

Striving for better

Welfare and a labour market that work
for disabled people

Matthew Oakley

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DATA USED IN THIS REPORT

Unless otherwise stated, analysis in this report is based on Labour Force Survey quarterly microdatasets¹ and the Annual Population Survey². For cross sectional, quarterly analysis, the January – March quarter of each year is used. Analysis of the longitudinal data uses a pooled dataset that takes cases from the five latest available years – back to 2010 (this was required to ensure sample sizes were adequate to analyse characteristics of the disabled group moving into work).

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Matthew joined the SMF as Senior Researcher in July 2015. Prior to SMF Matthew had been Chief Economist and Head of Financial Services Policy at Which?, Head of Economics and Social Policy at Policy Exchange and an Economic Advisor at HM Treasury. He has an MSc in Economics from University College London. He has previously been a member of the Social Security Advisory Committee and he led the Independent Review of Jobseeker's Allowance sanctions that reported to Parliament in 2014. He is a recognised expert on public policy, welfare reform and consumer issues.

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EXECUTIVE SUMMARY

CONTEXT

This is the second in a series of reports by the Social Market Foundation that consider the Government's ambition of halving the disability³ employment gap. Since the first report was written, a new Prime Minister has entered Number 10 and the Ministerial teams at key departments including Work and Pensions, Communities and Local Government and business have changed significantly. However, while much of the context has changed, it is clear that the scale of the ambition that the Government has set itself has not.

Halving the disability employment gap would mean supporting over a million more disabled people into work than is the case today and improving a range of health and disability outcomes. Doing so could present a wide range of benefits to individuals, business and the state, as demonstrated by the costs of disability and worklessness:

- Around 5.3 million people living in a household with a disabled person live in income poverty and both disabled children and non-disabled children in disabled households can suffer worse long-term outcomes (including education and health) themselves;
- Over 135 million working days were lost due to sickness absence in the UK in the year to March 2016 and the costs of presenteeism also stand at over £15 billion a year; and
- The cost of income replacement and extra cost benefits for working age disabled people currently stands at around £25 billion a year. Failures to adequately meet the financial and support needs of disabled people also impact on costs in the health and social care systems and more broadly across services provided by local authorities.

The potential range of benefits is large, but achieving these aims would mean fundamentally changing the way the labour market and welfare system work for disabled people and would require a step change in the approach taken over the last 20 years.

The Government now has an ideal opportunity to do just that. With a Green Paper on health and work pencilled in for the Autumn, it can set out a bold new programme of work to ensure that disabled people and those experiencing the onset of a health condition or disability receive better financial and non-financial support.

RETHINKING THE CHALLENGE

Tailoring responses

To do this, the Government must take greater steps to understand the issue and the wide range of people involved. This report shows that improving outcomes across the disability, health and work agendas is a complex issue. In particular, it shows that it is unhelpful to think of “tackling the disability employment gap” as one distinct challenge. Instead, as Figure A demonstrates, there are at least three broad types of individuals that might need support if goals to increase employment rates and reduce disadvantage amongst disabled people are to be achieved.

Figure A: Areas where support could reduce the employment gap and improve outcomes

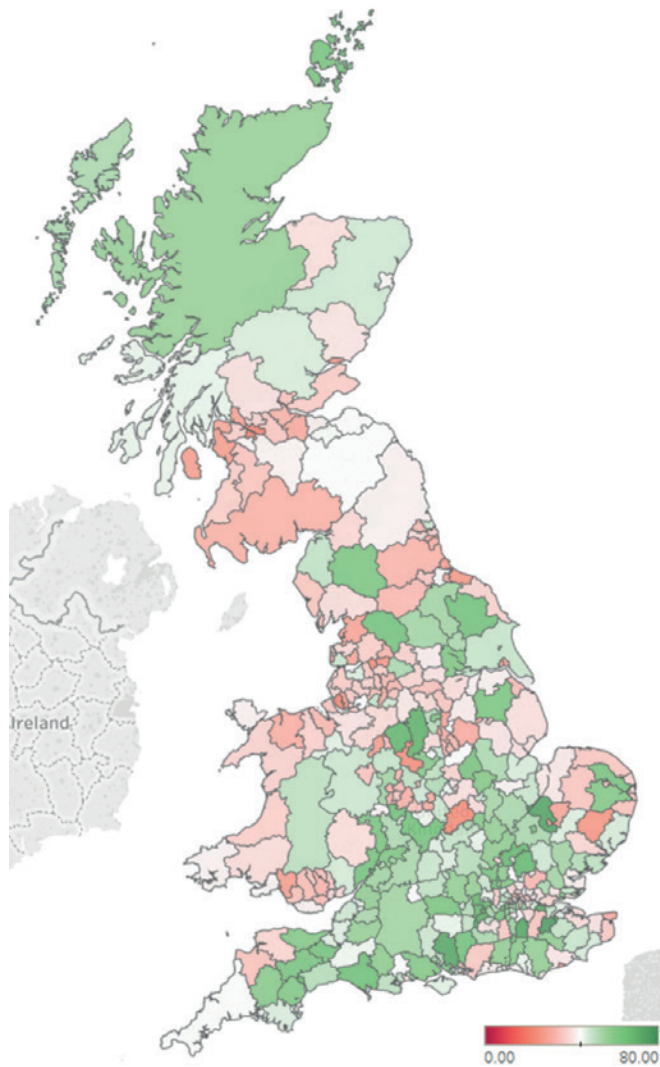
Individuals	Characteristics	Size of group
Disabled people out of work but close to the labour market	A relatively small group of people who have recently left work and have relatively low non-disability barriers to employment.	Around 1m people
Disabled people out of work and a long way from the labour market	Larger group of disabled people who have been out of work for longer (or never had a job), have more severe conditions, multiple conditions and, often, a range of other non-health / disability related barriers to employment.	Around 2m people
Non-disabled people at risk of experiencing on set of health condition or disability or recurrence of fluctuating condition	Whole population.	Whole population

Even within these groups there is, of course, significant variation in the type and severity of condition or disability involved, family circumstances, appropriateness of work and a wide range of other factors. However, this stylistic representation does effectively demonstrate that a one-size-fits-all approach will not be effective and wide scale changes will be needed in a range of different areas of government policy, business practice and society.

NOT JUST DISABILITY

It is also apparent that there are much wider issues than disability to consider. For example, the first report in this series demonstrated that out of work disabled people have, on average, far lower qualifications than both the non-disabled population and disabled people who are in work. Analysis in this report shows other factors that play a role, including geography. Figure B demonstrates that disability employment rates vary dramatically across the country.

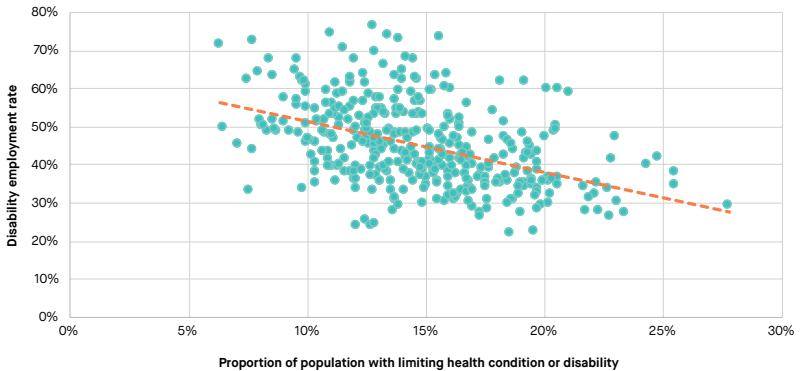
Figure B: Disability employment rates by GB local authority (% , green areas have above national average/red areas have below national average)



Source: SMF analysis of Annual Population Survey. Tableau Public.

Figure C shows that those areas with the lowest rates of disability employment are also the areas that have the highest incidence of disability. This suggests a range of area-based factors that could play an important role in understanding and improving outcomes for disabled people.

Figure C: Incidence of disability and disability employment rate by Local Authority



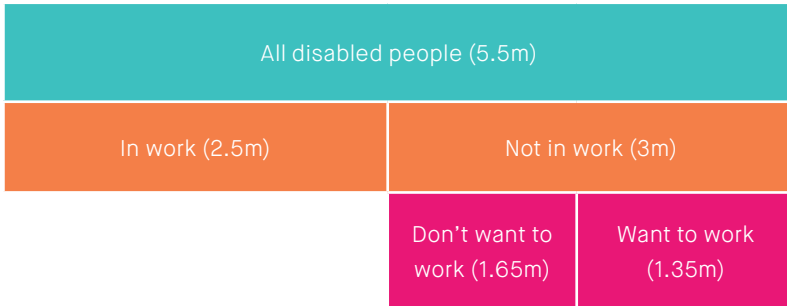
Source: SMF analysis of Annual Population Survey

This chimes with previous studies that have shown clustering of disability in deprived and poor areas and areas with a history of industrial decline.⁴ Together this all suggests that areas with high rates of disability could be facing other significant disadvantages that might make entry into the labour market more difficult. These will need to be considered closely to ensure an effective policy response.

