to a system that leaves personal advisers in JCP frustrated and unmotivated. The impact of this means it is not uncommon to find JCP advisers moving to private providers– both to be given more responsibility and to give more personalised help to clients. The impact on quality of service is also apparent. Evidence suggests that the quality and level of support available to claimants at JSA centres varies considerably. A recent report highlighted that some advisers gave extensive help to claimants, whereas other claimants had a mere five minutes during fortnightly sign-ins. Quality varied significantly on a regional basis but equally concerning was that variations also existed within JCP offices, with interventions varying widely between personal advisers: some undertook extensive job search with claimants, others took no action.[85]

This is not a recent problem and is not just because of the increased caseloads that JCP have had to deal with during and since the recession. Much of this evidence comes from before the recession took hold. However, the experience of JCP during the recession also highlights the problems of an inflexible organisation:

- Evidence suggests that new staff have received inadequate training and that inexperienced or temporary staff have struggled with the IT involved in the JCP Labour Market System (LMS).[86]
- Advisers were reluctant to enforce sanctions because of the administrative complexity and for fear of damaging the relationship with the claimant.
- 'Sign ons' are frequently lacking in any meaningful activity due to time constraints, with some centres delaying interventions, compounded by lack of clarity over new initiatives.

81 *Express*, 20th January 2011, http://www.express.co.uk/posts/view/224201/JobCentre-staff-in-two-day-strikeJobCentre-staff-in-two-day-strike#ixzz1BaA2l9u6

82 See http://www.rainbow-web-design.co.uk/pcsmanchester/index.php

83 *Guardian*, 8th April 2011, http://www.guardian.co.uk/politics/2011/apr/08/jobcentres-benefits-sanctions-targets?INTCMP=SRCH

84 'Jobcentre Plus: Delivering effective services through Personal Advisers', House of Commons Committee of Public Accounts', p. 8. http://www.publications.parliament.uk/pa/cm200607/cmselect/cmpubacc/312/312.pdf

85 Davis S, James L, Tuohy S, 'Qualitative Assessment of Jobcentre Plus delivery of the JSA and New Deal Interventions'. http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep445.pdf

86 Knight, G, 'Jobseekers Regime and Flexible New Deal, the Six Month Offer and Support for the Newly Unemployed evaluations: an early process study', DWP 2010, http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep624.pdf

● JCP centres have been significantly stretched by the increased workload and are finding it more difficult to find the time to process customers effectively. This has led to poor information flow – both between JCP and providers and particularly with claimants being given misleading or incorrect information about what was expected of them. Clearly this has been a difficult time, but a lack of flexibility and adviser discretion has created an inability to tackle these problems effectively.

The government has pledged that 'Jobcentre Plus advisers will be given greater freedom to determine what help recipients need to return to work.'[87] Some targets have been removed. But advisers are still monitored via the Adviser Achievement Tool (AAT); an assessment designed to assess productivity and maintain consistent interview outcomes.[88] This includes metrics such as minimum interview times and number of actions. This system has been criticised as over-numerical (requiring precise recording of personal advisers' working time) and incentivising perverse behaviour.[89]

In short, not enough is being done to tackle the problems within JCP and to properly incentivise advisers to contribute to reducing unemployment in the long-term. We believe that target requirements focus too much on compliance and job placement and almost nothing on sustainable employment. Instead, targets should be directly applicable to finding and sustaining people in work – with advisers rewarded for good performance. We also believe that too much of the advisers' time is wasted in activities not directly linked with helping claimants into work. More needs to be done to make better use of adviser time.

> " Not enough is being done to tackle the problems within JCP and to properly incentivise advisers to contribute to reducing unemployment in the long-term "

Increased flexibility, discretion and innovation will become even more important as around 9,300 jobs are cut by March 2013 (due to a 25% budget cut) and JCP are expected to deliver better services with less resource.[90] We believe that this will not be possible within the current structures and modes of operation within JCP. This makes it vital that JCP is reformed.

What needs to change

Jobcentre Plus should continue to retain a critically important central role in the delivery of employment, benefit and broader welfare services. However, we have highlighted that JCP will need to undergo significant reforms just to deliver the same performance within a constrained budget in the future. But this is not enough. JCP needs to improve, and when combined with the new approach to segmentation and support to the hardest to help we have proposed in this report, our view is that JCP cannot continue working in its current form.

In the longer-term we propose that a whole new model of employment support is established, where large portions of the current roles of JCP are taken out of the public sector. We realise that this cannot happen overnight and that considerable work will be needed to ensure that such a market might function

87 Universal Credit (2010), Department for Work and Pensions.

88 Kelsey S, Nunn A, 'Review of the Adviser Achievement Tool', 2007, p. 7, http://research.dwp. gov.uk/asd/asd5/rports2007-2008/rrep453.pdf

89 See http://www.pcs.org.uk/en/department_for_work_and_pensions_group/dwp-news.cfm/id/D7AB7187-2000-47B1-9D13D665B6BDBFA7

90 *Telegraph*, 19th January 2011, http://www.telegraph.co.uk/finance/jobs/8267501/Jobcentre-Plus-to-axe-9300-jobs.html#

effectively and deliver a better service. International evidence suggests the dividends of this approach would be considerable, reducing programme costs by up to 50% and increasing the short-term job prospects of participants by around 5%-10%.[91] For this reason we set out our vision for a new system of employment service and benefit delivery and outline steps to that goal. By managing a transition to the new system we can ensure that JCP begins to delivers a better service now, and is prepared for its future role.

3
A Vision for Jobcentre Plus Reform

Chapter 2 highlighted that JCP is failing. Customers frequently complain of:

- an over-emphasis on unskilled or semi-skilled work and that it was not fit for purpose during the recession;
- poor training, use of IT and service by providers; and
- little help towards obtaining employment.[92]

Only 29% of claimants expressed satisfaction with the outcome of their experience at Jobcentre Plus, and only 33% for the overall experience.[93] Only 20% of claimants are satisfied with the number of vacancies adverted in Jobcentre Plus which match their skills.[94]

As we have seen, little distinction is made between those with patchy or no work history and those with a long work history and National Insurance record. People who are highly qualified with a strong work ethic receive largely the same treatment as a drug addict with behavioural problems. And there are also complaints about the service provided to prospective employers:

> *'They send really inappropriate people. We told them the job spec, but they just send anyone who is out of work.'*
>
> *'They send really inappropriate people who just go to interviews to get their benefits. They just want to say at the end of each month that they have sent X number of people for interviews...'*
>
> *'On a few occasions I have had a very negative experience. You're put on hold for 15, 20 minutes and then cut off.'*
>
> Employer comments on Jobcentre Plus.[95]

These failings of JCP underpin our belief that we need to be more ambitious and challenge the need for JCP as it is currently set up. We believe that a fundamental reform of the purpose, nature and ethos of JCP along with its relationship with private providers of employment support, is needed. Only this will bring a welfare system that asks all it can of claimants while giving all it should to support them into work.

First, we should be clear that as a major deliverer of services to millions of citizens, JCP has a vital part to play in the transformation of public services that Ministers envisage through the integration of frontline service delivery. Government agencies have traditionally focused on delivering the services for which they are directly responsible with at most very limited consideration of, or

92 *Independent*, 13th May 2011, http://www.independent.co.uk/news/uk/home-news/jobcentre-posts-at-risk-says-union-2283578.html#disqus_thread

93 Ipsos MORI survey, 1,332 unemployed adults who visited a Jobcentre Plus office, 24 April – 13 May 2011.

94 Ipsos MORI survey, 1,624 unemployed adults who visited a Jobcentre Plus office, 24 April – 13 May 2011.

95 Ipsos MORI quotes from Manchester and London employers. Hall S, Pettigrew N, Mousley W, 'Building a coherent strategy for engagement: Deliberative research with employers', Department for Work and Pensions 2008. http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep477.pdf

support for, a person's broader needs. This has started to change but the pace of that change must increase dramatically. The public service of the future will need to put aside organisational boundaries to deliver services designed around a holistic approach to the needs of the citizen.

