



Prime Minister (2)

I will resubmit, with
 advice, when the DHSS and
 other papers come forward.

M/S 11/2

PRIME MINISTER

UNEMPLOYMENT

I was asked to examine possible modification and continuation of the Temporary Short Time Working Compensation Scheme (TSTWCS), a possible partial retirement option and the Workfare proposal. I attach a note by officials covering all three matters and setting out in the final paragraph the questions which arise.

The main question is whether we want to expand the impact of the special employment measures this year. I was asked to look into the possibility of modifying TSTWCS and continuing it further on a temporary basis after March 1984. Since we decided last year to end it in March 1984, unemployment has continued to rise, and in recent months there has been a reversal of the downward trend of short time working, and a small but unexpected increase in applications for the scheme. To open the scheme to second comers would be of particular help to the textiles, clothing and engineering industries and if, as proposed, the employer has to meet part of the cost, this would help reduce deadweight and the subsidy effect. If the resources were available, we could open the scheme to second comers in April this year and extend its life to March 1985 (Option 2 in Annex 1 of the officials' note). This should keep around 20,000 people in work and off benefit at an additional gross cost of around £100 million in 1983-84 and in 1984-85. But the net cost would be very low - about £20 million in each year - because payments under the revised scheme would be little more than benefit.

I think we
 should have
 to revise
 this
 view:

We came to the view on 23 December that we should leave over for consideration later in 1983 national extension of the Enterprise Allowance Scheme. I have accordingly since approached the Chief Secretary for funding the existing five pilot schemes until end March 1984.



However, a number of Ministers have urged the merits of this scheme and as an alternative to TSTWCS, or even if resources permitted in addition to, we might usefully consider the possibility of starting a national, or more limited Enterprise Allowance scheme (although it is hard to see a satisfactory basis for a scheme limited to parts of the country). The Scheme has particular appeal in that it enables the unemployed to start themselves in businesses which in turn can lead to the creation of new jobs. Although the net cost per person off benefit is somewhat higher than for other employment measures, these uncertain estimates do not take account of the longer term advantages. The gross cost of a scheme starting in July and running indefinitely would be around £45m in 1983/4 and £145m in 1984/5 and successive years. (The net costs would be about £20m in 1983/4 and £65m a year thereafter). About 22,000 would be off benefit in a full year.

I continue to believe that the Job Release Scheme is a very sensible instrument to use during a period when male retirements are lower than normal and will continue so until the mid-1980s; and that introduction of a part time variant will be a useful and cheap addition. However, it would not make sense to introduce changes until April 1984 when the present JRS will, in the absence of a contrary decision, fall back to age 64. Of the two options presented in Annex 2 to the officials' note, I would prefer the second - namely, to move the full time eligibility age back in April 1984 to 63 (save for the disabled) and to provide for partial retirement from age 60. On the basis that the Job Splitting subsidy would not apply to these JRS jobs, this should take over 70,000 off benefit in 1984-85 at a gross extra cost of nearly £100 million (about £20 million net) that year rising to about £180 million (about £50 million net) in 1985-86.

But I suggest that we view this together with Norman Fowler's paper on retirement options. For my part I would like to see us



building a coherent retirement package for the employed and unemployed over age 60, based on the Select Committee idea of 63 for the common retirement age. We need to avoid a longer term commitment to early retirement because of the demographic implications for the pensions burden in the 1990s. But that should not prevent us doing something imaginative and sensible now in a form expressly related to the present unemployment situation and therefore reversible.

The official note also sets out the lines of a possible Workfare Scheme. It is quite clear that we cannot introduce this alongside the Community Programme (CP) and that we must give the latter a clear run to get our 130,000 target in the course of 1983-84. In the light of our experience in trying to get the Workfare principle accepted into CP last year I am doubtful about its feasibility. I suggest that we decide that no such scheme should be introduced before the CP has run its guaranteed two years in 1984, but that officials should work the Scheme up into final practical form so that it is ready if we decide to go ahead then.

I am sending copies of this minute and its enclosures to the Home Secretary, the Chancellor, the Secretaries of State for Industry and for Social Services and to Mr Sparrow and Sir Robert Armstrong.

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9 February 1983

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EMPLOYMENT MEASURES

Note by the Department of Employment

The Secretary of State for Employment was asked

(i) to look into the possibility of modifying the Temporary Short Time Working Compensation Scheme and of continuing it on a temporary basis after March 1984;

(ii) to examine further the possibility of introducing a partial retirement option;

(iii) to study further the workfare proposal.

2 Detailed notes are attached on each topic. The main points and questions are as follows.

Temporary Short Time Working Compensation Scheme (Annex 1)

3 The CBI and others are pressing to admit second applications to the scheme and to extend it beyond March 1984 - the closing date already announced. To do so might be regarded as propping up jobs which are not viable, but could also be seen as giving firms breathing space in a period when the economy and employment have not picked up as had been hoped.

4 France and Germany have schemes which allow re-entry after periods of up to a year. But these are permanent schemes - as is our payment of unemployment benefit to the temporarily stopped - and not directly comparable. Both schemes do, however, require employers to bear some of the cost.