Work is not always the answer

There are also questions over the extent to which work is the desired outcome for those disabled people not currently in work. Figure D demonstrates that, of the three million out of work disabled people in the UK, well over half say that they do not work. Of this group the vast majority say it is because of their illness or disability (77%) and one in five (18%) say that it is because of a caring responsibility.

Figure D: Labour market activity of disabled people in the UK



Source: SMF analysis of LFS Q1 2016.

This demonstrates that increasing employment amongst the group of disabled people that do not want to work will need more than a simple focus on the labour market. For many disabled people, the severity of their health condition or disability will make it extremely unlikely that work is a viable or attractive short (or even long)-term option. For these groups, it should be recognised both that work is not always the appropriate objective to be targeting and that, where this is the case, a different approach to supporting these people, that focuses on improving health and wider outcomes, will need to be adopted.

A change in the labour market needed

Another consideration is whether significantly more people might be helped into work given what is known about the labour market experience of those disabled people who already work. Figure E outlines the characteristics of work for disabled people and non-disabled people already in work. Unsurprisingly, there are some differences. However, perhaps most importantly, many of the differences are not as large as might have been imagined.

Figure E: Characteristics of work for disabled and non-disabled people

	Disabled	Non-disabled
Full time (%)	62.7%	75.7%
Hours		
<i>Full time – median</i>	37	38
<i>Part time – median</i>	20	20
Hourly pay – median	£9.61	£11.13
Public sector %	27.0%	26.4%
Self employed	17.3%	13.3%
On-the-job training (% receive)	24.0%	26.3%
Temporary employees (%)	7.0%	6.0%
Length of time with employer (% more than two years)	74.4%	71.7%
Length of continuous employment (months, average)	111	100

Source: SMF analysis of LFS 2016 Q1

The data shows that (on average) those disabled people already in work are not working intermittently or working short hours. However, evidence from existing employment support programmes⁵ suggest that short-hours and / or temporary jobs are often the most effective in providing stepping stones into work for more disadvantaged disabled people. This suggests that, if large numbers of more disadvantaged disabled people are to move into work, employers are likely to need to employ a different approach to that which they use with existing employees with disabilities.

STRIVING FOR BETTER

Overall this means that, to achieve the Government's ambitions, large scale changes to the labour market and welfare system will be needed. Importantly, unlike previous attempts at reform, these changes must deliver a welfare system and labour market that are supported by disabled people

and the wider public and are affordable over the long-term. To do this, the system must:

- **Provide adequacy:** by ensuring that a combination of earnings and benefits provide adequate financial support and dignity for the individuals and families that need to use it;
- **Work for disabled people:** This will mean the creation of a system that is adequately personalised and tailored so that it reflects the needs of different disabled people summarised in figure A; and
- **Work for and with employers:** by enabling them to fulfil their ambitions for a diverse, flexible and productive workforce.

This report outlines a set of proposals for the short and long term that will help to deliver each of these things. On their own they will not provide the answer and a number of other reports have recently put forward other proposals that warrant consideration. The proposals in this report are also of a scale that will require significant consultation with disabled people and the people and organisations that provide services and support for them and with businesses. However, if taken forward in that context, they would form the basis for a new system that works better for disabled people, society, the state and the economy.

RECOMMENDATIONS

Providing adequacy

- **Recommendation:** the Government should develop a new measure of poverty that reflects the experiences of disabled people. In future, based on this measure, the combination of support in benefits and services should ensure that those who are unable to work do not live in poverty.

A system that works for disabled people

Conditionality and sanctions

- **Recommendation:** the Government should undertake urgent work with disabled people and groups that work with and provide services for them to build the evidence base on the effect of conditionality and sanctions on disabled people.
- **Recommendation:** all employment support programmes provided through Jobcentre Plus and contracted providers should be voluntary for claimants of Employment and Support Allowance (ESA). Those choosing to take up the support available should be paid a Steps to Work Wage to reflect their engagement. This would be paid on top of the individual's standard benefit eligibility and would be contingent on them engaging in the support available (much like a wage in any job).⁶

Disabled people out of work but close (in terms of barriers to employment) to the labour market:

- **Recommendation:** the Government should take more time to design the new Work and Health Programme. It should roll-over existing contracts like has happened in Scotland and design an improved programme to be started in April 2018.
- **Recommendation:** as part of this re-design, and because of the significant financial savings that would be achieved through reducing the disability employment gap, the government should increase funding for the new Programme to ensure that expected numbers of people flowing through the programme do not fall.

Disabled people out of work and further away from the labour market (in terms of barriers to employment):

- **Recommendation:** A significant programme of voluntary pilots should be developed by local policy makers to attempt to support disabled people with significant barriers to work into employment. This should be provided on a voluntary basis for claimants of Employment and Support Allowance who are in the Support Group. It should be funded

by bringing together the money already made available to the Work and Health Unit (£115 million) and through the support for ESA claimants outlined in the 2015 Summer Budget (£100 million).

- **Recommendation:** These pilots should form part of a wider innovation scheme with a further £1 billion set aside over the course of the Parliament for a “Financing Future Health” fund. This should be used to trial approaches to providing better social, health and employment support for people in the Support Group of ESA. Local areas (City Regions, Combined Authorities, local authorities) should be encouraged to outline firm plans for the services they wish to deliver and bid for funding from the fund. Money would be provided upfront in the anticipation that improved services will reduce costs to the state in the long-term. Local areas should be encouraged to co-invest alongside central government and to seek social finance to increase the size of this. Again, part of the agreement to fund new projects should be a commitment to comprehensive evaluation so that lessons can be learned.

Non-disabled people at risk of experiencing on set of health condition or disability

- **Recommendation:** On a pilot basis, the Government should guarantee a rate of benefit equivalent to the Support Group rate for ESA claimants who have recently left work and are likely to be able to return quickly. This rate of benefit would be guaranteed for a period of six months and on the condition that the claimant was actively engaged in a programme of support to help them return to work.

A system that works for and with business

- **Recommendation:** The Government should launch a major public consultation to design a radical new system of social insurance that provides all firms and employees access to expert advice and support when an employee experiences the onset of a serious health condition or disability. Much like auto-enrolment, the scheme would be compulsory for all firms and would also compensate employers for the costs of Statutory Sick Pay. The consultation should consider issues including:
 - Whether there are feasible alternatives to a compulsory scheme;
 - Whether the scheme should also provide financial benefits (income protection) to employees and how this would fit alongside Universal Credit;
 - The balance of payments between the state, individual and employers and the extent of redistribution; and
 - How the market for the insurance product is developed. For instance, is it commissioned by Government, or could individual employers choose the company that they receive the service from.

CHAPTER 1: INTRODUCTION

1.1: CONTEXT

This is the second in a series of reports by the Social Market Foundation that consider the Government's ambition of halving the disability⁷ employment gap. The first report, Closing the Gap, laid out the sheer scale of the challenge that the Government has set itself and put forward recommendations for how the system of social security and employment support for disabled people could be changed. It put forward proposals to:

- Ensure that the national benefits system provides adequate support for those in need, while helping as many people as possible to enter work;
- Introduce a smarter system of requirements on disabled benefit claimants (conditionality) that loosens existing rules and recognises the barriers to employment that many disabled people face; and
- Test new approaches and build an evidence base that can be used to improve support in the future.

The recommendations aimed to make the benefits system simpler, improve the support it gives to those most in need, reduce poverty amongst disabled people and make conditionality more tailored and appropriate.

Much has changed since the publication of that report. The UK has a new Prime Minister and a new Government and the Ministerial teams at key departments including the Department for Work and Pensions and the business department⁸ have almost completely changed. However, the need to support more disabled people into work, reduce the levels of poverty experienced and create a welfare system that works for disabled people is just as great.

1.2: THE CURRENT SYSTEM IS FAILING

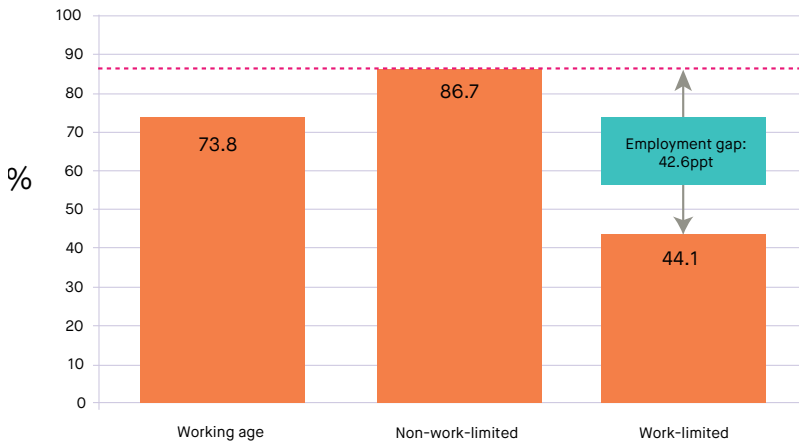
The need comes from the observation that the UK's labour market and the system of benefits and support services for disabled people is broken.