Since JCP has the unique position of having the only public facing government network of offices across the entire country as well as sophisticated call centre and internet operations, they have a key role to play in the future of public services. But this does not mean that we should not be ambitious in our desire to reform JCP. Indeed, it means we should go further.

A new future for Jobcentre Plus

Our vision for the future is that a smaller JCP will act as a one-stop-shop, not just for benefit claimants, but for skills and careers advice and childcare support and other core government services. This would extend the role of the Jobcentre far beyond just providing benefits and employment support. **It would require a new cross-department organisation to be established: CommunityLink.** JCP has proved itself to be efficient at handling large volumes of customers and delivering a standard product to a mass market. This makes it the natural place to set up this one-stop-shop for a large number of standardised services and advice for the mass market.

There are a number of services this new organisation could deliver. As a minimum, CommunityLink should provide a one-stop base for relevant changes of circumstance, as proposed by the *Service Transformation* report;[96] and for the provision of benefit services, including Universal Credit, Child Benefit and Council Tax Benefit and other discretionary payments like the winter fuel allowance. As a minimum, CommunityLink should also be responsible for delivering an integrated employment, skills and careers service for people of all ages. Our current approach to employment support, skills and careers advice is disjointed and ineffective, meaning that in order to meet the ambition of the Leitch review that 95% of adults should have basic skills, this integration is essential.

Another key role will be to further promote access to formal childcare (as proposed in the Harker Review). This will ensure that lone parents and second earners have access to appropriate childcare directly linked with getting them back into work. These are the services that we view as the most important aspects of government service provision to bring together. They would bring together the majority of areas that people engaged with benefits and tax credits systems and with employment, skills, careers and childcare systems. Doing so would make public services more streamlined, efficient and effective and lead to better outcomes for those reliant on them, as was achieved in Australia (see below). However, on top of this minimum set of services provided, the CommunityLink could also take on wider aspects of the interaction between the state and individuals. For instance, it could bring together: parts of social services; the Child Support Agency (CMEC); and offender rehabilitation services.

Of course, this would take JCP a long way away from its current role. The CommunityLink should act as a gateway, not just for the unemployed, but for the majority of families and individuals who have a need to engage with the state. It would be required to offer services to a wide range of clients, and have responsibility for a wider range of issues on a day to day basis.

96 Varney, D 'Service transformation: A better service for citizens and businesses, a better deal for the taxpayer', HM Treasury 2006, http://www.dc10plus.net/resources/documents/pbr06_varney_review.pdf

As such, it would be unreasonable and unrealistic to expect JCP to take on these further tasks while still maintaining the role of a provider of employment support services. Therefore, to facilitate the creation of CommunityLink we propose that responsibility for employment support is transferred completely to the private and voluntary sector. This reform was attempted by Lord Fowler as Secretary of State for Social Services during the 1980s but was blocked due to opposition both in and outside government.[97] More recently, it has been advocated by the Association of Learning Providers.[98] This would mean a dramatically different experience for many people used to accessing JCP employment support while they are on benefits. We discuss this change in the next section.

The implications for jobseekers and employment support

The idea of 'customer journeys' is a useful one to think about how individuals engage with different services in their path to employment, allowing relevant stakeholders to better understand their role in the process. This taps into a desire by government to design services around customer journeys rather than the needs of organisations.[99] Customer Journey mapping has been mooted as a key method of service improvement to understand how a customer's path through a service actually feels (as used in 'In and Out of Work' pilots, for example).[100]

Generally, the more obstacles a claimant has to overcome in their route back to work, the more services and organisations they will come into contact with. Thus, in concentrating our efforts on the hardest to help it makes sense to look at how this process can be improved. It is worth reflecting on just how disjointed the current customer journey can be. Aside from JCP, long-term claimants are likely to be dealing with multiple agencies on their journey back into work: local councils, housing associations, various departments, charities, contracted and uncontracted services at JCP and, further into their claim, back-to-work providers and subcontractors. It is not surprising that many claimants find the process confusing and bewildering.

Some of this complexity will be reduced by the Universal Credit and Work Programme. But there are obvious advantages to bringing all this help together through a single agency: motivation, signposting, identification of barriers, support to address them and assistance to sustain employment, as well as avoiding information disconnects and replication of service delivery.

We believe the appropriate mechanism for this is for CommunityLink to act as a single 'gateway' for all unemployment provision, allowing all tailored support, job brokerage and post-recruitment assistance to be channeled through one portal to a single provider. In essence CommunityLink would assess eligibility for benefit and, for those eligible for Jobseekers Allowance, assess the likely length of time that the claimant would spend on benefit without intervention and the extent and type of barriers and needs that the claimant has. This would be facilitated by the use of the segmentation strategy outlined in the first section of this report.

Once these needs were highlighted and an estimate of the length of time on benefit assessed and the specific needs to overcome barriers to work understood, the claimant could be transferred to an appropriate employment support provider who would deliver targeted, segmented and personalised support and conditionality. Of course,

97 Fowler, N. 'Political Suicide: The Conservatives' voyage into the wilderness', 2008.

98 See http://www.skillsforlife network.com/default.aspx?atk=4 234; http://indusdelta.co.uk/ story/privatise_jobcentre_plus_sa ys_alp_chief/5509

99 http://interim.cabinet office.gov.uk/media/123970/jour ney_mapping1.pdf

100 'In and Out of Work Project', Department for Work and Pensions, http://www.dwp. gov.uk/local-authority- staff/housing-benefit/claims-proc essing/closer-working-with- dwp/in-and-out-of-work-project/

with the integration of so many aspects of government support, advisers in CommunityLink would also be able to refer claimants to advice and support to a wider range of public services such as childcare and social worker support.

In the long-term, we see this approach to employment support as being a natural extension of the current approach taken in the Work Programme. As such, we suggest that the segmentation tool is also used to operate a payment by results model for the employment support providers: based on sustained job outcomes and allocating more money to those with the greatest needs. However, unlike the current Work Programme model, this segmentation would occur on day one of the benefit claim and would be based on a personalised segmentation, rather than relying on broad benefit types and basic characteristics of the claimant.

> "Aside from JCP, long-term claimants are likely to be dealing with multiple agencies on their journey back into work... It is not surprising that many claimants find the process confusing and bewildering"

The objective would be to create seamless provision which revolves around the needs of the claimant. It is worth spelling out how this might look. Clients would only have to give their details once at the beginning of the process (or make one call to update details). They would only deal with a single back-to-work provider and once they had been allocated this provider, support would take the form of a seamless 'end-to-end' service, tailored around the needs of the claimant, rather than coming suddenly at the three to twelve month stage of a claim.

This would have many strategic and operational advantages, including:

- Identifying inefficient use of resources and eliminating duplication.
- Clarifying service delivery chains, enabling operational benefits.
- Ascertaining where gaps in provision and support occur.
- Aiding client interaction and messaging.
- Improving feedback and information flow to providers. Advisers in JCP typically have little sense of a claimant's progress once they have been passed to back-to-work providers and thus the impact of their referrals.[101]
- Eliminating overlap in provision between JSA trigger points and other forms of training and skills funding (which have sometimes forced the claimant to move to the mandatory scheme away from discretionary schemes – such as those available through Jobcentre Plus prior to commencement of referral to a back-to-work provider).
- Making it much easier to establish what interventions the claimant has already had from various funding streams.
- Simplifying the contract bidding process.
- Simplifying responsibility (with one organisation 'owning' the customer journey into work).
- Allowing more effective monitoring (e.g. of customer satisfaction).