5 If the scheme is to be modified, there is a case for doing so from April 1983, the earliest possible date so as to gain the additional register effect in 1983/4. The additional gross cost would be nearly £100m in 1983/4 and the extra register effect about 20,000 at March 1984. The net cost would be very low - about £20m -

/because



the revised scheme would keep people off the register at a cost of little more than what would be paid in benefit. To make this major change to the scheme in April 1983 for one year only would much increase the pressure to reverse the decision to end the scheme in 1984 and we have assumed that the decision would be taken at the same time to extend the life of the scheme to March 1985.

6 An alternative would be to decide to continue the scheme beyond March 1984 for one year and to admit second applications from that date. (There seems little point in simply renewing the scheme unamended).

Part-Time Job Release Scheme (Annex 2)

7 The case for extending full time JRS beyond March 1984 is to be examined in the context of PES, but there is also advantage in encouraging partial withdrawal from the labour force, especially if this is associated with a replacement condition. There is no doubt that a part-time scheme on the basis in Annex 2 is feasible. The computer programming requirement means that it could not be introduced before the Autumn and we have assumed introduction in April 1984 when the full-time JRS is due for renewal.

8 Annex 2 illustrates two options. Option (i) assumes 62 as the age of eligibility of males for both full and part-time JRS. The net costs are negative. Option (ii) assumes age 60 for the partial scheme and 63 for the full time scheme to fit with the approach outlined by the Social Services Select Committee. This has higher net costs but takes more people out of unemployment.

9 Ministers asked that the relationship with the new Job Splitting Scheme should be carefully considered. In evaluating the latter we will examine how attractive job splitting is to workers who are near retirement, and whether additional or complementary inducements are desirable. Pending that assessment we suggest that if a part-time JRS is introduced, JSS and partial JRS payments should not be made in respect of the same split job. Such combined payments would be unlikely to add significantly to the effect on unemployment of the schemes taken separately, and would reduce the cost effectiveness of both schemes.



10 Ministers will wish to consider the possibilities for JRS extensions in relation to the various suggestions set out in the DHSS papers on possible arrangements for early retirement directed at the unemployed. Job release offers early retirement for people in jobs while the DHSS suggestions relate to elderly unemployed, but they ought to be considered as a coherent approach to early retirement.

Workfare (Annex 3)

11 The detailed scheme in Annex 3 shows how a workfare scheme might operate in this country, so that some of the unemployed would be required to work for a period to earn their benefit.

12 The main innovation would be its compulsory nature. This means it would require primary legislation. It also has other important implications, not least for the supply of places; the difficulty of providing work for sufficient numbers already sets a considerable limitation to what can be proposed and this would be compounded for 'pressed men'. The MSC could be expected to refuse to run a programme based on compulsion and the scheme would have to be administered directly by Government.

13 A key question is how those who are required to work are to be selected. Unless the scheme were concentrated on those who had refused other jobs or were for other reasons regarded as workshy (which in itself brings difficulties of selection and placing), the only way forward would seem to concentrate on the younger age group who had been unemployed for some time. 18 to 24s unemployed for 2 years or more is the example taken in Annex 3, but the numbers of 18 and 19s unemployed for one year are not significantly different and the costs would be very broadly similar to those for the scheme described.

14 In theory, workfare could be run alongside CP, the target group of workfare being excluded from CP, but in practice this is not feasible. In general, workfare would need to look to the same sponsors as CP. They would be unlikely to support a compulsory programme, particularly when they could opt for CP itself. For the most part workers under CP would tend to be more reliable and co-operative. In view of the assurances the Government have given about the voluntary nature of CP it might be difficult to exclude one section of its current clientele in order to offer them workfare. If workfare is to be introduced, this and the need to get the 130,000 places in CP filled this year point to deferring it until CP is renewed in 1984.



15. It is clearly not easy to apply conclusions based on American experience of Workfare to Great Britain. The more comprehensive national social security system, and in particular the safety net of hardship payments to those disqualified from benefit, means that the deterrent effect of Workfare might be much less important here. This would seem to rule out any substantial savings of benefit to offset against the administrative costs of running the system. The latter would be higher than for CP, not least because of the need to provide for appeals, as many would claim that they should not be required to work. Because benefit would continue to be paid, it would be difficult not to include those on Workfare in the unemployment count.

Questions for Ministers

16. It would be helpful to know:

(a) whether Ministers wish to change the decision to end the Temporary Short Time Working Scheme in March 1984. If so and they favour the changes suggested to the scheme, do they wish them to take effect from April 1983 or April 1984? It is assumed that any extension would last until the end of March 1985.

(b) whether Ministers favour the introduction of a partial job release scheme alongside extension of full time JRS from April 1984 and, if so, which of the two options (or any variant) would they wish to have developed?

(c) whether Ministers wish further work to be undertaken on Workfare; and if so, is this with the intention of returning to its consideration when there is a more realistic possibility of changing the basis of CP in 1984 when it will have been running for 2 years - the present commitment?

TEMPORARY SHORT TIME WORKING COMPENSATION SCHEME (TSTWCS)

1. This Scheme was introduced in April 1979 to give a breathing space to firms threatened by redundancy. By early 1984 most of industry likely to use it will have exhausted their entitlement. The Government have announced its closure in March 1984 and the money previously allocated for new applications after that date has been surrendered.

2. Ministers agreed on 23 December that a permanent Scheme was undesirable. The Secretary of State for Employment was asked to look, in consultation with the Chancellor, into the possibility of modifying the Scheme (possibly by changing the "once only" rule, and seeking to reduce deadweight) and of continuing it further on a temporary basis after March 1984.