Despite decades of well-intentioned policy changes and initiatives, warm words from business leaders and the best efforts of those involved in delivering frontline services, the scale of the system's failure is seen through the outcomes of those it has tried to help.

Employment rates are low

The most obvious failure can be seen in the employment rates of disabled people. Despite significant attempts to improve employment prospects for disabled people over the last 20 years, as Figure 1 shows, significantly less than half of disabled people are currently employed. When compared to non-disabled people, this leaves a gap of 42.6 percentage points. As a result, achieving the ambition of halving the gap would mean increasing the disability employment rate by 21.3 percentage points (whilst keeping non-disabled employment rates constant). This would mean supporting at least 1.2 million more people with a disability or health condition that limits their capacity to work, to enter employment (figure 1).

Figure 1: Employment rates by presence of work-limiting health condition or disability



Source: SMF analysis of Labour Force Survey

As well as an overall low employment rate, those suffering the onset of a disability and those not currently in work have poor employment outcomes. For example, just 8% of out-of-work disabled people will enter work in any one year, with that figure falling to around 3% of those who have been out for work for over a year.¹⁰ Research also shows that of people who become disabled whilst they are in employment, only a third are still employment two years later.¹¹

Wider outcomes are poor

As well as having a low employment rate, we also see a wide range of other outcomes that are relatively poor for disabled people and their families. For instance:

- Around 5.3 million people living in a household with a disabled person live in income poverty;^{12,13}
- Both disabled children and non-disabled children in disabled households can suffer worse long-term outcomes (including education and health) themselves;^{14,15} and
- Disabled people are more likely to experience problems with housing and transport and to experience hate crime or harassment.¹⁶

Many of these outcomes are self-reinforcing, making causation hard to determine, but the fact that disabled people experience poorer outcomes than non-disabled people in the UK cannot be escaped.

Costs to society, business and the state are high

As well as these direct impacts on the lives of people in this group, the failures of the labour market and welfare and health systems also manifest themselves in many other direct and indirect ways. There is a wealth of evidence that shows that work can have a positive impact on a wide range of outcomes, including living standards and health¹⁷ and social¹⁸ outcomes for individuals, families and local areas¹⁹. Of course, increasing employment rates also have a positive impact on the economy.

This means that, where work is possible, but individuals are unable to take it up, there can be significant negative impacts. In practice, these impacts can often be seen as extra costs incurred by the state, businesses and society in dealing with the consequences. For example:

- The cost of income replacement and extra cost benefits for working age disabled people currently stands at around £25 billion a year. Within tightened fiscal circumstances, the knock-on effective of such high spending is the inability to adequately meet the needs of those who need the most support;
- Failures to adequately meet the financial and support needs of disabled people also impact on costs in the health and social care systems and more broadly across services provided by local authorities; and
- Businesses and the economy also see the impacts. For instance:
 - Over 27 million work days were lost due to work-related ill health or injury in 2014, with an estimated cost to society of £14.3billion.²¹
 - More broadly, over 135 million working days were lost due to sickness absence in the UK in the year to March 2016.²²
 - The costs of presenteeism²³ also stand at over £15billion a year.²⁴

CONCLUSION

This chapter has shown that, as they stand, the welfare system and labour market are not working for disabled people. They do not do enough to support entry into employment or stop the flow out of employment. Where employment is not possible they do not provide adequate support and, ultimately, compared to non-disabled people, outcomes for disabled people are worse across a wide range of metrics.

CHAPTER 2: WHY A STEP CHANGE IN APPROACH IS NEEDED

The challenges outlined in chapter 1 are not new. Policy makers in several previous governments have tried to tackle them. For instance, Green and White papers in 2006, 2008 and 2010 outlined what were then viewed as fundamental reforms to the system, with the intention of making positive change.

The objectives of many of these reforms were similar. For instance, common themes can be found in the desire to:

- Improve health and employment outcomes;
- Save money from the welfare budget, whilst focussing resources on those with the greatest needs; and
- Introduce a stronger mutual responsibility between the state and individual in terms of the requirements placed on benefit claimants in return for the benefit they receive.

These reform agendas have fundamentally changed the system of benefits and wider support for disabled people over the last 15 years. They have led to the introduction of programmes including Employment and Support Allowance, the Work Capability Assessment, Fit Notes and the Fit for Work Service, Access to Work, Personal Independence Payment, Pathways to Work, the New Deal for Disabled People, the Work Programme and Disability Confident.

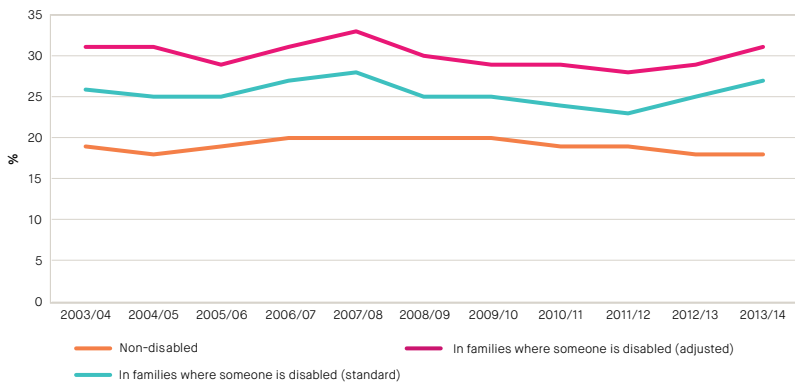
However, none of these significant attempts at improving the functioning of the labour market and welfare (and their interactions with the health system) has led to the changes needed to make the system work for disabled people. A wealth of evidence exists to show the slow progress made in a number of areas. The case of the labour market and welfare and the ambition to raise employment rates is outlined below.

2.1: SLOW PROGRESS

At the top level, we can see that the disability employment gap has remained broadly constant over the last 15 years. While the number of people with a work-limiting health condition or disability in work has increased by around 350,000 and the employment rate has increased from 39% to 44%, employment rates for those without a work-limiting health condition or disability have also increased.

Figure 2 also shows that income poverty rates have also remained significantly above those of the non-disabled population and now stand at or above levels seen in the early 2000s. Income poverty rates among the disabled population have also increased over the last two years of data.

Figure 2: Income poverty rates by disability status

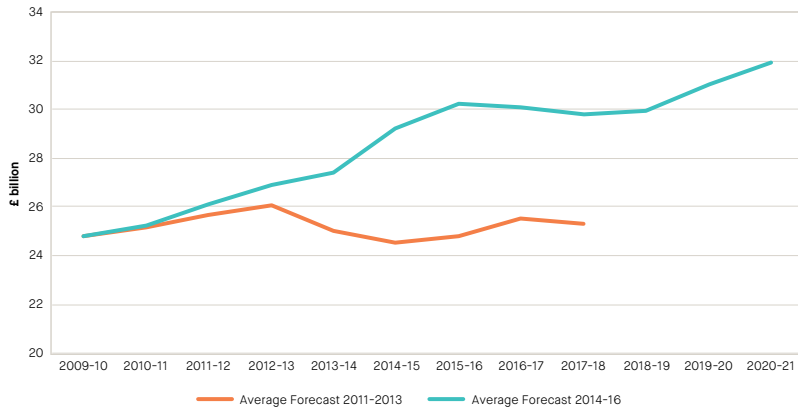


Source: Joseph Rowntree Foundation. Note: “adjusted” figure accounts for extra costs benefits.

With no progress on employment or poverty, it is unsurprising that spending on income replacement and extra costs benefits for disabled people have not reduced. Real terms spending on working age disability benefits rose dramatically in the early 1990s and has not fallen back since then, now standing at just short of £25 billion a year.²⁵ While, as a proportion of gross domestic product, spending has fallen back from the peak in the early 1990s, current levels are still well above pre-1990s trends.

Again, this has not been a result of a lack of effort to reduce costs. A range of policies have been introduced to attempt to improve outcomes and reduce costs, but they have not worked. A clear example of this can be seen over the last few years of fiscal events. Figure 3 shows a comparison of how the average forecast of spending on income replacement and extra costs benefits for disabled people varied between 2011-13 and 2014-16. It demonstrates the fact that overly optimistic assumptions of where reforms would take disability benefit expenditure have had to be consistently revised upwards.