101 'Jobseekers Regime test site evaluation: Qualitative research', Department for Work and Pensions, http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep580.pdf

Some of these benefits are technical and hard to quantify, but there are two over-riding benefits that such a system would deliver: better outcomes for benefit claimants and at lower cost to the state. The creation of CentreLink in Australia is a key example of where this has happened.

The experience of Centrelink in Australia

Centrelink was introduced in Australia to create a more responsive way to get people into employment and bring together other social services – including for pensioners, single mothers, agricultural payments and the disabled. It acts as a gateway for a range of public services on behalf of several different government departments. The government settled on a hybrid model: while the assessment process and benefit administration would remain with Centrelink, all employment support would be outsourced to private providers. The new organisation combined the service delivery of the Department of Social Security and the Commonwealth Employment services and was also to administer child care, youth and other social services; a one-stop shop for accessing public services across-the-board. This helped break the stigma of the service solely being associated with unemployment.

A sense of urgency was established by a short-term deadline and a $1 billion (Au.) dividend to be delivered through cost savings in the delivery of the new agency. Extensive consultation with claimants familiar with the existing service was undertaken so that problems with the previous department could be discussed. The principal criticisms were lack of respect, lack of accurate information and the necessity of giving the same information more than once and failure to fulfil three basic expectations of the service: 'just do it', 'help me' and 'relate to me' (criticisms that are often also raised with the current UK system). Rebranding of the centre helped redefine the service away from a bureaucratic culture. Negative signals were removed (such as warnings that offensive behaviour would cause the police to be called). Redesign of the queuing system reduced waiting times. A particular emphasis was put on the importance of good ICT, seeking to encourage self-service, call-based interactions and reducing footfall in their offices, with IT based policy changes implementable within a few months of the decision (the UK equivalent figure is around two years).
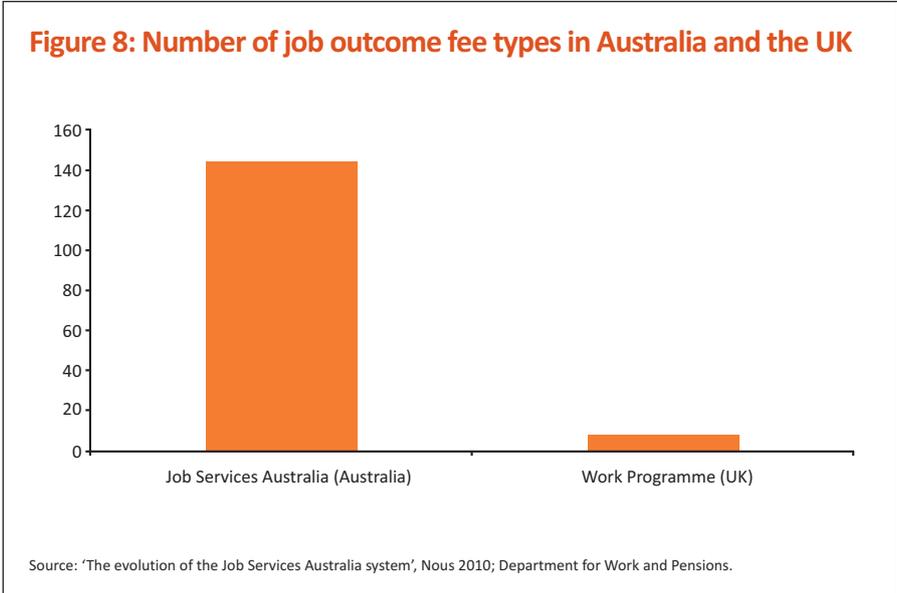
Centrelink developed a board of private sector people and representatives of government agencies. Employment registration and referral stayed with Centrelink but all job placement was done through the private sector: entirely separating the policy and service delivery functions. It serves as a conduit for employment services – funding and setting policy rather than providing services directly – creating a one-stop shop for a variety of social services and a simple purchaser-provider relationship with private back-to-work providers.

The reforms required a learning process – with providers initially taking on the easy cases and leaving hard-to-place claimants in a loop – with little affect on job outcomes. Continual reassessment of a small number of key performance indicators was combined with renegotiation of contracts as required. There was significant opposition from trade unions. However, this was overcome by flagging that the alternative was wholesale privatisation.

Backlogs were eliminated until the IT could make referral and administrative decisions in real-time (which also involved retraining and taking on more expert staff), improving staff morale and rewards. A mutual agreement is negotiated between Centrelink, the claimant and the back-to-work provider. Conditions are usually quite specific and rigorous (a minimum of ten jobs applied for per fortnight, for example),

and also include taking specific training or work experience. The requirements are increased after the first three months, including 'Work for the Dole' schemes. Reform has continued under the centre-left Labor Party, including moving into non-traditional roles such as disaster relief, life counselling and family interventions.

The key thing to note about the introduction of CentreLink is that bringing together the service provision of several different agencies has allowed considerable process reforms, identified and eliminated duplication of effort and cut overhead costs. This has allowed the government to achieve efficiency savings of 20% by eliminating paperwork, duplication and wasted effort.[102] There are also key lessons to be learnt with regard to implementing significant and ambitious reforms: constant assessment and evaluation have led to improvements of the service over time. This has led to a payment system for back-to-work providers which is considerably more nuanced than that envisaged by the Work Programme:

Figure 8: Number of job outcome fee types in Australia and the UK

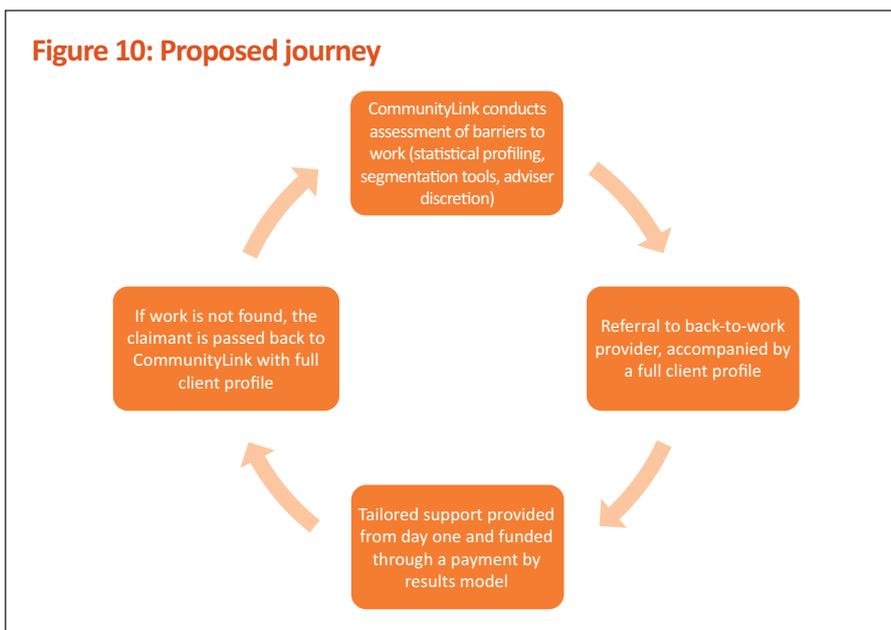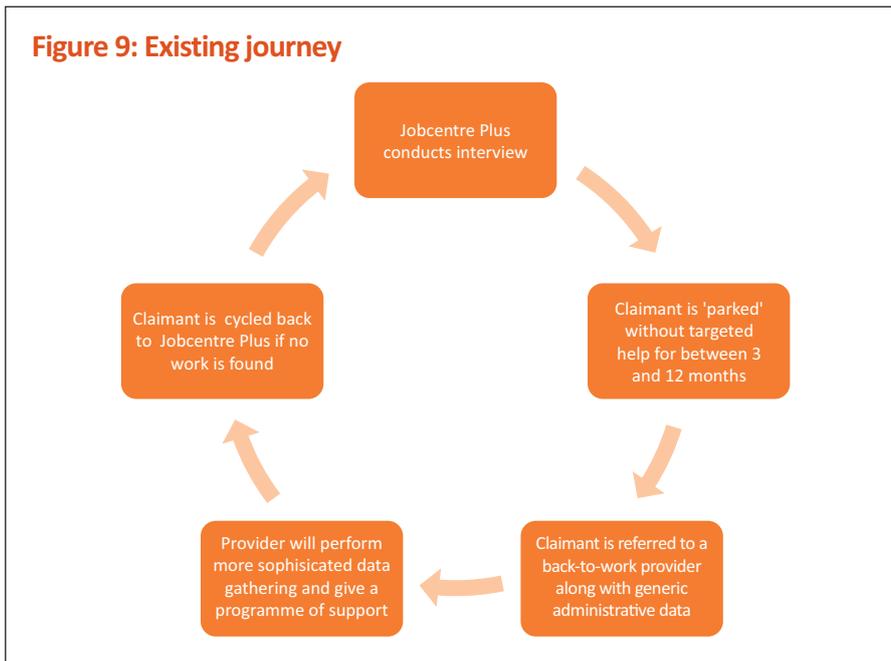Source: 'The evolution of the Job Services Australia system', Nous 2010; Department for Work and Pensions.