Arguments for a continuing Scheme

3. The Scheme was introduced as a temporary measure. Ministers have been conscious of the dangers of propping up indefinitely jobs which are not viable without a subsidy and have always taken the line that each job should be supported once only and for a limited period. Admitting second applications may tend to slow down essential restructuring.

4. On the other hand, it can be argued that, so long as the prospects for strong economic growth are not good, a breathing-space in which firms can keep their labour force together while adjusting to economic pressures is still needed. This Scheme is a particularly cheap way of keeping unemployment down and industry seeks its continuation. There has been substantial pressure from the CBI and others for a continuation of the Scheme in some form.

5. Other EC countries such as Germany and France, already have continuing schemes (see Annex 1A), though these operate on a permanent and comprehensive basis and as such cannot be compared directly with the GB Scheme. Short time working in Britain is supported currently both through TSTWCS and through the operation of the benefit system. In 1982 about 17,500 temporarily stopped workers on average were claiming benefit on the day of each monthly count. These were excluded from the publicised monthly unemployed figures but feature in the unemployment Press Notice under a separate heading.

A possible Scheme

6. The CBI have already suggested the broad outline of a Scheme involving further

support for jobs already supported, with a lower Government contribution for the second period of support or a substantial period of time between the first and second periods.

7. The main features of a continuing scheme might be:-

- (i) the existing criteria for eligibility;
- (ii) a second six months' tranche of support for the same jobs 3 years after the date of the previous application for support;
- (iii) as now, workers covered by the scheme would be paid 50% of normal earnings while on short-time. The employer would be reimbursed 50% of normal earnings for the first 6 months of support, as now, and 40% for the second 6 months three years later.

This incorporates both the CBI constraints and in particular would require the employer to pay 10% of the second tranche.

OPTIONS

8. There are three options:

Option 1: maintain the announced decision to close the scheme in March 1984;

Option 2: expand the current scheme from April 1983. If Ministers wished to accept the CBI case, it would benefit industry to begin in April 1983 rather than wait until April 1984, and there is then likely to be a substantial take-up in 1983-84. In addition, it would seem odd to bring in this expansion when the scheme was being terminated in March 1984 and it would make sense to defer termination until March 1985;

Option 3: run an expanded TSTWCS with the revised rules for one year from April 1984.

9. The costs (in £m) and average monthly effects on the unemployment count (in 000s) would be:

	<u>OPTION 1</u>		<u>OPTION 2</u>		<u>OPTION 3</u>	
	<u>Gross Cost</u>	<u>Unemployment Effect</u>	<u>Additional gross cost</u>	<u>Additional unemployment effect</u>	<u>Additional gross cost</u>	<u>Additional unemployment effect</u>
1983-4	40	7	98	+22	-	-
1984-5	8	3 ⁽¹⁾	104	+22	128	+28
1985-6	-	-	15	+6 ⁽¹⁾	18	+6 ⁽¹⁾

(1) unemployment effects over first six months only.

10. Expenditure under the Scheme can vary greatly according to economic conditions and variations in unit costs eg in 1980/81, when unemployment rose by well over 1 million, expenditure rose to over £360m.

11. The net cost would generally be less than one-fifth of the gross costs (ie after deducting benefit savings etc). The net cost per person taken out of the unemployment count (about £450* in 1984/5) is very low because, with support at 40%, the Government payment to the employer is broadly what would otherwise be paid to the employee in benefit.

12. Deadweight in TSTWCS occurs when the scheme is used to avert redundancies which would have been avoided by other means if the scheme did not exist. The main alternative would be to use the unemployment benefit system. In effect TSTWCS has transferred some workers from one form of state aid to another at a more attractive rate. It may also be open to employers to pay for workless days under a Private Industry Agreement. It is anticipated that the reduction in the level of support from 50% to 40% would discourage some employers from applying where the redundancies might be avoided in other ways.

Small Firms

13. The CBI have suggested that the eligibility threshold should be reduced from 10 to 5 to help small firms. At either start date, this would add an additional £11-12m to expenditure in the first year of operation, with an additional register effect of 2,500.

Staff

14. Staff required for processing second applications would be fully offset by savings in staff otherwise required to pay benefit. Setting the eligibility threshold at 5 would bring in many small applications, and add substantially to the complexities of administering the scheme. The additional staff required should continue to be offset, however, by benefit savings. Administration will add about 1% to the costs in para 9.

European Aspects

15. Schemes for short-time working compensation are not notifiable to the European Commission and are not eligible for support from the European Social Fund.

*This assumes 10% of deadweight. Even with deadweight of 40%, the figure would rise only to about £1600 so that the scheme would still be relatively cheap.

SHORT TIME WORKING: THE FRENCH AND GERMAN SCHEMES

A. SUMMARY

Both France and W Germany operate short-time working compensation schemes. The main differences from the British scheme are first, that the French and German schemes are permanent; secondly, that they provide support over longer periods (the level of support in the German scheme is also substantially higher); and thirdly employers are required to contribute towards the allowance or wage paid.