Figure 3: Forecasts of DLA / PIP and ESA / IB spending 2011-2016



Source: SMF analysis of OBR data

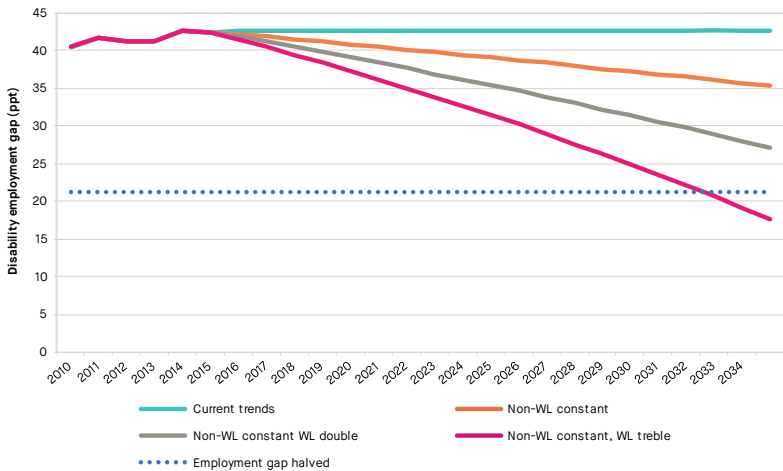
2.2: FASTER PROGRESS WILL BE DIFFICULT WITHIN THE CURRENT SYSTEM

The analysis above shows that while efforts have been made to improve the labour market position of disabled people over the last 15 years, the scale of disadvantage has not reduced. Efforts to increase employment and reduce the need for benefits have repeatedly been proven to be ineffective, suggesting that a change of approach is needed.

The first report in this series highlighted why this is the case. Figure 4, replicated from that report, shows that if the ambition of halving the disability employment gap were to be achieved within 20 years, the yearly

growth rate in the disability employment rate would need to treble and the employment rate for non-disabled group would need to remain fixed. In more simple terms, this would imply helping some 66,000 disabled people into work each year, compared to the current situation of just over 22,000.

Figure 4: Scenarios for disability employment gap with different employment growth assumptions



Source: SMF analysis of Labour Force Survey, from Oakley (2016).

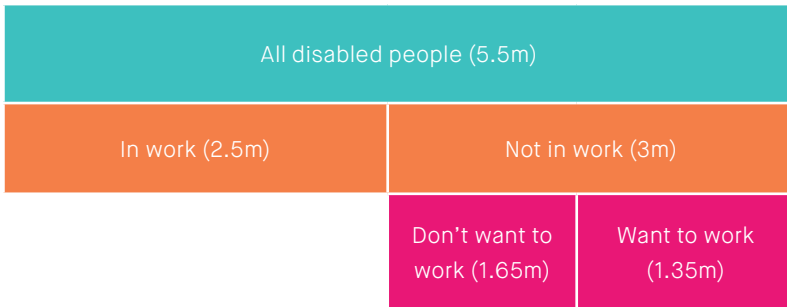
This scale of improvement is clearly not possible within the existing system and this fact becomes even more apparent when we begin to look at the characteristics of the groups involved. The first report in this series demonstrated that disabled people were far more likely to move in to work if they wanted work, had been out of work a relatively short period of time and had high qualifications.

The challenge is that those who are currently out of work perform far more poorly on each of these criteria.

Not everyone wants work

The first thing to consider is that a large portion of disabled people who are not currently in work, do not actually want work. Figure 5 shows that 55% (or 1.65million) of the 3 million disabled people who are out of work do not want to find work.

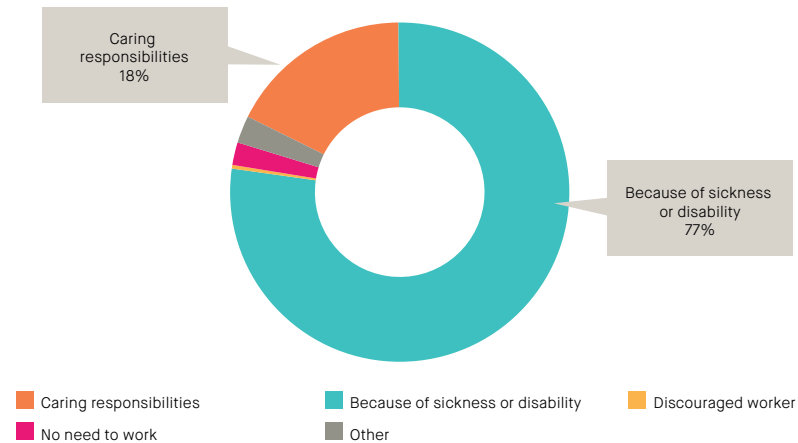
Figure 5: Labour market activity of disabled people in the UK



Source: SMF analysis of LFS Q1 2016.

There will be a number of reasons for this. Figure 6 demonstrates the main reasons why this group say that they do not want work: the vast majority say it is because of their illness or disability.

Figure 6: Main reason for not wanting work



Source: SMF analysis of LFS 2016 Q1

This demonstrates that increasing employment amongst the group of disabled people that do not want to work will need more than a simple focus on the labour market. Attempts have already been made to introduce policies that try to support inactive disabled claimants closer towards the labour market and looking at historical data would suggest that these have had some success. The proportion of disabled people saying that they do not want to work has fallen by close to six percentage points over the last ten years.

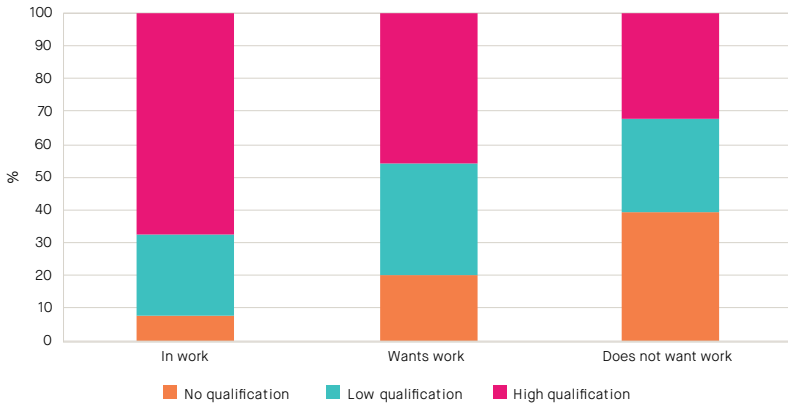
However, there are real questions over how far such policies, which tend to focus on a “rights and responsibilities” agenda that has also been successful for lone parents and non-disabled jobseekers, can go. For many disabled people, the severity of their health condition or disability will make it extremely unlikely that work is a viable or attractive short (or even long)-term option. Figure 6 also shows that others may be caring for partners or other relatives. For these groups, it should be recognised both that work is not always the appropriate objective to be targeting and that, where this is the case, a different approach to supporting these people will need to be adopted.

Even where work is desired, there are significant barriers

Even where work is the desired outcome, there are still significant challenges to increasing employment rates for both the group who say that they want work and the group who say that they do not.

A clear example is in Figure 7, which demonstrates that over half of the group that want work have low or no formal qualifications. This shows that it is not just barriers associated with health or a disability that the groups are facing, but also wider barriers to employment that may not have anything to do with a presence of a health condition or disability.

Figure 7: Qualifications of disabled people, by labour market activity



Source: SMF analysis of LFS 2016 Q1

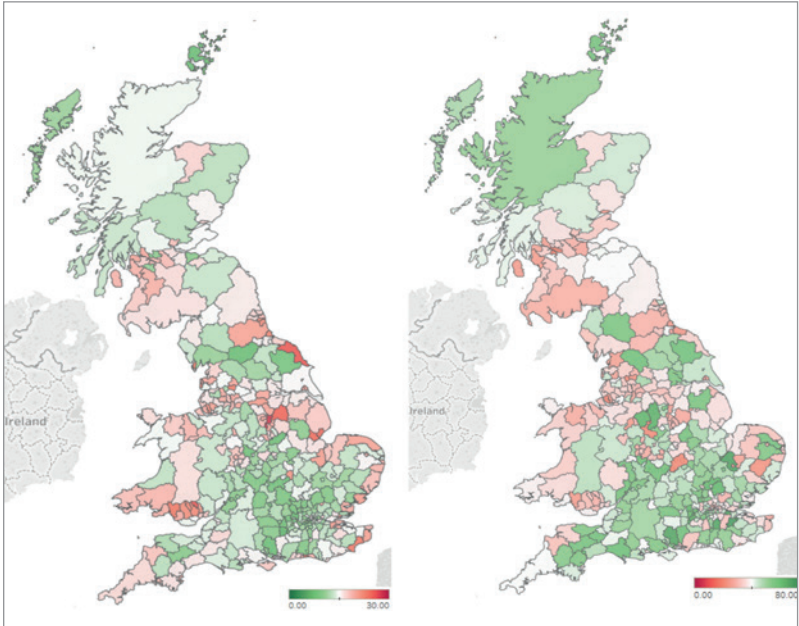
Another clear example is the fact that six in ten of those who say they want a job have been out of work for over five years, or have never had a job. The equivalent statistics for the group who do not want work show even poorer outcomes. This is a significant challenge as, after controlling for all other observable differences, compared to those whose last job was less than three months ago, those whose last job was 6-12 months ago are 69% less likely to enter work over the course of a year. Those whose last job was more than four years ago (or have never had a job) are around 90% less likely to move into work.

Another potential barrier is where people live. Figure 8a demonstrates that the incidence of disability is not evenly spread across local authorities. In some local authorities, less than one in ten of the population have a disability whereas, in others, closer to one in three have a disability. In Figures 8a and 8b green shades represent areas with rates of disability below the national average of around 15%. Red shades represent local authorities with incidence of disability above the national average.