The diagram demonstrates that the Australian system's pricing structure has become more successful at ensuring hard-to-help groups are given adequate support, but at the price of significantly greater complexity: a total of 144 types of job outcome payment against just eight under the UK's Work Programme. This has led to difficulties for contractors in making meaningful bids, as well as driving significant compliance costs.[103]

We believe that creating a new system – more sophisticated than the Work Programme contracts but simpler than the Australian model – would deliver significant improvements in services as well as driving down costs. It should incorporate the segmentation tools we outlined in the first section of this Report and a new approach through the CommunityLink and provision of employment services from day one of the benefit claim by private and third sector providers. The diagrams below show how the customer journey of claimants would be significantly improved under this new system.

102 Grant Tidswell, Deputy Chief Executive Officer, Centrelink, Australia, 'Making Citizen Centric Public Service Delivery Happen', Public Service Summit 2010; Centrelink Cost Efficiency Review, Boston Consulting Group, 2002.

103 Finn D, 'Job Services Austrailia: design and implementation lessons for the British context', pp. 23-24, Department for Work and Pensions 2011, http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf

Figure 9: Existing journey

Jobcentre Plus conducts interview

Claimant is 'parked' without targeted help for between 3 and 12 months

Claimant is referred to a back-to-work provider along with generic administrative data

Provider will perform more sophisicated data gathering and give a programme of support

Claimant is cycled back to Jobcentre Plus if no work is found

Figure 10: Proposed journey

CommunityLink conducts assessment of barriers to work (statistical profiling, segmentation tools, adviser discretion)

Referral to back-to-work provider, accompanied by a full client profile

Tailored support provided from day one and funded through a payment by results model

If work is not found, the claimant is passed back to CommunityLink with full client profile

Permanent record

A significant advantage of our proposed model is that a (far more sophisticated) client profile is created, added to by private providers and remains with the client if they are returned to CommunityLink. Under the present system, claimants who return to the benefit agency usually start with an entirely 'clean slate', with only the basic administrative data available through the Labour Market System remaining (and that only going back two years). In addition the 'snapshot' nature of the current segmentation goes against the grain of the information's accuracy – as we have seen, the most useful answers from claimants tend to come long after the initial contact, as trust and personal relationships develop. A problem has been that providers are reluctant to refer claimants back for reassessment for fear of being accused of acting improperly. But with fully integrated IT and a single

one-stop-shop approach, claimants would have a permanent record, including periods of work, claims, training and interventions. This would help providers and CommunityLink have a much better picture of the characteristics of 'cyclers' and the long-term unemployed than exists at present and allow records to be continuously updated.

Case studies

It is worth thinking about how all these reforms might fit together. We believe that an integrated service of segmentation, sophisticated ICT and claimant monitoring, proper incentives structures for personal advisers alongside effective allocation of resources would result in a better service for *all* types of claimant, as well as saving taxpayer money through benefit savings and additional tax revenue. The following stylised case studies explore what impact we believe these reforms would have on different types of claimant.

A highly qualified person, who is IT literate, has an unbroken National Insurance contribution history and is highly motivated to return to employment.

Previous customer journey: she gives basic biographical details to the adviser, who sees her on a fortnightly basis. She finds the JCP jobs database unsuitable for the type of jobs she wants. She keeps a diary for the personal adviser but only pays 'lip service' when filling it in. She finds the interactions with the personal adviser of no value and is given no more in benefits than people who have never worked. She gains employment in the eighth week.

Proposed customer journey: Data profiling shows that this claimant is highly likely to return to employment within three months. This is confirmed by the JSCI and the personal advisers' perception that she is smartly dressed, articulate and determined to get another job quickly.

She is awarded a higher rate contributions based JSA but is not awarded any additional assistance or sent to a private provider for additional support. She is given the condition of applying for two jobs a week and spending at least three hours a week searching through the CommunityLink jobs portal, related employment sites or other job search. She does not need to see the CommunityLink adviser but is required to attend CommunityLink once a fortnight with proof of ID and 'sign in' through the jobs portal using a pin number.

In the fourth week, she fails to spend at least three hours looking through the CommunityLink portal. This is flagged automatically by the computer and an intervention by a CommunityLink adviser is triggered. The adviser decides to ring the claimant to tell her that this has happened. She explains that she has been applying for jobs through employment agencies and thus has used the portal less than she had previously. The personal adviser has the discretion to accept this without further proof and deflags her file. She gains employment in the eighth week.

Why the proposed journey is better: the segmentation tools have identified from day 1 that this claimant requires no help to return to work except the 'hassle' of fortnightly sign ins, so no money is wasted on inappropriate training. No adviser

time is wasted by seeing this client for interviews she does not need, but CommunityLink have a much clearer picture of what she is doing – when this monitoring triggers a personal adviser intervention, the personal advisor has the discretion to deflag the file without significant time being wasted. The process is more efficient in the sense that the claimant is not compelled to attend unnecessary interviews or, in the longer-term, training she does not need, but the journey remains largely the same and the claimant returns to work as quickly as she would have done otherwise.

Long-term unemployed who has 'cycled' in and out of employment, has health problems and does not want to work

Previous customer journey: The claimant reclaims, having done so several times before, but this does not show up on the system, having happened more than two years earlier. The claimant is not asked about his health problems and is given no support to address them. The claimant fills in his Jobseeker's diary with suitable activities and claims to be seeking work but does not think he can get a job he wants and does not complete these activities. The claimant is referred to back-to-work courses but these are generic and do not address his psychological barriers to work. He is eventually referred to a private provider and is sanctioned for failure to complete Jobseeker Directions. Sanctions are applied but only after several weeks' delay, with its impact mitigated by crisis loans. The claimant does not return to work.

Proposed customer journey: The claimant is identified as having multiple disadvantages via statistical profiling and the JSCI. NHS records and a long claimant history show that the claimant is unlikely to find employment within a year. The jobs database portal flags that he has not been applying for jobs nor spending significant time in job search. The adviser recognises he has attitudinal problems. He is fast tracked to the Work Programme with a large contract fee and found work within six months.