B. THE FRENCH SHORT-TIME WORKING SCHEME

1. Employees who suffer loss of earnings as a result of temporary closure of an establishment or of reduction of normal working time below the level fixed by law (currently 39 hours per week) are entitled to an allowance paid by the state. In the vast majority of private sector firms they are also entitled to a complementary allowance paid by the employer under the terms of a national agreement.
2. This entitlement applies where short-time working results from temporary economic circumstances, supply difficulties, accident, exceptional bad weather, restructuring or modernisation, or any other exceptional cause. There are some exceptions, notably for part-time and seasonal workers and in cases of industrial action. Workers who have not reached the normal holiday entitlement may be paid the allowance if their firm is closed for annual holidays.
3. The rate of allowance paid by the state is fixed at 70% of the "minimum garanti" (currently 7.57F per hour), giving a current figure of 5.25F per hour. The complementary allowance brings this up to 50% of hourly earnings, with a minimum currently fixed at 19.10F per hour. The minimum monthly total payment may not be less than the statutory minimum wage (SMIC).
4. In order to avoid redundancies the state may enter into agreement with employers to bear part of the cost of the supplementary allowance. This is normally 60% but may rise to 80% in priority sectors or those in serious difficulties.
5. The allowances are normally paid to employees by the employer who reclaims part from the state. Where a firm is in serious financial difficulties, however, or goes into liquidation, or in the case of homeworkers, arrangements may be paid for the state-financed allowances to be paid directly to employees.
6. The number of hours for which allowances may be paid is fixed annually by ministerial decision. This limit is currently 600 hours.

C. THE GERMAN SHORT-TIME WORKING SCHEME

1. Under Section 67 of the Law on the Promotion of Employment, workers who are put on short time may claim allowances for the hours lost which they would have normally worked. In the past this sum together with the contribution which the employer is required to pay could have brought the worker's wages up to the level they would have reached if he had worked normally. Of recent years however the practice has been altered and the most that any worker on short time can now get is 90% of his normal wage. The amount paid varies according to the industry concerned and in most industries the worker gets 75% of his wage for the hours not worked. The major element in this payment is a contribution from the Federal Labour Institute equivalent to unemployment benefit, ie 68% of the worker's net wage. The remaining 7 - 22% is a contribution from the employer.
2. Short time working payments are made for periods of up to 24 months. Workers become eligible for a further period of support after they have been employed full time for three months.
3. In supplementary budget legislation promulgated on 23 December 1982, the Employment Protection Law was amended to allow the Minister of Labour by order to extend the period in respect of the steel industry to 36 months. The provision is estimated to affect some 5000 steel industry workers immediately and to affect a further 5000 in the course of the coming year. This extension to 36 months is regarded as wholly exceptional and not setting precedent for other industries.
4. At the latest available date 1.1 million workers were on short-time working under this scheme.

PART-TIME JOB RELEASE SCHEME

Ministers found the possibility of a part-time JRS attractive, since the cost might be nil or negligible, and asked for it to be examined further, including its relationship to the Job Splitting Scheme (JSS).

RELATIONSHIP TO THE JOB SPLITTING SCHEME

2. The decision on the relationship makes a significant difference to the cost of a part-time JRS. The main arguments for paying the job splitting subsidy to the employer as well as the job release allowance to the employee giving up half his/her job are:

(i) The Government has accepted that job splitting involves additional costs for the employers. Where a job is split under the part-time JRS, exactly the same costs would arise and they should be compensated for.

(ii) Without the job splitting subsidy, the part-time JRS might be unattractive to employers. Since the employee would still be in half-time employment, the employer would not have the same advantage as under full-time JRS that he could end the employment of someone who was no longer suitable.

3. The main arguments against concurrent payments are:

(i) Part-time JRS without a job splitting subsidy would be cheaper than full-time JRS, because only half the JRS allowance would be paid while the saving in benefit from employing someone off the unemployed register remains much the same. Concurrent payment of the job splitting subsidy would increase costs in the first year and raise the net cost per head of a part-time JRS to roughly the same as full-time JRS where the two schemes are available for the same age-groups; and to rather more than full-time JRS if part-time JRS was run on its own.

(ii) Administration would be more complicated and costly in staff, with two sets of criteria to be checked and two different allowances to be paid in respect of the same job.

4. The decision really turns on the impact on the costs, and the attached table shows the costs with and without JSS for the two part-time JRS options identified below. In each case the concurrent payment of JSS adds about 50% to the net cost per person removed from the unemployment count.

OPTIONS FOR A PART-TIME JOB RELEASE SCHEME

5. The main features of a part-time JRS would be as follows:

(a) The age limits and other criteria would be the same as full-time JRS except that the applicants would undertake to give up at least half their previous contractual hours, releasing a minimum of 15 hours a week for a replacement.

(b) The part-time Job Release allowance would be exactly half the full-time rate.

(c) Each part-time job released under the scheme would be filled by a part-time worker from the unemployment register.

(d) Normally neither the replacement part-time worker nor the retiring part-time worker would figure in the unemployment count because the income of most of them would be above benefit levels.

(e) The 150 or so extra staff needed to run the scheme would be fully offset by the reduced requirement of staff otherwise needed to pay benefit.

(f) The scheme would not be notifiable to the European Commission, nor would it be eligible for Social Fund assistance.