Figure 8b demonstrates a similar analysis for disability employment rates by GB local authority. Side by side, the maps demonstrate that areas with high rates of disability also perform worse on employment outcomes for those with a disability.

Figure 8a: Incidence of disability by GB local authority

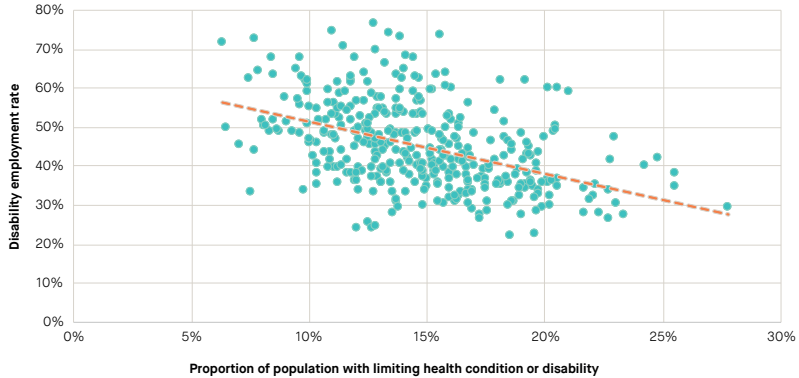
Figure 8b: Disability employment rates by GB local authority



Source: SMF analysis of Annual Population Survey. Tableau Public.

This finding is more easily demonstrated by Figure 9, which shows a clear relationship between the rate of disability in the population and the rate of disability employment. On average, in areas with over 20% of the population with a disability, less than one in three (32%) disabled people are in employment. For areas with disability rates of less than 10%, more than half of disabled people are in work.

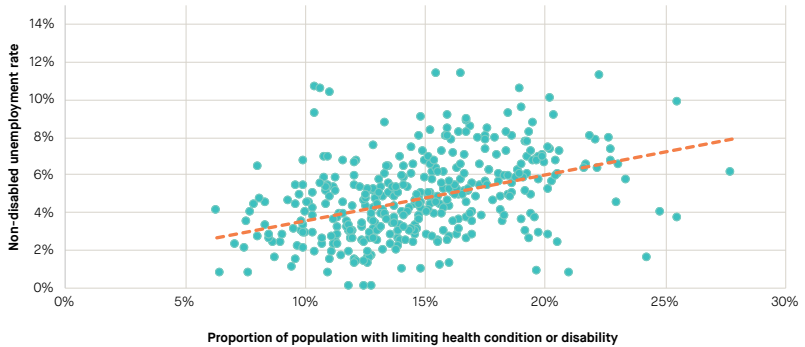
Figure 9: Incidence of disability and disability employment rate by Local Authority



Source: SMF analysis of Annual Population Survey

This suggests a range of area-based factors that could play an important role in understanding and improving outcomes for disabled people. The importance of place has also been highlighted in previous studies that have shown clustering of disability in deprived and poor areas and areas with a history of industrial decline.²⁶ Figure 10 also supports this, showing that where the incidence of disability in the population is high, unemployment rates (of the non-disabled population) are also high. Together this all suggests that areas with high rates of disability could be facing other significant disadvantages that might make entry into the labour market more difficult. These will need to be considered closely to ensure an effective policy response.

Figure 10: Incidence of disability and non-disabled unemployment rate, by local authority



Source: SMF analysis of Annual Population Survey

The labour market is not easily entered

The challenge of delivering a rapid improvement within the existing system is also apparent when we look at the characteristics of work for those who are already in work. Figure 11 compares headline characteristics of work between disabled and non-disabled people who are currently in work. They show some significant differences between the work outcomes of disabled and non-disabled people, particularly around the proportion of self-employed, the full-time part-time split and hourly pay. However, perhaps most importantly, many of the differences are not as large as might have been imagined.

Figure 11: Characteristics of work

	Disabled	Non-disabled
Full time (%)	62.7%	75.7%
Hours		
<i>Full time – median</i>	37	38
<i>Part time – median</i>	20	20
Hourly pay – median	£9.61	£11.13
Public sector %	27.0%	26.4%
Self employed	17.3%	13.3%
On-the-job training (% receive)	24.0%	26.3%
Temporary employees (%)	7.0%	6.0%
Length of time with employer (% more than two years)	74.4%	71.7%
Length of continuous employment (months, average)	111	100

Source: SMF analysis of LFS 2016 Q1

For example, the table shows that:

- Nearly two thirds of employed disabled people have been with the same employer for more than two years;
- The average length of time of continuous employment is approaching ten years;
- Median hours of work (after accounting for full-time part-time split) are very similar to non-disabled people.

In short, this demonstrates that (on average) those disabled people already in work are not working intermittently or working short hours. However, evidence from existing employment support programmes²⁷ suggest that short-hours and / or temporary jobs are often the most effective in providing stepping stones into work for more disadvantaged disabled people. This suggests that, if large numbers of more disadvantaged disabled people are to move into work, employers are likely to need to employ a different approach to that which they use with existing employees with disabilities.

Easy to leave

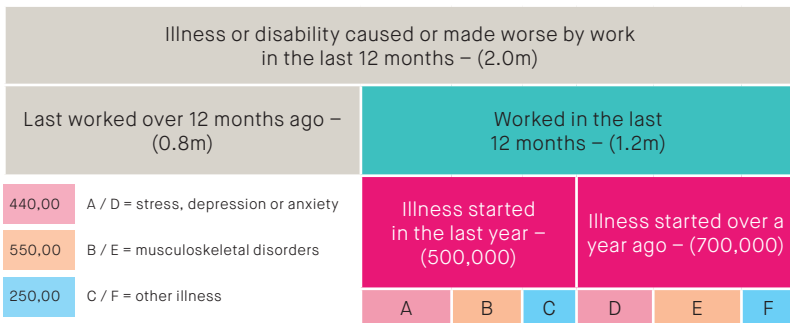
It is also important to remember that this is not just a question of helping out of work disabled people to enter work. A large proportion of out of work disabled people have worked in the past and over half of new claims for Employment and Support Allowance come from people who have recently been in work or are moving off Statutory Sick Pay.²⁸

This makes supporting individuals and employers to help people remain in work after an onset of a health condition or disability important for improving outcomes for disabled people and reducing benefit claims. However, research shows that of people who become disabled whilst they are in employment, only a third are still in employment two years later.²⁹ There is clearly much still to do.

Another important consideration is the extent to which health conditions and disabilities are a direct result of work itself. Recent research has suggested that work-related health conditions and disabilities account for around a fifth of all work days lost in the UK. Based on self-reported data from the Labour Force Survey, Figure 12 suggests that, in 2014, some 1.2million people reported to have experienced a health problem or disability as a direct result of work in the previous year. The vast majority of these people reported either a musculoskeletal problem or a problem with stress, depression or anxiety.

For both of these broad categories of conditions, research has shown that work can be a major contributor. This is true for both physical conditions, where dangerous working environments have been a major cause of disability and ill-health, and mental health conditions, where working environment and stress play a major role.³⁰

Figure 12: breakdown of self-reported illness and disabilities caused or made worse by work



Source: adapted from Health & Safety Statistics 2014/15, HSE.

2.3 WHAT DOES THIS MEAN

This all shows that improving outcomes across the disability, health and work agendas is a complex issue. In particular, it shows that it is unhelpful to think of “tackling the disability employment gap” as one distinct challenge. Instead, as Figure 13 demonstrates, there are at least three broad types of individuals that might need support if goals to increase employment rates and reduce disadvantage amongst disabled people are to be achieved.

Figure 13: Areas where support could reduce the employment gap and improve outcomes

Individuals	Characteristics	Size of group
Disabled people out of work but close to the labour market	A relatively small group of people who have recently left work and have relatively low non-disability barriers to employment.	Around 1m people
Disabled people out of work and a long way from the labour market	Larger group of disabled people who have been out of work for longer (or never had a job), have more severe conditions, multiple conditions and, often, a range of other non-health / disability related barriers to employment.	Around 2m people
Non-disabled people at risk of experiencing on set of health condition or disability or recurrence of fluctuating condition	Whole population.	Whole population

Even within these groups there is, of course, significant variation in the type and severity of condition or disability involved, family circumstances, appropriateness of work and a wide range of other factors. However, this stylistic representation does effectively demonstrate that a one-size-fits-all approach will not be effective and wide scale changes will be needed in a range of different areas of government policy, business practice and society.