Why the proposed journey is better: The customer's particular needs are identified early and dealt with accordingly. Monitoring of conditionality is automatic and effective. The claimant is fast tracked to Work Programme assistance and has more and better targeted resources devoted to his case. Benefits are saved by the claimant's quicker return to work.

Homeless long-term drugs user

Previous customer journey: The adviser takes basic biographical details from the man during the initial interview. Recognising that he is homeless, she refers the man to a homeless charity but this makes little difference to his claim. His drugs problem is not identified and it grows progressively worse over time. JCP send him on compulsory courses, but these are inappropriate for his needs. He is referred after three months from JCP to a back- to-work provider for additional help. But since the claimant is unlikely to gain employment soon and has little additional money attached compared to those more job ready, his personal adviser gives him little help, concentrating on those more likely to gain work. Little rehabilitation is achieved. The man does not always attend his employment

provider appointments and so is sanctioned regularly, but is unable to connect these sanctions with his actions. He returns to JCP at the end of the provider's programme. Three years have passed – the man has never found work and does not have a realistic prospect of doing so.

Proposed customer journey: The drugs problem is identified on day one by the adviser. The customer is immediately referred to a private sector contractor who in turn refer him to a specialist drugs treatment sub-contractor. Since the JSCI has identified the man as being severely disadvantaged, and liable to long-term unemployment, considerable financing accompanies his rehabilitation. This means that considerably more money is allocated to supporting him. As a consequence, his personal adviser is able to give a lot of time to devote to his case and, recognising that the rewards for success will be significant, gives the claimant considerable assistance. After treatment, intensive conditionality is applied, including regular interactions with the personal adviser. The claimant is required to apply for at least five jobs a week through the CommunityLink jobs portal and other employment websites as well as ten hours on these searching for jobs. He is able to fulfil the conditions thanks to proper treatment and is never sanctioned. He gains employment after nine months.

Why the proposed journey is better: The man has several barriers to employment which are immediately addressed, so no time is wasted leaving him on benefits or money misused by sending him to completely inappropriate courses. The man's drugs problem is properly addressed thanks to it being properly identified and considerably more money is given to the provider to reflect the cost of helping him overcome multiple constraints. As a result, the man is not sanctioned and is able to return to work.

Conclusion

These case studies show just how effective this new approach could be in finally providing the personalised support and advice that jobseekers need to tackle the barriers they face. They show that reforms are needed to bring together the delivery of a number of different government services into CommunityLink and so that better segmentation can be used to target employment support that is delivered by private and third sector experts. However, we realise that such fundamental reforms cannot occur overnight. The next chapter considers how we might transition to this new system.

4
Delivering CommunityLink

Creating this service will require significant reform. In particular it will need to be administered across departmental boundaries – being accountable to the Department for Work and Pensions; the Department for Education; the Department for Business, Innovation and Skills; and the Ministry of Justice amongst other central government departments. This will be a challenge, but the possible rewards are too great not to push forward.

We also recognise that there are also many models under which the relationship between the CommunityLink and private sector providers could work. For example there are numerous different models of pricing of employment service provision that should be explored in order to ensure benefits to both the exchequer and the providers. It is of vital importance that we learn lessons from both the Work Programme and the Australian experience of CentreLink when assessing and designing these models.

We believe that providers of employment services should be paid on the basis of sustainable employment with amounts differentiated according to particular groups. This might work in a similar fashion to current Work Programme contracts or, for example, could use a similar model to that used in Employment Zones where an upfront payment could be given to providers to deal with the problems of each client.[104] Both of these methods would need to be based on a segmentation tool, qualitative input from firewalled advisers, and marketing, information and credit rating company data as we outline in the first section of this Report. The payment should be differed according to a prediction as to how long (from a non-interventionary base) that particular claimant would likely be on benefits.

Continual improvement and planning for implementation

A key feature of this approach is that it should be flexible over time. A detailed evaluation and testing plan needs to be done in order for the structure of contracts and the system as a whole to be adjusted to focus on what works. In particular, as we discussed in the first section of this Report, the segmentation tool will need to be evaluated regularly and updated to reflect new information as it comes in. This sort of approach to testing has been particularly important in making Centrelink a success in Australia.

We also recognise that trying to implement this new approach immediately would be a mistake. There are a number of reforms going through Jobcentre Plus and the Work Programme needs chance to settle down and for providers

104 This method is generally popular among Employment Advisers as it allows them full control of benefit distributions, conditionality and sanctions and allowed less scope for some claimants to 'play off' Jobcentre Plus and the employment support provider against each other.

and the Department for Work and Pensions to assess how successfully the payment model is performing. Such large reforms of Jobcentre Plus and the provision of employment support will also take time to implement: advisers will need to be trained to deal with their new responsibilities; private and third sector providers will need time to build capacity and supply chains to deal with increased demand; and, most importantly, significant research and testing will need to be undertaken to create a segmentation process as described in the first section of this Report.

For these reasons, we recommend that the creation of CommunityLink is staged over a number of years, beginning with pilots. At the latest, the CommunityLink could be introduced when all claimants have been transitioned to Universal Credit, in 2017/18. This would allow time for an effective segmentation tool to be developed and for the Work Programme to become fully functional. We believe that staging over this time period would also bring short-term benefits for JCP and its staff.

Below we outline how these reforms could be staged and the implications for JCP in the short-term, both in terms of reforms that could improve performance now and ways in which they should prepare for their role in the new system.

Preparing for the new system

As the first step towards this new system, the government must announce its intention to move to the provision of employment services completely to the private and third sector. It is important to be clear of the intention so that enough certainty is created in order for providers to build up capability. However, this will undoubtedly bring uncertainty in JCP. This means that government must also communicate these reforms effectively with staff in JCP and also implement reforms now to prepare the ground for CommunityLink.

We propose that, in order for a smooth transition to the CommunityLink JCP is effectively split into two distinct roles now:

- *Segmentation/claim management:* One part of JCP will be responsible for new claims and segmentation (as far as it already exists) and for day to day management of the conditionality regime. With the reforms we outline below, this part of JCP will look and act like the CommunityLink to be introduced later.
- *Employment support:* The second part of JCP will be responsible for providing employment support for those people not yet eligible for the Work Programme (as far as it already takes place in JCP). This part of JCP will be taking on the role that private and third sector providers will take on when the CommunityLink is created.

The importance of splitting JCP now is that each of these distinct segments will be able to build expertise and experience in delivering the services that they will when the CommunityLink is introduced. There are also potential advantages in terms of the retention of JCP experience of providing employment support and the transfer this knowledge to third sector providers in the longer-term.

Providing employment support

A key advantage to having a defined part of JCP providing employment support is that new models of public service provision may be employed before the creation of CommunityLink. For instance, we have already seen social workers move out of Local Authority control and set up their own *Social Work Practices* to manage foster care provision for children. In the interim between now and CommunityLink being set up, a similar scheme could be introduced for JCP staff. This would allow those that wished to, to break away from JCP and form their own organisation to bid for and deliver employment services in a similar fashion to the Work Programme. The box below gives examples of these new delivery models.

New models of public service delivery

Limits on public spending and capital investment have led to discussion of moves away from the binary choice of state-run or centralised models of privately outsourced public services. The government is developing new models and corporate governance structures which encompass all employees and service users as stakeholders. This has led to discussion of how to improve the role of civil society in public service delivery, restructuring procurement processes and making greater use of shared services.

The idea is to create new models of partnership, in which social enterprises and mutuals can engender operational flexibilities and social benefits beyond the scope of their original remit and deliver substantial improvements in public services. Many studies have shown that localised services can be more effectively delivered by private and third sector organisations rather than central government. Genuine 'ownership' by employees of mutual-based public services can enthuse staff, spur innovation and drive down costs. This means not just a reassessment of traditional outsourcing but finding new ways to engage traditional private sector outsourcing firms, social enterprises, employee co-operatives, local authorities, community organisations and not-for-profit groups. Collaborative business relationships, such as mutuals in which employees have a say in the running of the organisation and receive a share in its annual profits, it is believed, will allow the sharing of best practice thereby developing talent to create more innovative, locally-focused public services.