6. The scheme could have the same eligibility age as full-time JRS or they could operate at different ages.

7. We assume that the scheme would start from April 1984. Earlier introduction would be difficult because there is a computer programming requirement for a 6 month preparation period. It also seems desirable to take a decision on part-time JRS at the same time as a decision on full-time JRS from April 1984.

8. We have illustrated in the Table the costs of two options (both assume that women will continue to be eligible for full-time JRS at 59 and disabled men at 60):

(a) A part-time JRS operating alongside full-time JRS in 1984-5, assuming a male eligibility age of 62 for both schemes (described in the Table as the 62/62 option).

(b) A part-time JRS with a male eligibility age of 60, with a male eligibility of 63 for the full-time JRS (described in the Table as the 63/60 option).

9. The Table identifies separately the existing PES provision (which assumes a male eligibility age of 64 after March 1984) and the additional costs of the two options, with and without JSS. It will be seen that when part-time JRS without JSS runs alongside full-time JRS for the same age-groups, it has a negative cost per head; when the age-groups differ, its cost is positive but, at £450, still comparatively low.

	<u>GROSS COSTS</u> ⁽¹⁾			<u>NET COSTS</u> ⁽¹⁾			<u>EFFECT ON UNEMPLOYMENT COUNT (000s, end-year)</u>			<u>NET COST</u> ⁽²⁾ <u>PER</u>
	<u>84-5</u>	<u>85-6</u>	<u>86-7</u> ⁽³⁾	<u>84-5</u>	<u>85-6</u>	<u>86-7</u>	<u>84-5</u>	<u>85-6</u>	<u>86-7</u>	<u>PERSON (£, pa)</u>
<u>A. EXISTING PES PROVISION FOR FULL-TIME JRS</u>										
Line 1. Men aged 64	303	192	126	128	81	53	67	36	27	1500
<u>B. ADDITIONAL COSTS</u>										
<u>OPTION 1: 62/62 (full-time JRS for men aged 62-3, part-time JRS for men aged 62-4)</u>										
Line 2. With JSS	84	152	79	39	61	26	55	39	16	1502 ⁽⁴⁾
Line 3. Additional costs of part-time JRS included in Line 2.	46	53	20	23	19	1	30	18	8	1510 ⁽⁴⁾
Line 4. Without JSS	60	132	79	15	41	26	52	37	15	1070
Line 5. Additional costs of part-time JRS included in Line 4.	22	33	20	-1	-1	1	27	16	7	-90
<u>OPTION 2: 63/60 (full-time JRS for men aged 63, part-time JRS for men aged 60-64)</u>										
Line 6. With JSS	138	216	136	66	83	37	81	63	45	1549 ⁽⁴⁾
Line 7. Additional costs of part-time JRS included in line 6.	125	174	120	60	65	30	72	57	44	1600 ⁽⁴⁾
Line 8. Without JSS	95	181	136	23	49	37	74	58	41	1016
Line 9. Additional costs of part-time JRS included in line 8.	82	139	120	17	31	30	65	52	40	450

Footnotes: (1) Costs are in £m at cash prices.

(2) Net cost per person removed from unemployment count, at 1984-5 cash prices.

(3) DE estimate, using 3% inflation factor.

(4) Since the job splitting subsidy is payable for only 12 months, this net cost figure will be lower after the first year.

(5) Administration is estimated to add [1-2%] to the costs or somewhat more if the job splitting subsidy is paid in addition.

WORKFARE

1. Attached is an outline of a possible scheme (Appendix 1). This note sets out a number of considerations which arise in relation, not only to particular features of the scheme, but also to its underlying purposes.

WHAT IS WORKFARE

2. Workfare is a system whereby the unemployed who are in receipt of benefit are required to perform work in exchange for benefit; normally hours worked yield in wages earned a sum equivalent to the benefit entitlement.

EXISTING WORKFARE SCHEMES

3. There is a long history of workfare in the US, especially at State level. Appendix 2, which summarises this experience, has been drawn up on the basis of reports received, including particulars of a number of evaluations undertaken.

PURPOSE OF WORKFARE

4. The scheme could aim to:

a) improve employability by providing useful job opportunities for the unemployed and thus instilling work habits and giving a sense of dignity, while at the same time establishing a principle of working to earn benefit payments, and making constructive use of benefit expenditure.

b) establish more directly the principle of working to earn benefit ie, to apply a work-test and to discourage those who are workshy from claiming benefit.

These two objectives need not be exclusive, but the precise emphasis placed on each could affect the target group and the precise details of any scheme.

COMPULSORY NATURE OF SCHEME

5. A distinguishing feature of workfare is that the unemployed are required to work for their benefit and the attached scheme is so designed. At present there is an element of compulsion on the unemployed to accept suitable employment in the normal labour market at normal rates of pay, if offered, because benefit can be reduced or disallowed for refusal of suitable employment. The welfare system

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however protects people from being left destitute and without resources. People disallowed supplementary benefit may be entitled to Urgent Need payments. This would reduce the deterrent effect of workfare.

6. Willingness to participate in the Community Programme (CP) is not a condition of entitlement. Indeed, public discussion in recent years of voluntary work opportunities for the unemployed, the Youth Training Scheme and CP itself, has shown considerable resistance to any concept of compulsion. With a workfare programme parallels might be drawn with the 1930s when such 'test work' was last made a condition of entitlement to benefit, albeit on a limited scale.