2.4: CONCLUSION

The first two chapters have shown that, while the Government has changed, the need for significant action to improve employment prospects and wider outcomes for disabled people still remains. That makes it vital that, as recommended in the first report, the Government launches a wide-ranging and ambitious Green Paper shortly after it returns from the Summer Recess. This is made all the more important by the observation that, while well intentioned, the design of the existing system of welfare is often highlighted as one of the main barriers to supporting more disabled people into work or better wider outcomes. For example:

- On the benefits system: Disabled people that we spoke to in the course of this research regularly suggested that rather than supporting them, they felt that the benefits system had left them feeling “defeated”;
- On employment support: Views of the Jobcentre Plus suggested a tick-box culture where disabled claimants were not given personalised support. They felt that advisors simply “parked them” as they thought they had no chance of work, and ignored them when they asked for support; and
- On conditionality and sanctions: Groups representing disabled people suggest that the system of conditionality and sanctions can make health worse and push people further away from job search and, ultimately, work.

There are obvious places for this Green Paper to focus. For instance, recommendations in the first report of this series outlined potential significant reforms to the system of benefits to make it simpler and more supportive. Recommendations for reform of the employment support system and conditionality were also made. However, on their own, the approach set out in the first report will not be enough to meet the challenge that the Government is facing. The lack of progress to date and challenges for the future laid out in chapter 2 suggest that, to do this, much wider-reaching changes would be needed to the UK’s labour market, the nature of work and attitudes and approach of both employers and society as a whole.

The Green Paper is a timely opportunity to start the discussion about the changes that will be needed. It must reconfirm the Government's commitment to disabled people and set out a significant programme of consultation so that it can co-design a future welfare system alongside disabled people and those that represent them.

CHAPTER 3: LAYING THE FOUNDATIONS OF A NEW SYSTEM

The chapters above have made it clear that, if the Government is to succeed in its ambitions, a step change in approach will be needed. It will not be enough to try to make marginal changes to the existing system, to extend the same sort of approaches that have worked with other groups of people or to simply do nothing.

A new approach is needed and the upcoming Green Paper provides a vital opportunity to deliver it. In developing this new approach, this chapter sets out the ambitions that should be behind it, the understanding that will need to be built and the way in which design should be undertaken.

3.1: FRAMING THE GREEN PAPER

Defining the ambition

Halving the disability employment gap has been central to the Government's ambitions on social justice since it was outlined in the Conservative's 2015 election manifesto. However, the failures above go far beyond a simple question of labour market activity.

This means delivering a welfare system and labour market that is supported by disabled people and the wider public, is affordable over the long-term, and that:

- ***Provides adequacy:*** By ensuring that a combination of earnings and benefits provide adequate financial support and dignity for the individuals and families that need to use it;
- ***Works for disable people:*** This will mean the creation of a system that is adequately personalised and tailored so that it reflects the needs of different disabled people. In particular, it needs to recognise that, for some people with a health condition or disability, work should not be the primary objective and may not ever be the desired outcome. For others, it will need to provide appropriate, effective and personalised

support to enter work and ensure that those at risk of falling out of work because of a fluctuating condition or the onset of a condition are given all the support they need to stop that happening; and

- **Works for and with employers:** By enabling them to fulfil their ambitions for a diverse, flexible and productive workforce.

How to deliver effective change

As well as delivering against these objectives, it is also vital that designing a new system is approached in the right way.

Firstly, it must be designed with and for disabled people. Doing so will result in better policy making. Recent failed attempts to pass changes to Personal Independence Payment through Parliament have shown the dangers of failing to gain support from those affected by the potential changes.³¹ In practical terms, this will mean significant engagement from the Government following the Green Paper to allow policies and approaches to be co-designed with disabled people, and groups that have experience in working with them and delivering services for them.

Secondly, the Green Paper needs to learn from past lessons and realise that the evidence base is relatively light in many areas that policy makers might want to explore. This means that a significant part of the Green Paper must be about building an evidence base through joint working and delivering significant pilots and programmes of evaluation.

3.2: A BLUEPRINT FOR THE FUTURE

To support this, the rest of this chapter sets out proposals to ensure that a new approach provides adequacy, works for disabled people and works for and with employers. The Government should consider each of these proposals however, they are not recommendations of final policies. These proposals should be taken forward as a blueprint to be discussed between a wide range of stakeholders and the detailed design developed collaboratively.

These proposals are also not the full extent of what should be changed. A number of other recent reports have highlighted potentially effective measures that could make short-term changes to improve the employment prospects and wider outcomes of disabled people.

For instance, a number of reports have highlighted the potential benefit of introducing a system of peer support;³² of reforming statutory sick pay to make it more flexible; extending pilot programmes that deliver Individual Placement and Support (IPS);³³ building on the Improving Access to Psychological Therapies (IAPT) programme;³⁴ introducing a “right to return” and rebate on Statutory Sick Pay where people return successfully to work.³⁵ Each of these areas could be taken forward quickly to improve short-term prospects of employment and outcomes for disabled people and would work alongside, that longer-term proposals outlined below.

Providing adequacy

The benefits system should provide adequate support to those who are either temporarily or permanently unable to work. That so many of this group currently live below the income poverty line should be a concern as it could impact on their living standards, health and future outcomes and the future outcomes of their children.

The first report in this series outlined a programme of significant changes to income replacement and extra costs benefits for disabled people. If taken forward they would simplify and improve the functioning of the benefits system and allow it to provide better support for disabled people to stay in and enter work.

Alongside these reforms, a new system in the future should ensure that, where claimants of disability benefits are unable to work, they do not live in poverty. Since the UK has no formal measure of poverty (for adults or children), ensuring this is the case will require Government to set out a new measure of poverty. This should build on the work of the Social Metrics Commission that is currently engaged in considering this question and will report in October 2017.³⁶

- **Recommendation:** the Government should develop a new measure of poverty that reflects the experiences of disabled people. In future, based on this measure, the combination of support in benefits and services should ensure that those who are unable to work do not live in poverty.

A system that works for disabled people

It is essential that the welfare system and labour market work for disabled people. This will require fundamental changes and, as outlined in Figure 13 above, a recognition that responses will need to be tailored to different groups of disabled people and, indeed, the individual characteristics of individuals within each of those groups.

Many practical ideas have been highlighted in previous reports.³⁷ Alongside these recommendations for action, a set of broader proposals are outlined below. These proposals cover changes to the system of conditionality and sanctions for all disabled people and a set of responses for each of the groups of individuals outlined in Figure 13.

Conditionality and sanctions

There are a number of general principles regarding conditionality and sanctions that should apply across the system of disability benefits and support.

The principle that, in return for the benefit they receive, claimants should be required to take on the support available to them is sound. So too is the idea that, in those circumstances the credible threat of a sanction may increase the likelihood of claimants taking on support and taking steps towards an improved situation and employment.

However, the strength of this principle relies on several assumptions. The Oakley Review of sanctions outlined a set of criteria that must be met for the system to be fair and efficient. These were that the system should:

- Increase compliance with labour market requirements, particularly attending meetings with advisers;

- Be clear and easy to understand;
- Be fair, timely, and consistent in the way it is imposed;
- Be proportionate and not create excessive hardship; and
- Allow those who are sanctioned to have easily accessible and understandable recourse to appeal, and potential redress where they believe they have been unfairly treated and decisions are subsequently overturned in their favour.³⁸

When considering these principles against the system as it applies to disabled people, it is hard to imagine in practice many circumstances where it would be desirable to apply a sanction. We also know very little about the actual impacts of conditionality and sanctions on disabled people. On one side, reports from groups representing disabled people suggest that sanctions can lead to worse health outcomes, movements further away from work and even, in extremis, death. However, no detailed analysis of the potential benefits in terms of increased engagement with support or improved employment and health outcomes has been undertaken.

A particular concern around the lack of evidence is the extent to which disabled people are actually fully aware of the requirements placed on them and the consequences of not complying. The Oakley Review highlighted this as a significant problem for more vulnerable claimants and argued that communications strategies from the Department for Work and Pensions needed to be overhauled to improve the situation and that further analysis needed to be undertaken to ensure that claimant understanding improved as a result. It is unclear whether or not that work has taken place, so it is impossible to ascertain whether disabled people fully understand the system of requirements and financial penalties that they may face.

These evidence gaps should be urgently filled.

- **Recommendation:** the Government should undertake urgent work with disabled people and groups that work with and provide services for them to build the evidence base on the effect of conditionality and sanctions on disabled people.

Once this evidence has been developed, a new more tailored approach to conditionality and sanctions should be developed hand-in-hand with disabled people. While that approach is developed, the first report outlined an approach for conditionality and sanctions that could be adopted in the short-term:

- **Recommendation:** all employment support programmes provided through Jobcentre Plus and contracted providers should be voluntary for claimants of Employment and Support Allowance. Those choosing to take up the support available should be paid a Steps to Work Wage to reflect their engagement. This would be paid on top of the individual's standard benefit eligibility and would be contingent on them engaging in the support available (much like a wage in any job).³⁹

The next sections go on to suggest approaches that might be effective in ensuring that the system works for each of the groups outlined in Figure 13.

Disabled people out of work but close (in terms of barriers to employment) to the labour market:

As summarised in Figure 13, this group of disabled people have similar characteristics to the non-disabled population. They have recently been in work, they have low to mid-level qualifications (or above) and they want to work. Here, the appropriate outcome for the majority of the group is work and, as with other groups in a similar situation, employment support can play a vital role in helping them re-enter work.