New initiatives have already begun: the 'Right to Request' programme allows NHS staff and social workers to bid to run services independently with a new Enterprise Incubator Unit being set up to nurture this process. A 'Right to Provide' is being developed for public sector workers to form employee-led organisations and take over the services they deliver. Local council staff have a 'Right to Challenge', creating a bidding process for the procurement of services for which they can compete alongside other groups. In addition, the Mutuals Pathfinder Project has set up over twenty independent social enterprises across a wide range of services. Free Schools are being set up by local people to improve educational standards in their community. Plans have recently been announced for the first genuinely Mutual Joint Venture from central government with the My Civil Service Pension (MyCSP), which will allow civil servants to have a say in the delivery of their pension provision for the first time.

This would be an ideal time to implement such a scheme in JCP. Since we recommend that the CommunityLink is fully implemented when the transition to Universal Credit is complete, this would allow fledgling mutuals or social enterprises time to set themselves up in the market and gain market expertise. When CommunityLink is set up and the employment services market opened up to the wider private and third sector, this will mean that the mutuals and social enterprises should have built up the capability to both compete for prime contracts and to be subcontractors of the larger providers. This would both introduce competition into the market and also mean that the expertise currently present in JCP would be maintained and built upon in the new system. Provider capacity issues would also be effectively tackled as they would have a ready-built supply chain of expert advisers.

We believe that this approach would bring significant benefits in the short-term through better service provision. However, there are other reforms that need to be implemented to allow this approach to work. Again these would bring JCP practices, in both segmentation and in employment support, closer to those that have been proven effective in both the private sector in the UK and in other countries. They would also prepare JCP for the move to the CommunityLink and build capacity and experience of personalisation and segmentation techniques. We outline these reforms below.

Changing the priorities of Personal Advisers

As we have seen, JCP advisers are largely judged on the basis of key performance targets: how long they spend with each claimant; how many claims they can process; their average time taking a phone call and so on. In the early stages of a claim, this process-orientated approach largely prevents personalisation of the service and what scope for personalisation exists is thwarted by the competing needs of 'hassle' and 'help'. The rewards that advisers receive are not effectively linked to performance and national pay scales dominate the setting of salaries.

This suggest three things: first, as we have already discussed, that splitting the hassle and help roles of the adviser should improve incentives and the functioning of the adviser – claimant relationship; second, that advisers should be given greater discretion in how they interview and treat claimants; and third that adviser's performance reviews should be based on job sustainability.

The first of these areas is massively important. We outlined in our first Report in this series, that some claimants are not doing enough to try to find work. Thus, we believe there is a pressing need to be clear from the start about the moral obligation claimants have to find work and the consequences of not doing so. Help is not given just to provide help. It has a goal – to enable someone to find work as quickly as possible. Thus it is vital that there is a 'challenging' element in the relationship between claimants and JCP – reforming an individuals' preconceptions about work and taking a 'tough love' approach. Doing this would require reforms to tackle the issue of the tension between 'hassle' and 'help'.

The introduction of CommunityLink will allow this to happen, and in the short-term this will be tackled by splitting JCP into two distinct services, as we have outlined above. We also outline below how this can be aided with better automation of the sign-on (hassle) element of JCP, such that more advisers can

focus their attention on those who need help. For those parts of JCP delivering employment support and controlled by mutuals or social enterprises, we envisage that these areas will be tackled by the improvement of management resulting from decentralisation and the better alignment of incentives. However, for those parts of the employment support section of JCP that remain under JCP control, significant reforms will be needed.

A key reform to ensure that the part of JCP delivering employment support function effectively is to re-orientate the objectives of personal advisers away from claim management. In the short-term, before CommunityLink is introduced, claim management will be delivered by the segmentation arm of JCP, leaving personal advisers providing employment support to focus on getting claimants into work. These personal advisers should therefore be judged by their ability to get people back into work and sustain them there. This means that the role of the adviser should be to examine what jobs are available and find appropriate candidates from the pool available to them – rather like a private recruitment agency. This would mean that advisers need to place a much stronger emphasis in building stakeholder relationships with the employers as well.

> **Ultimately, if advisers are individually rewarded and managed based on their ability to place claimants into sustained jobs, they will use their judgement to deliver a service that maximises long-term employment**

As well as a stronger emphasis on delivering sustainable job outcomes, advisers also need to be given more discretion over the treatment of claimants. This has been highlighted in many previous reports and reviews and fits squarely with our belief that better segmentation is key to reducing unemployment in the long-term. This will mean that advisers need to build stronger relationships with the hardest to help claimants. As we have stressed this should begin with better segmentation and assessment of needs from day one of a claim and would require advisers spending more time with those claimants with the greatest needs.

Ultimately, if advisers are individually rewarded and managed based on their ability to place claimants into sustained jobs, they will use their judgement to deliver a service that maximises long-term employment. For this reason we see essential short-term reforms as being to end *national pay bargaining in JCP and to reform financial incentives along the lines of private sector back-to-work advisers or recruitment consultants.*

For advisers engaged in employment support services, this would require personal targets linked to job sustainability as the key basis for performance reviews and remuneration. The box below gives an example of how this works in the private sector. For those involved in segmentation and wider advice services, other performance indicators will need to be developed.

Our reforms would make personal advisers more like those of private employment consultants or advisers in the Work Programme. This is true both in terms of the rewards they receive and the relationships with claimants and employers. However, our belief is that this approach will be somewhat limited by the action of trade unions and the sheer size of JCP. This means that our approach of splitting up JCP in the short-term and allowing the creation of mutuals and social enterprises to deliver employment services, along with the longer-term introduction of CommunityLink will be essential to these improved incentives and outcomes being delivered effectively.

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How jobmatching is rewarded in the private sector

Recruitment agencies act as a point of contact between employers looking to recruit and potential employees and are generally paid by the employer once the position is filled. Business models range from paying part of the fees upfront to the entire payment being made when the recruitment is successful, often segmented in a sector or function specific way. Recruitment firms usually determine the candidates' suitability for the role, acting as a screening process for the hiring firm. Determining this usually begins with existing contacts and contacting people who fit the specification.

'End of process' fees tend to result in a preference for easy to find placements. Other structures include a performance retainer model, with payment at the start, a payment when candidates are determined and a further payment once the appropriate candidate is placed. Recruitment consultants are generally given targets for fees income as well as the operating margins. Consultants are often rated relative to each other, which also affects their bonus.

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Technological changes at Jobcentre Plus

We have highlighted that a major limitation to the function of JCP for employers, jobseekers and JCP staff themselves is the current IT system in the national network. JCP is exploring new ways to upgrade its jobs database through its 'transforming labour market services' project.[105] It seeks to upgrade existing IT for job placing and job searching, including matching claimants to particular vacancies.

A key reform that will be needed on top of this upgrade will be the integration of a segmentation tool for the claim-management/segmentation arm of JCP to use for new claimants. This will be essential in ensuring that JCP can manage its resources and properly focus its attention on those with the greatest needs in the short-term. It will also allow the Department for Work and Pensions to collect data and analysis and to build expertise in order deliver the segmentation model outlined in the first section of this Report, when CommunityLink is introduced.

There are also wider benefits to the IT upgrade going through JCP. We believe that this must be ambitious if it is to enable JCP to deliver a better service and in order for CommunityLink to be effective when it is introduced. For this reason it must make use of new technologies used by private job and recruitment websites.[106] These could include semantic searches – with software that seeks to 'understand' the contextual meaning of words to generate more relevant results.[107] Unlike the ranking algorithms used currently, which provide 'keyword' results, this approach should deliver more contextually relevant information. This could include the ability to 'read' CVs and match them to relevant jobs from an online database, rank jobs by relevance and segment them effectively.