7. The compulsory nature of workfare has two important consequences:
a) the selection of the target group;
b) the relationship to CP.

TARGET GROUP

8. To apply compulsion in the UK would seem to demand equity of treatment of the unemployed, or of those in the target group chosen, and accordingly a sufficient supply of jobs to which the unemployed can be sent both in total and also in particular areas.

9. In the US the problem of selection is less fundamental because there is no general system of support for the unemployed. This means that workfare can concentrate on limited groups who are eligible for, say, federal benefits, and also, because there is no background of equitable treatment of all the unemployed, a special regime for some is less invidious.

10. In the UK, because it would be impossible to find sufficient work, it is not realistic to assume that workfare can be applied to all unemployed in receipt of State benefits. There are two main possibilities of reducing the field to a more practicable number.

11. The first (emphasis on aim (a) in para 4) is to select a group which by its characteristics is likely to benefit more than most by the work experience offered (and also one where compulsion is likely to cause fewer problems).

12. The second (emphasis on aim (b) in para 4) is to identify a category of claimants who could be described as workshy, and make workfare compulsory for them.

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13. The first alternative has to be limited to a target group for whom there is a reasonable expectation that jobs will be found. Experience with CP and other special employment measures suggests that it would be more feasible to think in terms of providing places to cater for a target group of 100 to 200,000 than to attempt to cover a larger group. The kind of experience offered by workfare will be of most use to young people. Since YTS will be available for 16 and 17 year olds it would seem logical to concentrate on the 18-24 age group who already form a special category within CP.

14. There may be a case for restricting a compulsory scheme to those in receipt of Supplementary Benefit (SB) since entitlement to Unemployment Benefit is established through contributions paid while in employment where the arguments against compulsion are stronger. Targetting on the long term unemployed (over one year) who have mostly exhausted any entitlement to UB, would eliminate problems with UB claimants, and provide clear and easily understood eligibility conditions, which will help to minimise appeals against inclusion. By identifying a group that is obviously in most need of support it may also maximise public sympathy. Nevertheless there were in October 1982 some 280,000 18 to 24s unemployed for over a year, most of whom will be in receipt of SB. There is therefore a case for starting with those unemployed for over 2 years (90,000) or the 18 and 19 year olds unemployed for over one year (80,000). These numbers can be expected to increase considerably by October 1983, eg, there could then be 140,000 18 to 24s unemployed for over 2 years.

15. In the case of the second alternative identification of the workshy group would necessarily be a more subjective process and would have to be largely in the hands of DHSS Unemployment Review Officers (UROs) eg, to refer those, not necessarily in the 18 to 24 age group, who after a year's unemployment were not making efforts to find work. Identification of cases would not be easy, particularly as at a time of high unemployment it is not easy to test people's willingness to work. The selection of individuals would necessarily be somewhat invidious and therefore the decisions taken by UROs would be likely to lead to appeals and controversy. The number eligible for workfare might be very small indeed.

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SPONSORS

16. There would be real difficulties in finding enough sponsors. The work undertaken would need to be inessential and therefore predominantly of low skill. Although there would be some differences (eg, the average amount of work needed for a young single unemployed person would be about 2 days), the jobs are very much the same as those needed for CP. Many of the local authorities and voluntary organisations which provide CP places would be unlikely to wish to provide places for a compulsory scheme. It would not seem possible to find additional sponsors for such a scheme if it were run alongside CP without materially affecting the success of CP, which they might regard as tarred with the brush of compulsion.

17. Sponsors might, regardless of CP, in any case be more difficult to obtain because a universal compulsory scheme would mean that the type of work might be restricted by the nature of the labour - part-time, high absenteeism and turnover, difficult placing problems.

18. It is relevant that Section 10 of the Supplementary Benefit Act 1974 provides for compulsory rehabilitation for the long term unemployed at re-establishment centres. Use of this provision has declined substantially in recent years. DHSS have recently decided to discontinue the use of the compulsory powers and are not convinced that it is still appropriate for them to run training centres. Their experience is that 'pressed men' have been found to be disruptive and to increase supervision costs. Those who refuse to attend can generally claim Urgent Need Payments.

19. If the private sector were drawn on to supplement the supply of places, displacement of ordinary workers would be involved. If a scheme were started and insufficient sponsors came forward, the Government might have to run its own courses, so adding to the expense.

RELATIONSHIP WITH CP

20. Ministers have said that CP will run for at least 2 years (to October 1984). In the first place CP was envisaged by Ministers as a benefit plus approach (ie, the unemployed voluntarily opted to earn their benefit, to which the expenses of work were added). The scheme, as accepted, rested instead on the principle of the rate for the job, and although in many cases earning potential is limited by the part time approach, the total earned bears no relationship to the individual's benefit entitlement. CP is at present on course

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to its target of 130,000 places. Ministers said that they would consider providing more funds if there were a proven need. This suggests that a parallel workfare scheme should be ruled out for the time being, and re-examined when CP is reviewed in 1984.

21 An alternative approach would be to exclude, say, 18 and 19 year olds from CP and run a workfare scheme for them. But the difficulties of finding sponsors would remain. Quite apart from any general objection they might have to compulsory schemes, it would be unlikely that sponsors would wish to mount projects under two parallel schemes with much in common, but with some fundamental differences.