While the relatively poor performance of the Work Programme in helping disabled people into work is well known, there are a range of other programmes including Work Choice and Working Well, that have been shown to provide effective support and strong job outcomes for disabled people.

To some extent, the lessons from these programmes appear to have been learned with the approach the Government is taking to developing the new Work and Health Programme (which is due to replace the Work Programme and Work Choice from spring 2017). However, there are still major policy concerns outstanding that will need to be addressed.

For the programme to be a success, it will be vital to ensure that the right people enter the programme and that the payments providers receive for helping them to achieve employment outcomes adequately reflect the degree of barriers to work that the disabled person faces. Setting these parameters correctly is critical in ensuring the programme is both effective and provides value for money. For example:

- If payments are too low and barriers to work too high, the programme will be a failure as providers will not have adequate resources to help people tackle the barriers they face and move into work;
- Conversely if payments are too high, and barriers to work too low, the programme will not provide value for money; and
- If payments are not targeted adequately on those that are harder to help, providers will face an incentive to only help those closest to the labour market and “park” those further away.

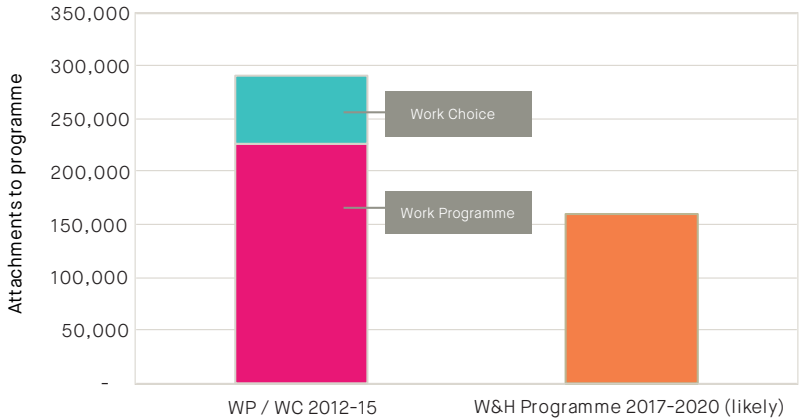
The failure of policy makers to address these problems in the design of the Work Programme was ultimately what meant that it was not as successful for this harder-to-help group as it was for other easier-to-help groups.

There are also fundamental concerns around the level of funding for the new programme, which is only due to amount to around £130million in the last year of this Parliament. This is substantial cut to the budget of the previous programmes and means that a relatively small number of disabled people will be going through this programme compared to the Work Programme and Work Choice.

Assuming an average unit cost of £2,000 is attached to each person on the Work and Health Programme, this £130million budget would mean the programme having 65,000 attachments in the final year of this Parliament and slightly fewer in the two years previous as the programme ramps up. This suggests a total of just over 150,000 people being on the programme over three years. As Figure 14 demonstrates, this compares unfavourably with the last three years of data from the current system of support, where over 220,000 ESA claimants entered the Work Programme and a total of over 63,000 people entered Work Choice. This will leave over 40,000 less

disabled people a year over the course of the parliament without access to specialist employment support.

Figure 14: Volumes for Work Programme and Work Choice compared to likely volumes for the Work and Health Programme



Source: SMF analysis of DWP data and modelling of potential W&H Programme

Given the important role that specialist employment support can and should play for this group, this situation is a concern. It is also surprising since the first report in this series showed that on top of current trends supporting an additional 100,000 disabled people into work would lead to savings to the Exchequer of around £1billion a year. This suggests that a relatively small injection of money to provide specialised employment support could deliver significant savings in both the short and long term.

Tackling this problem will require rethinking how employment support fits into the government’s ambitions on the disability employment gap and taking more time to consider how this programme should be designed. Here, lessons can be learned from Scotland, where the Government has decided to roll-over existing contracts for a year and design a new programme to start in Spring 2018.

- **Recommendation:** the Government should take more time to design the new Work and Health Programme. It should roll-over existing contracts like has happened in Scotland and design an improved programme to be started in April 2018.

- **Recommendation:** as part of this re-design, and because of the significant financial savings that would be achieved through reducing the disability employment gap, the government should increase funding for the new Programme to ensure that expected numbers of people flowing through the programme do not fall.

Disabled people out of work and further away from the labour market (in terms of barriers to employment):

As Figure 13 summarised, this is a group that is far more disadvantaged in terms of their employability. A large proportion have no qualifications and many have never had work. Most also say that they do not want work.

To some extent, this situation can be partly attributed to the failures of the benefits system that pushes many people further away from work. Changes to the benefits system recommended in the first report in this series and other organisations could improve that situation. We should also be clear that work will not be the appropriate goal for many of this group and the role of the state in providing financial support and services to ensure they are not in poverty has already been highlighted.

However, for some, work will be the desired outcome and they should be supported to take it on where possible. The challenge here is that this is a potentially large group and there is little evidence of programmes of support that are effective, at scale, in helping them back to work.

This suggests that a programme of testing and evaluation would be the appropriate way forward. This should be targeted at claimants of Employment and Support Allowance who are in the Support Group, and would otherwise not have access to employment support. It should be a completely voluntary programme.

In order to drive innovation, it should be delivered locally. This would allow local government to join up services around individual disabled people to deliver a more holistic support service. For instance, this might include local health, housing, work and skills organisations working together seamlessly through a key worker to support an individual into work. It would also fit with the Government's ambitions around devolution.

- **Recommendation:** A significant programme of voluntary pilots should be developed by local policy makers to attempt to support disabled people facing significant barriers to work into employment. This should be provided on a voluntary basis for claimants of Employment and Support Allowance who are in the Support Group.

Of course, a radical new approach will cost money. An obvious way to find resources to support this group would be by making better use of existing funds already outlined as being available through DWP and the Department of Health. For example money already made available to the Work and Health Unit (£115 million) and through the support for ESA claimants outlined in the 2015 Summer Budget (£100 million) could be used.

However, if the government is committed to halving the disability employment gap and improving outcomes for disabled people, it is very likely that more money will have to be spent. Given that delivering on these objectives (e.g. reducing the disability employment gap) would reduce costs to the state significantly in the long-run, these short-term costs could be worthwhile.

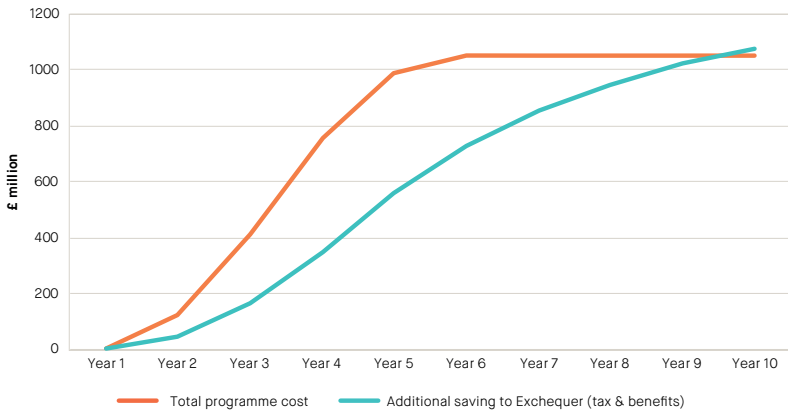
- **Recommendation:** These pilots should form part of a wider innovation scheme with £1 billion set aside over the course of the Parliament for a “Financing Future Health” fund. This should be used to trial approaches to providing better social, health and employment support for people in the Support Group of ESA. Local areas (City Regions, Combined Authorities, local authorities) should be encouraged to outline firm plans for the services they wish to deliver and bid for funding from the fund. Money would be provided upfront in the anticipation that improved services will reduce costs to the state in the long-term. Local areas should be encouraged to co-invest alongside central government and to seek social finance to increase the size of this. Again, part of the agreement to fund new projects should be a commitment to comprehensive evaluation so that lessons can be learned.

While the “Financing Future Health” fund represents a significant level of expenditure up front, the programme would only need moderate success to ensure that this spending was recouped over a period of ten years. Such

a programme could provide support for up to 400,000 disabled people and modelling using the WPI Economics Employment Support Costing Model shows that, if just one in five of those entering the programme found work, the additional benefit savings and tax increases could meet the total programme costs at the end of ten years.

Figure 15 demonstrates this point. It shows the profile of additional costs and benefits (in terms of increased tax and reduced benefit spend) from an initial three-year programme. Of course, as well as these fiscal benefits, there would also be significant wider savings in terms of lower costs because of improved health and improved living standards.

Figure 15: Costs and benefits of a £1billion programme for ESA Support Group claimants



Source: WPI Economics

Non-disabled people at risk of experiencing on set of health condition or disability

The first two chapters of this report and a range of other studies have highlighted the importance of early intervention to support people to stay in work where possible and to minimise the impact of the onset of an illness or disability. Much of the research suggests the key role that employers and workplace practices have in delivering or facilitating this early intervention.⁴⁰ Proposals to support this group are therefore covered in the section on employers below.