This technology could be used by claimants using JCP terminals to look for jobs. It should be run automatically and suggest matches forwarded on to the client through personal online accounts.[108] In simple terms, this would mean that if a claimant searched for 'hairdressing jobs' matches might include hairdressing as well as other jobs like receptionist positions because they are likely to have similar customer services skills. In short, it searches for all jobs that might be suitable for particular skill-sets, rather than just the phrases searched for.

105 See 'Jobcentre Plus Delivery Plan 2011 to 2012', Jobcentre Plus 2011, http://www.ersa.org.uk/downloads/jcp-delivery-plan-2011-2012-86Li2A.pdf

106 'Jobcentre Plus Digital Services Programme Phase 1', Department for Work and Pensions 2011, http://www.dwp.gov.uk/docs/jcp-bt-eia-digital.pdf

107 Parliamentary Question, : HC Deb, 13 June 2011, c665W, http://www.theyworkforyou.com/wrans/?id=2011-06-13a.58378.h&s=section%3Awrans+speaker%3A24897#g58378.q0

108 Williams B, Holmes C, Hunt J, Phillips J, 'Developing an online service: Customer research into the benefits and likely uptake of Automated Service Delivery (Jobseeker's Allowance)', Department for Work and Pensions 2011. http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep734.pdf

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Case study: Monster.co.uk

Monster offers three main posting options – an Extended Post (60 day listing refreshing every 7 days), a Network Post (30 day listing with additional listings on industry-specific websites) and a Premium Post (30 day listing with 10 CVs). The latter matches the post's requirements with CVs from Monster's database meeting certain criteria – location, education, experience and so on, with candidate's with the best fit listed first, meaning organisations can advertise their jobs and get qualified responses the same day.

Alternatively, recruiters can pay for access to the CV database; if they pay for a job to be posted, a search technology called '6Sense' can be used to match people with jobs, with candidate's qualifications being shown for free (though they must pay to see contact details). Their Talent Management Suite contains the largest CV database (4.6 million) in the UK. It possesses a Configurable Applicant Tracking System and integration functions for companys' Human Resource Information Systems (HRIS). Its systems are able to 'pull' job vacancies from small and specialist sites anywhere on the Internet and provide a one-stop shop for customers with a wide range of experiences and skill sets.

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In addition, this project could potentially create an integrated CV building tool, which can then be put online in a fully-fledged database available for potential employers – as well as providing much more sophisticated data on the characteristics of claimants, making it easier to target help. This is significant because effective jobmatching is one of the key ways to get claimants off benefits faster. If this technology was integrated into other more specialised job vacancy websites (in the manner of private providers – allowing 'unfirewalled' pulling of job information from specialist websites) it would allow a one-stop-shop for many different types of claimants to use.

However, this technology could be extended further than is currently mooted. Since a CV building tool would require an online profile, a further advantage of this technology is the ability to monitor a claimants' activity much more effectively. For example, it could enable JCP to determine: how long a claimant has searched online, what jobs they have applied for and how relevant these jobs might be. The tool might also be used to determine whether the claimant is taking the right approach or how serious they are about finding work. However, since many jobs are found from the claimant's social networks, are not advertised online or at all, this should be supplemented with an online search diary for lower risk claimants, perhaps with higher conditions for the long-term unemployed, such as minimum times spent searching online or applying for jobs per week. This would make the process more like a professional employment agency with semantic job matching, applicant database and easy monitoring of jobs filled. Since the majority of these facilities will be incorporated into JCP's transforming labour market services project, the use of this technology in monitoring and enforcing conditionality requirements could be done at minimal cost. These possibilities will be explored in more detail in a future report.

Another advantage is this system's potential to reduce the time taken by advisers on low-risk groups likely to get back to work more quickly. For example, the segmentation/claim-management arm of JCP would be able to refer claimants with greatest needs to the employment services arm, while others with lesser

barriers to work could be directed to use JCP's new IT system without further adviser interaction. This would allow both the claim-management arm and the employment support arm of JCP to focus more attention on those either unlikely to fulfil their claimant obligations, or those who have the greatest barriers to work.

First, we should be clear that the introduction of better IT should not be about removing the requirement for claimants to attend fortnightly sign-ons. DWP officials are clear that making claimants attend fortnightly sign on meetings in person is a crucial part of encouraging people into work. We agree, and there is good reason to keep to this requirement. In a randomised controlled study from 2006, the Department found that delaying the initial meeting to 13 weeks had 'a significant negative impact on off-flow rates', because people took longer to find work.[109] The same was true of regular si+gnings conducted by telephone rather than in person. The same nominal requirements to search for work existed in all cases; the only difference was the requirement to attend in person.

However, it seems that it was the added 'hassle' of having to show up that was doing much of the work in getting people to find work rather than the contact with advisers. This is borne out by two other results from the same experiment. Trials of shorter sign-on meetings, and of group sign-on meetings, found that there was no evidence that these affected the off-flow rate.[110] Having less personal attention in these meetings made no difference to their effectiveness.

This means that the majority of claimants could sign-on through existing touch-screen terminals in Jobcentre Plus at a specified time, without diminishing the deterrence of conditionality (i.e. turning up for fortnightly sign-ins), providing this was appropriately monitored. This could free up significant time for claim-management advisers to provide more targeted conditionality monitoring to those most unlikely to fulfil their obligations: only if a claimants' file was flagged (for example, because they had not applied for enough jobs in the past two weeks) would claimants be mandated to see a personal adviser in the 'hassle' role. Instead of seeing each client for only five minutes, an adviser could see perhaps only 10% of clients for fifty minutes.

This approach would also free up substantial time for the employment support arm of JCP. The automation of claimants monitoring and improvement in the search function and information provided on the system, would allow the segmentation/claim-management arm of JCP to refer only those with greatest needs to the employment support advisers. This would free up employment support advisers to act more like recruitment consultants, concentrating on filling the jobs available in the 'help' role for those with greatest needs.

One obvious limitation to this system would be that it might be inappropriate for claimants who have few or no IT skills. Around 16% did not use the internet in 2009.[111] In a sense, this could become a net positive: necessitating training these claimants in basic IT literacy: a key requirement for the modern workforce. For this group, we suggest group sign-ons combined with a 'job club'. Access to the digital inclusion programme through existing Digital Champions could achieve much the same efficiency savings in adviser time.

109 Middlemas, J. *Jobseekers Allowance intervention pilots quantitative evaluation.* Department for Work and Pensions, 2006, p.51

110 Ibid p.52

111 FDS International (2009) *Segmentation of Autumn 2009 Customer Insight Data Based on Internet Usage*.

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Conclusion

This Report has outlined that our current system of employment support is both unfair and ineffective. It does not provide a personalised service. This means that some claimants with significant barriers to work are left without support and with a strict conditionality regime for up to 12 months before being able to access effective employment support. This is costly to both the state and to the individuals involved. With more effective and better-targeted support, we can realistically expect average times on benefit to reduce and job matches to result in more sustained employment. This will save the exchequer money and reduce unemployment, poverty and social exclusion. To reach this point, significant reforms are needed to how we provide employment support. The first section of this Report recommended that we introduce an effective segmentation tool that uses both information from DWP and other government departments along with data from the private sector in order to estimate the length of time claimants would be likely to spend on benefit in the absence of employment support. This information should then be used to target employment support effectively from day one of a benefit claim. Greater personal adviser discretion would also support this approach.