22. There remains the possibility that a separate scheme should be mounted more immediately for the workshy. Even this would have some impact on the provision of schemes for CP. More important it would mean a more fundamental break with recent practice including the reduced emphasis on resettlement centres and subject to the disadvantages listed above.

23. A pilot scheme, aimed at covering all those in the target group in a particular locality, might be possible, but such a trial could not incorporate the ingredient of compulsion so there would be less of a contrast with CP and the lessons drawn might not be applicable to a full workfare scheme.

COSTS

24. The additional net cost per place per year would be around £800, arising from supervision, materials and administration.

OTHER IMPORTANT CONSIDERATIONS

25. The attached scheme sets out the main features. Considerably more work would be necessary before any scheme could be implemented, but the following points particularly need to be taken into account:

a) In order to make workfare compulsory main legislation would be necessary.

b) It is most unlikely that the MSC (who have the contacts with sponsors) would be prepared to operate the scheme. The DE would have to do it direct, thereby adding, at least initially, to the costs.

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c) In general the support system needed is likely to be more expensive than for CP.

d) There could be some benefit savings as a result of the deterrent effect, but on the basis of experience with UROs this is likely to be small, and has been allowed for in our costings. US experience may not be relevant because of the more comprehensive availability of benefits in the UK.

e) Full comprehensive coverage of an age group is probably unattainable. Clear rules would be necessary as to whether compulsion applied, eg to the disabled. Even so an appeals system would be necessary.

A POSSIBLE WORKFARE SCHEME

1. This scheme would be compulsory for the group defined below and benefit would be cancelled for those who failed to do the assigned work. (It does not describe the "workshy" option).

ELIGIBILITY

2. Unemployed SB claimants aged 18-24 who have been unemployed for over 2 years. There were 90,000 in this group in October 1982 and the vast majority, say, 85% of this group are single - for details see Annex A. On present trends by October 1983 there could be 140,000 in this category, although some of them will have been on CP.

PROCEDURE

3. The detailed procedure would depend in part on whether MSC or DE were responsible for placing.

In this note reference is made to workfare staff. They could be in the Employment Services Division of MSC who are responsible for CP, attached to Regional Benefit Manager's staff at DE regional office; or even be within DHSS - particularly if the target were the workshy.

4. UBO staff would identify those eligible and, on the second anniversary of their registering as unemployed, these claimants would be referred to the workfare section for assessment and allocation to a suitable job. A card would be issued to the claimant to give to his workfare supervisor who would endorse it, detailing the number of workfare hours completed in the fortnight and post it back to the workfare section whose staff would check and refer for non compliance action as necessary. The card would be returned to the claimant when he attended the UBO to prove unemployment - at the signing stage, if no new task allocation were needed. This system should avoid the unnecessary disruption, due to postal delays, non attendance or non completion of the workfare task for good cause, that would be inherent in a system where benefit payments depended directly on confirmation that the workfare task has been completed.

5. Individuals would remain on the scheme, as long as they were unemployed or within the age group.

6. Procedures for authorising absence for sickness and for reinstating cancelled benefit would need to be established.

Amount of Work

7. Using the 'rate for the job' and varying the workfare time to match the benefit entitlement of each individual would be administratively complex. It would be more straightforward to set the same amount of work for everyone, for example two days per week. The disadvantage is that it reduces the contrast with CP, and takes away the direct link of working for the amount of benefit received, but the disparity would be less for this age group.

Work Expenses

8. Payment of a standard flat rate for expenses, in addition to benefit (as in most US examples) would be cheaper to administer than paying actual costs. The amount paid would need to cover transport expenses, special clothing requirements, meals at work. (The allowance might be £1.50 a day). The allowance could be paid automatically through the benefit giro system.

Sponsors

9. Sponsors would be local authorities and voluntary organisations. The work would need to satisfy the CP criteria: it must be of value to the community; must avoid displacement, and must be work which would not otherwise be done.

Operating Costs

10. Sponsors would be paid a contribution towards materials and equipment expenses. This might be of the same rate as £440 per year, but on a pro rata basis (ie £176 for 2 days work).

Supervisors

11. US experience reports unexpectedly high supervision costs were sometimes incurred. Supervisors could be on a similar basis to CP, ie, full time wages costs up to agreed limits, but the ratio may need adjustment to take account of part time working.

Displacement

12. One major factor in determining the costs of the scheme would be displacement. The longer jobs lasted the higher the propensity for

for workfare jobs to displace real jobs and increase unemployment. Theoretically someone could remain on this scheme for several years.

Deterrent

13. The scheme may act as a deterrent to those about to enter the target group and encourage them to sign off. This would include those individuals already working and those not willing to work. A small such effect has been assumed. The main effect of deterrence on the scheme may be simply to increase the turnover of the unemployed on the register and on sponsors' schemes. Some US schemes found a deterrent effect (for receipt of food stamps) but even with control groups this proved difficult to measure. The scheme may induce people to accept low paid jobs because they have to work for benefit anyway.

Tax

15. Since the money paid is benefit, it should continue to be taxed on the same basis as benefit.

Exemptions

16. It may be inappropriate for workfare to be compulsory for all the target group. Some jobs would clearly be unsuitable for some disabled people. One possibility would be to exempt the registered disabled from compulsion. At the borderline there will be a large number of problem cases, giving rise to controversy and appeals.