Where individuals have already left work following the onset of a health condition or disability, early intervention is essential. As the first report in this series showed, the longer someone is out of work, the less likely they are to re-enter employment. Compared to someone who has just left work, a person who has been out of work for 12 months is 69% less likely to find work within a year. This suggests that access to employment support services are provided as soon as possible.

The Government is already considering options to ensure that this is the case but, as part of its use of the innovation fund outlined above, it should pilot an approach that ensures that disabled people get access to specialist support from day one of a benefit claim. To ensure that claimants are able to focus on managing the onset of their condition and moving closer to work where possible, this scheme should remove the worry of securing benefits that many claimants suggest pushes them further away from work. To do this, it should guarantee claimants engaged in the programme the Support Group rate of Employment and Support Allowance for a period of six months.

- **Recommendation:** On a pilot basis, the Government should guarantee a rate of benefit equivalent to the Support Group rate for ESA claimants who have recently left work and are likely to be able to return quickly. This rate of benefit would be guaranteed for a period of six months and on the condition that the claimant was actively engaged in a programme of support to help them return to work.

A thorough evaluation of the costs and benefits to the individual and state should be conducted to assess whether this new approach could provide value for money and improved outcomes.

A SYSTEM THAT WORKS FOR AND WITH BUSINESS

It is clear that businesses have a number of important roles to play. For example:

- Working with employees to manage the onset or recurrence of a health condition or disability and remain close to and return to work where possible;
- Ensuring that their own working practices are not contributing to the onset of a condition; and
- Making the most of the talent that is available to them by employing recruitment practices that are open to and promote opportunities for disabled people.

By doing these things, businesses can support disability employment, as well as increasing productivity and profit. However, despite the potential gains, it is clear that the labour market is still not working for disabled people and that businesses have some role in this. This is not a criticism of business. The majority of businesses and business leaders will take this agenda seriously and be open to employing disabled people for both bottom-line and diversity reasons.

It is also clear that many organisations already perform well in this area, with significant investment in health insurance and income protection policies for their staff, expert HR departments and strong links with a range of occupational health teams to provide support to staff when they need it. However, while such practices are suitable for large employers, it is neither possible nor sensible for the vast majority of smaller firms in the UK.

A number of Government schemes already attempt to tackle this problem and help businesses. For example the Access to Work, Disability Confident and Fit for Work schemes all provide (financial and non-financial) support and advice to businesses of all sizes. A range of advice and support is also available through bodies such as the Federation of Small Businesses.⁴¹

These are all positive steps and should support improvements of retention in work. A recent report by the Resolution Foundation also put forward a

number of strong recommendations for how some of these schemes (and others) could be improved. These included exploring the use of a rebate system for Statutory Sick Pay when individuals return to work and expanding the Fit for Work scheme. The Government should consider taking these proposals forward.⁴²

However, in the longer-term, if all businesses are going to be supported to play their part in halving the disability employment gap, firmer action will need to be taken.

The ultimate ambition should be that all firms are able to:

- Provide their employees appropriate advice and services should they experience the onset of a health condition or disability at work;
- Access support themselves to manage any adaptations to the workplace that might be needed and take advantage of schemes available to them; and
- Receive impartial HR and recruitment advice when they need it.

Doing so would improve support for disabled people in work and those experiencing the onset of ill-health or a disability and reduce the costs and risks to employers of employing disabled people. However, the key is that these services should not be thought of as a nice-to-have or as the benefits of working in a “good” firm. Instead, they should be par for the course – provided by and for all employers and employees. The obvious way for this to be delivered would be through a compulsory insurance product that provided access to specialist support, which firms could call upon when they needed.

The advantages could be significant:

- The small business faced with an employee who has developed a serious mental health condition could access an expert team at short notice to provide support to the employee and work with all parties to develop return to work plans once the condition has been managed;
- The business looking to recruit the best could receive advice on how to encourage disabled people to apply for positions in their firms; and

- The employee suffering the onset of a condition could be confident that support will be available to them once they are ready to return.

There are also significant advantages to the state and economy. If it works well, the system could boost disability employment, reduce days lost sick, increase diversity and productivity in the workplace and improve working practices across the economy.

The costs of delivering this system would, of course, be high. Delivering a compulsory scheme, alongside existing changes including the introduction of the National Living Wage, Auto Enrolment and the Apprenticeship Levy, may be considered a step too far. However, if the Government (and business) is serious about tackling the disability employment gap this is the kind of approach that will be needed and, in the long-term, it could also create a welfare system and labour market that is fairer and more sustainable.

There are a number of ways in which this sort of insurance scheme could be delivered. These include firms being compelled to purchase a privately provided insurance product; or the state funding a nationalised scheme. However, these options are unlikely to be popular or effective.

Instead, the Government should work with business and representatives of disabled people and employees generally to develop a model that provides an effective level of insurance and support for ill health and disability to both individuals and businesses.

To do this effectively, the new system must clearly embody the principles of a “social insurance system”. This means that it should provide universal coverage, bring together the interests of individuals, businesses and the state, be able to withstand risks associated with recession or economic shocks (tail end risks) and must not (in principle or practice) be viewed as “privatising the welfare state”. To do this, a new system should be designed to ensure that it:

- **Is redistributive** – So that, while the support available through scheme is universal, the value of contributions from individuals and firms rise as their earnings or profits rise. This could be delivered, by setting a

standard package of benefits, while applying a standard levy of 1% of earnings and profits to fund the scheme;

- **Makes the most of the private market** – A scheme run by private insurers will provide incentives for them to improve health, aid the return to work and support businesses to employ best practice in this area. They will also have the incentive and finances to ensure that services (e.g. health, work and skills) are joined up around the individual in the way that maximises their health and employment prospects.
- **Makes the most of the social market** – Lessons should be learned from the creation of Flood Re and Pool Re, where a private market provides day-to-day cover and the state covers or supports the management of tail end risks.
- **Is co-funded** – The benefits of this system will accrue to individuals, firms and the state, so it should be funded as such.

Such a system could bring employers, employees and the state together to finance a compulsory insurance system that provides financial and practical support for individuals (and their employers) at risk of falling out of work because of an illness or disability. By doing so it would provide a vehicle for a completely new contract for the welfare state for the 21st Century and could provide the foundations of a system that worked more effectively to promote work, provided more adequate benefits and had widespread support across the public.

- **Recommendation:** The Government should launch a major public consultation to design a radical new system of social insurance that provides all firms and employees access to expert advice and support when an employee experiences the onset of a serious health condition or disability. Much like auto-enrollment, the scheme would be compulsory for all firms and would also compensate employers for the costs of Statutory Sick Pay. The consultation should consider issues including:
 - Whether there are feasible alternatives to a compulsory scheme;
 - Whether the scheme should also provide financial benefits (income protection) to employees and how this would fit alongside Universal Credit;

- The balance of payments between the state, individual and employers and the extent of redistribution; and
- How the market for the insurance product is developed. For instance, is it commissioned by Government, or could individual employers choose the company that they receive the service from.

CONCLUSION

As with the last Government, this new Government faces a significant challenge in achieving its ambitions of halving the disability employment gap and improving the outcomes and living standards of disabled people in the UK.

While a number of policies and attempts at reform have had some success in the past, the scale of improvement needed to the labour market, employment and wider outcomes is such that a step change in approach is needed.

This report has shown that this new approach must be tailored to the wide range of situations and needs that disabled people experience. There are three main groups that could need further support in the future:

- Those who have recently left work because of the onset of a health condition or disability;
- Those who are already out of work and could have been out of work for a relatively long time; and
- The whole employed population, who could be at risk of falling out of work if they experience the onset of a health condition or disability.

Halving the disability employment gap will require targeted responses for each of these groups and, indeed, an approach that is responsive to the wide range of circumstances that people within each of these broad groups face.

This report has put forward practical proposals for each of these groups in the short term. It has also suggested a radical set of long-term changes to the welfare system. These would need significant consultation and should be developed hand-in-hand with those affected, with the intention that they could be implemented over the next decade.

Taken together, these proposals would reshape the interaction between the state, individuals and businesses. They would ensure that support is better targeted and that when any of us experience the onset of a health condition or disability, we can get the financial and non-financial support we need. Ultimately, they would contribute to ensuring that the welfare system and labour market work better for disabled people.

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Striving for better

Welfare and a labour market that work for disabled people

If the Government is serious about making an economy that works for everyone, it must take urgent action to make a labour market and welfare system that work for disabled people. This report outlines the challenge that the Government will face in delivering this. Doing so will require a more nuanced approach than has been seen over the last two decades. It will also require significant changes to government policy and business practices.

This report outlines proposals that would deliver the changes needed over the long term. It recommends a new approach to ensure that the benefits given to disabled people meet their needs and that innovation in employment support can lead to more tailored and effective programmes. Looking further ahead it proposes a radical shift in the responsibilities of the state, businesses and individuals to ensure that more people can remain in or return to work after they experience the onset of a health condition or disability.