



PRIME MINISTER

Long-Term Unemployment

E(A)(85)49

BACKGROUND

1. You chaired a meeting of Ministers on 11 June to discuss ways in which Long-Term Unemployment could be reduced following concern in Cabinet about the co-existence of a high level of unemployment with a substantial number of job vacancies. The meeting concluded that:

(a) there should be no expansion of the Community Programme before the impact of the measures introduced in the Budget could be assessed, but that there should be further work to develop schemes to help the long-term unemployed under the aegis of charities and voluntary bodies;

(b) ways of providing incentives to the long term unemployed to seek jobs actively should be researched, including the idea of providing jobs on a "Benefit Plus" basis as a way of testing whether they are genuinely available for work;

(c) The Department of Health and Social Security (DHSS), the Department of Employment (DE) and the Treasury should develop schemes to combat fraud and to ensure that those receiving benefit were genuinely unemployed (including a re-examination of the manpower devoted to this); and

(d) research was to be commissioned into the nature of the black economy.

The Memorandum by the Secretary of State for Employment

FLAG.A. (E(A)(85)49) reports back on this remit.



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MAIN ISSUE

2. The main issue is whether the package of measures proposed by the Employment Secretary are an adequate response to the problem, and if so how are the manpower resources required to be found.

Measures to Help the Unemployed

3. In the Budget the Chancellor of the Exchequer announced:

(i) a substantial expansion of the Youth Training Scheme (YTS) offering places lasting two years;

(ii) an extra 100,000 Community Programme places for 18-24 year olds who had been unemployed for six months. In addition, there are new pilot schemes involving more projects sponsored by charities and the private sector.

These plus other related training measures will add £300 million to public expenditure in 1986/87 and £400 million in 1987/88.

Incentives to encourage the take-up of jobs

4. Measures to tackle long-term employment will be directed at three types of people:

(i) those who are prepared to accept work, but need encouragement to apply themselves to finding a job;

(ii) those who are content to live on supplementary benefit and are not actively seeking work - those "resting on the register";

(iii) those who are not genuinely available for work but are registered unemployed and claiming benefit fraudulently.



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5. The present arrangements for testing claimants' availability for work are not comprehensive. Following a Rayner scrutiny in 1981, the requirement that claimants must register with a job centre was removed, and they need only apply to DHSS fortnightly. This produced substantial staff savings. It was envisaged that all claimants between 18 and 50 who reached six months unemployment would be interviewed by an Unemployment Review Officer (URO), but with a rising case load and fall in the resources devoted to this activity, claimants are now seen only on a selective basis. It has been estimated that UROs achieved savings of £24 million in benefits, at a staff cost of £9.9 million. Mr King's first recommendation is therefore that a further 300 UROs should be employed in DHSS. When discussing Public Expenditure on 11 July the Cabinet recognised that there was a case for relaxing the policy on manpower constraints where the benefits of additional employment could be shown to exceed the costs involved, though Treasury Ministers are likely to argue that the case for this bid should be explored in the bilateral discussions. Even within existing resources - 556 man years - there may be scope for improving cost effectiveness by concentrating on areas where there are jobs available, particularly the south-east.

6. Mr King sets out in paragraph 7 a number of more minor proposals which might be implemented by the Manpower Services Commission (MSC): these are likely to be uncontroversial.

Drive Against Fraud

7. At present 3,000 staff in DHSS and DE are engaged in combating fraud. They save between 2 and 4 times the cost of employing them. A recent intensive anti-fraud drive by specialist teams indicated that there is a strong justification for expanding the present regional fraud teams. Mr King therefore proposes that 100 extra staff should be engaged on this work, at a cost of £1.7 million but likely to produce savings of £6½ million with 6,000 people removed from the unemployment count. Again Treasury Ministers will wish to consider this proposal during the bilateral discussions.

1,000



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A Benefit-Plus Programme

8. Mr King rejects the suggestion that the long term unemployed should be offered a financial incentive to find work through either an allowance or tax credit: this would not be cost effective because of the "deadweight" (ie many of the recipients would have found a job anyway). But under a "Benefit Plus" scheme the unemployed would be offered places on temporary work programmes, and would receive their benefit entitlement plus an additional cash sum - perhaps £20. Conversely, anyone who unreasonably refused a place would lose all or part of his or her benefit. The scheme would therefore test in a practical way whether claimants are genuinely available for work, as well as removing a number of people from the unemployment count.

9. Such a scheme would involve a change of approach from that which has been followed in relation to benefit entitlement in the past and there may be problems introducing it alongside the existing Community Programme. The Sub-Committee will therefore need to consider whether it is prepared to accept the principle of requiring the long term unemployed to accept places on a temporary work scheme. But if it is acceptable in principle, a Benefit-Plus scheme could well be more cost effective than the present community programme. If so, it is important that a scheme should be available to the Government as soon as possible, and certainly in time for the 1986 Budget so that if further action on long-term unemployment is necessary the most cost effective route can be adopted. You will therefore want to ask the Employment Secretary whether his approach, involving first a study by the University of Buckingham, would enable a pilot study to be mounted and assessed in time?



HANDLING

10. You will wish to invite the Employment Secretary to introduce his paper. The Social Services Secretary will wish to comment on DHSS aspects, including the proposals to increase manpower on URO. The Chancellor of the Exchequer will have views generally, on the potential advantages of a benefit plus scheme, and on Civil Service Manpower Constraints. The Minister without Portfolio and other members of the Committee will also have views.

CONCLUSIONS

11. You will wish to reach decisions on:

(i) what guidance should be given to the Chief Secretary in considering the bids for additional Unemployment Review Officers and staff for fraud detection;

(ii) what further work should be done on the possibility of introducing a benefit plus scheme;

(iii) whether the other elements of the package, including steps to be taken by the Manpower Services Commission and further studies of the black economy, should be approved.

J B UNWIN

Cabinet Office

22 July 1985