The second section of the Report outlined that in its current state JCP is neither able to deliver this segmentation tool, nor to deliver effective and efficient employment support. To tackle this, we recommend that the provision of employment support is completely contracted out when Universal Credit has been introduced and that a new organisation, CommunityLink, is introduced to act as a one-stop-shop service for access to government support services.

CommunityLink would join up access to employment support with the provision of skills and careers advice and bring childcare support, benefit claims and notifications of changes of circumstances across the range of government services all into one place. With reforms in the short-term to build capability, the JCP network is ideally placed to deliver these services as the CommunityLink and to implement and run an effective segmentation tool that targets outsourced employment support on those with most needs and greatest barriers to work.

This will be a major reform of the current system. To allow for a smooth transition we recommend that in the short-term, JCP is split into two distinct arms: one delivering segmentation/claim management; and one delivering employment support. This will bring JCP more in line with its role in the long-term and will also allow new models of public sector provision to be rolled out in the short-term to improve delivery of employment support. The employment support arm of JCP is a prime example of where mutualisation and

social enterprises could work effectively to deliver public services. Coupled with the long-term outsourcing of employment support, such an approach would build competition in the employment support market as mutuals and social enterprises breaking away from JCP will have time to build experience, skills and expertise in order to compete for prime, or sub-contracts, when the services to be tendered by CommunityLink are introduced.

These reforms will finally provide personalised and targeted employment support for the UK. They will draw on best practice from around the world, and from the experience of the UK. On their own they will improve outcomes for the unemployed and reduce state expenditure. In combination with the reforms we set out in other parts of this series of reports they will fundamentally change the nature of the welfare state in the UK. Our reforms will re-balance the welfare state to ensure that the mutual obligations of the state and the claimant are re-built at the heart of the system. They will put work first and provide individuals and families with the support they need to get into sustainable jobs. They will reduce expenditure while improving outcomes. In short, they provide the framework for a modern and effective welfare state.

Annex: Summary of Recommendations

Segmentation

1. Segmentation should happen earlier and be used to provide earlier and more intensive support for those with identified barriers to work. Ideally it should be delivered from day one of a claim and it should encompass:

   - Greater gathering of data from the claimant;
   - Greater use of data held by DWP and other government departments; and
   - Use of information held by private sector firms, such as credit rating agencies.

2. To facilitate the effective use of this data, we propose **developing a Jobseeker Classification Instrument (JSCI)** to identify specific barriers to work so that support can be better targeted. This would estimate the length of time any claimant would be expected to spend unemployed in the absence of any employment support. This estimate could then be used to target employment support more effectively.

3. **Personal advisers should be given more power to identify at risk claimants**. This would give advisers a say if they think that the classification tool has not been effective for a particular claimant.

4. This segmentation approach should be developed now in collaboration with JCP and Work Programme advisers, academic experts and those with international experience of the approach in other countries. The tool should then be piloted and continually evaluated and adapted to reflect the results of this evaluation.

Managing short-term costs

5. While in the long-term, this approach will lead to significant savings, it is likely to be associated with larger up-front costs. For this reason we believe it would be prudent to divert people from the system by increasing work search requirements before benefits can be claimed. **We propose that claimants should only be eligible for means-tested working benefits if they can demonstrate that they have looked for work themselves for two weeks**. Those in need can apply, as at present, for hardship payments or crisis loans. This is one way in which, working alongside better targeting of support, the conditionality system can deliver savings. These will be considered in more detail in our next report.

A vision for Jobcentre Plus reform

The use of segmentation outlined above would be a dramatic step away from the current approach. But we believe that JCP is incapable of achieving this in its current form. JCP is effective at processing large numbers of claimants quickly and cheaply but is poor at identifying and targeting help at the most at risk and using staff productively. This informs our view that:

6. **A one-stop-shop access point to government services should be created**. This CommunityLink would be formed out of a reformed JCP and would act as a single portal not just for benefit claimants, but for skills and careers advice and childcare and other core government services and support.

7. To facilitate this move **employment support should be contracted out to private and third sector firms**. They should be paid on a payment by results basis, with payments differentiated by the results of the segmentation tool.

8. CommunityLink should be responsible for making an initial assessment of all benefit claimants using the segmentation tool and for sending all of those who require additional support to private and third sector contractors.

Getting to the new system

These reforms form an ambitious vision for the welfare state and the interaction between the individual and the state more generally. It will take time to develop an effective segmentation tool, to pilot its operation and to revise it in light of the findings of its evaluation. There are also several reforms already taking place within JCP. For these reasons we recommend that the creation of CommunityLink is staged over a number of years, beginning with pilots. There are, however, clear steps that need to be taken for this to happen effectively. For this reason we outline short-term reforms that will allow for a smooth transition to CommunityLink and the new system of employment support.

9. As the first step towards this new system, the **government must announce its intention to move to the provision of employment services completely to the private and third sector**.

10. We propose that, in order for a smooth transition to the **CommunityLink, the functioning of JCP is split into two distinct roles now**. One part to deliver segmentation and claim management; and another to provide employment support. This will allow each of these distinct segments will be able to build expertise and experience in delivering the services that they will when the CommunityLink is introduced.

11. New models of public service provision should be employed in the employment support side of JCP before CommunityLink is created. **This would allow JCP staff to set up mutuals or social enterprises to deliver employment support and to start to build market expertise** so that they could compete with private and third sector firms when CommunityLink is created and employment support contracted out.

Other short-term reforms

As well as these reforms to pave the way for the transition to a new model for the provision of employment support, we believe there are other reforms that will make employment support more effective now and to prepare JCP for its future role. These focus on improving the IT employed within JCP, freeing up adviser time and better incentivising advisers to deliver sustainable employment outcomes for claimants.

12. **We believe that all income-related, active job search claimants should be required to write a CV at the initial point of the application process and a national CV database should be created**. Individual accounts for each claimant could show how long each claimant has searched for jobs, how many they have applied for and, through semantic search and natural language processing IT, whether the jobs searched and applied for are appropriate. This should provide an easy verifiable form of job-search conditions and allow advisers to flag those claimants either not fulfilling their obligations or those who might need more support.

13. To accompany this approach, we believe that **a large portion of claimants should use electronic sign-ins at Jobcentres on a fortnightly basis** (with code numbers through Jobpoint stations, for example), rather than seeing an adviser. This would free up personal advisers to concentrate on at-risk groups while preserving the conditionality of mandating attendance at JCP.

14. **DWP and JCP must begin to collect and manage data on claimants better**. At the very least this should include maintaining a full claim history and recording details of periods of work, training and adviser interventions.

15. **Instead of the opaque, group-level targets, personal targets linked to job sustainability should be used as the key basis for performance reviews and remuneration. National pay bargaining should also be ended.**

Together, our reforms will re-balance the welfare state to ensure that the mutual obligations of the state and the claimant are re-built at the heart of the system. They will put work first and provide individuals and families with the support they need to get into sustainable jobs. They will reduce expenditure while improving outcomes and provide the framework for a modern and effective welfare state.

The support and advice unemployed people currently receive is in general determined by two factors: how long they have been claiming benefits and what type of benefits they are claiming. But this means those who are furthest from the labour market have to wait up to a year to get the help they need. This report argues that the current system of employment support is letting down the unemployed and notes serious problems with Jobcentre Plus (JCP), the agency tasked with helping the unemployed back into work. It recommends that JCP should be replaced by a smaller, cross departmental organisation called "CommunityLink". The main role of CommunityLink would not be to hand out benefits but to identify the support that people need and get them into long term work. The report sets out how an effective and personalised employment service rather than a benefits office would be of greater help to those looking for work. CommunityLink would be used to target this support at those with the greatest needs from day one of a benefit claim, replicating the Australian model which focuses on making a detailed profile of claimants' needs and underlying problems.