Legislation

17. Primary legislation would be required if the provisions were compulsory.

EC Aspects

18. The EC would need to be notified if any form of subsidy was paid to the private sector, for example payments for supervisors, or any incentive to private employers to taken on workfare clients.

Appeals

19. There would need to be a right of appeal. US experience reports very extensive use of appeals. An appeals procedure would be required for appeals against

- inclusion in the target group
- allocation of work
- non payment for absenteeism
- non payment in case of changed circumstances, sickness etc.

The existing appeals machinery for benefit could be used, either the Insurance Officer or Supplementary Benefits Officer. Appeals would need to be handled quickly. A slow appeals procedure could be used to circumvent workfare, (eg, under union orchestrated protest action).

Costs

20. Administrative and related costs would be higher than with CP because of the high volume of appeals and difficulties with policing and assigning suitable work. Participants would continue to sign as unemployed so there would be no savings in the Unemployment Benefit Service. Administrative costs will include finding and approving sponsors, identifying the target group members, allocating work, processing the cards, paying the expenses allowance, policing and enforcement, appeals procedures.

21. Taking these factors into account a first estimate of the additional net cost per place is around £800 per year.

Staff

22. The scheme would be more staff intensive than CP for the reasons given above. This might suggest that at least 800 additional staff might be needed.

Register Effect

23. Participants would continue to sign and receive benefit. They would also be available for ordinary work. To exclude them from the unemployment count would cut across the accepted criteria for inclusion. Nevertheless some register effect can be expected. Some supervisors will be recruited from among the unemployed. Workfare will deter some from claiming benefit, and they may not enter employment. This will reduce the unemployed count and DHSS believe this could amount to 5 to 10% of the eligible population. In so far as workfare has a displacement effect (see para 12), there would be an offset to the deterrent factor.

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ANNEX A

The composition of the registered unemployed aged 18-24 in
October 1982

<u>Duration of Unemployment</u>	<u>AGES</u>			<u>TOTAL</u>
	<u>18</u>	<u>19</u>	<u>20-24</u>	
All unemployed	195,400	169,800	620,790	985,990
Under 1 year	166,090	119,880	420,760	706,730
1 year to 2 years	25,160	39,430	125,101	189,600
Over 2 years	4,150	10,490	75,020	89,660
TOTAL Long term Unemployed	29,310	49,920	200,030	279,262
ESTIMATE of % married Long Term Unemployed	1.5%	2.5%	17%	

Figures on the new claimants' basis are not yet available.

US EXPERIENCE

1. There is a long history of workfare in the US, especially at State level. Workfare basically requires welfare recipients to work in return for their benefits. Federal interest, which grew in the mid 1970s with the increasing numbers on welfare, has recently been boosted under the Reagan administration. States have been given the option of applying workfare to those in receipt of Federal benefits - unemployed fathers of families with dependant children. The option can be exercised in a number of ways - through using benefits to provide subsidised public sector employment on a voluntary basis (though with the right to reduce individuals benefit levels to increase the incentive to participate) and through Community Work Experience Programmes (CWEP) - a mandatory obligation to "work-off" benefits in public service jobs. None of these special programmes, however, must displace real jobs and precedence must be given to the more orthodox special employment measures.

2. A number of States are already exercising the option though mostly in small experimental schemes. Others are deterred by the fear that administration costs will far outweigh any savings in benefits. Most States look on CWEP as a means of reinforcing the work ethic while giving work experience and improving employability. The schemes are targetted mainly by family circumstances, eg one parent families.

3. There appear to be few problems with providing the required number of jobs for the present largely experimental schemes. To some extent, this may reflect greater scope in the US to create work in the public services without displacing real jobs. The type of jobs are very routine and concentrate on clerical, maintenance and child-care work in local schools, hospitals and parks.

4. It is generally accepted that the number of hours of work required should be sufficient to cover the amount of benefit, costed at the legal minimum wage. These are usually aggregated on a monthly basis. The average number of hours worked by those participating can be as little as 20 per month.

5. Evaluation reports are very contradictory and seem more to reflect the writers view of workfare than an impartial assessment of

achievements. Some frequent findings:

- There is no agreement on how successfully the schemes fulfill their aims, but figures rarely show them to reduce public expenditure. Administration, supervision and appeal costs are higher than anticipated.
- Only a small minority of the eligible group actually work. The biggest drop out occurs between referral and the workfare interview. Supporters point to this as evidence of the deterrent effect (one food stamp programme claims a 7.8 percentage point reduction in participation rates) but it is not clear whether it simply reflects the normal high turnover among these benefit recipients. Penalties are incurred for non compliance, including the loss of access to free medical services available to welfare recipients.
- A fairly difficult start up period including staff opposition, organisational problems and the use of litigation by opposition groups.
- Difficulty in co-ordination and co-operation between the welfare office and the workfare administration.
- Lengthy and costly appeals.
- Union opposition, focusing on allegations that this is simply cheap labour and a ruse to depress wages.
- Controlled experiments were unable to establish that the work experience provided, or the disincentive of the scheme, induced people to find real jobs.
- Many of the recipients welcome the opportunity of any sort of work.

6. In general, however, there seems to be no doubt that workfare is feasible at a cost and it is noticeable that the most successful schemes are those mounted in States and counties where those responsible for schemes are enthusiastic.