

Acknowledgments

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Social Firms Scotland aims to support and influence the development of social firms and offers the following services:

- Promoting Service User Participation
- Delivering Bespoke Business Development and Start-up Support
- Events and Training Programmes
- Information and Research
- Signposting

Social Firms Scotland has provided direct business development support to over 70 organisations across Scotland who are developing and running social firms. Social Firms Scotland is a founding member of the Scottish Social Enterprise Coalition and is closely linked to Social Firms UK.

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Summary

Context

For the majority of people work forms a central part of their lives. It defines a lot of who we are, who we meet, what our goals are and how we live our lives. It allows us to meet friends, partners and to develop and practice our social, practical and intellectual skills. And yet for so many this fundamental human right to be able to answer the question “What do you do?” is denied them. Too often people are excluded due to lack of support, outdated assumptions and a welfare system that has ignored the barriers to work that people with mental illness face.

If 21% of people on incapacity benefits have severe and enduring mental health problems this translates to approximately 550,000 people being out of work and is a growing trend. Given the scale of the problem there is a need for a similar scale of response. The Government need to 'invest to save' if these numbers are to reduce.

People who have been on incapacity benefits for more than 2 years should not have a higher chance of dying prematurely than they do of moving into employment. Considering that 71% of IB claimants in Scotland have been on IB for 2 years or more the current support interventions are clearly not working¹. Urgent action and investment is required if employment exclusion is to be eliminated for this group of people.

The economic exclusion of those people furthest from the labour market urgently needs to be addressed through a detailed and lateral investigation of welfare benefits reform. A new, more flexible, system needs to be created, that is capable of supporting people into sustainable employment.

However any reform of the financial system that currently restricts movement from economic inactivity to employment must be investigated in parallel with the reshaping of support services.

It is the contention of Social Firms Scotland that benefits reform could open up cost-effective routes to create a new transitional employment market, based on social firms and social enterprise, which will meet the needs of those furthest from the labour market.

Social firms make a concerted effort to focus on those people who are long term unemployed and can demonstrate very positive results. With investment, a radical overhaul of the existing welfare system and a coordinated more holistic support approach between agencies, social firms could play a significant role in maximising the employment options available to people.

Bridging the gap will take time and a change in attitude from all stakeholders. The policy context and economic environment are ripe for change. However careful consideration and a bold approach are required to create a welfare support system fit for people's needs in the 21st century.

It is hoped that this report will provide a catalyst to an informed debate aimed at the constructive reform of the UK's Welfare System.

¹ Trends in Employment for the Disabled, Department of Work and Pensions presentation, London, (2002).

Purpose

'Bridging the Gap' is a discussion paper aimed at those who are closely involved or affected by wider reform of the welfare to work system related to employment support. It has a particular focus on the effect of reform in relation to people with mental illness as they form the largest group of disabled people put of work². The paper:

- Identifies foundation principles for longer-term action
- Proposes urgent recommendations for reform of the current welfare benefits system that will improve employment opportunities for unemployed people with severe and enduring mental health problems.
- Outlines current policy developments in the UK, and examines what lessons can be drawn from international experiences of welfare reform.
- Places emphasis on the potential of social firms to provide a response to creating more effective employment support for people with severe and enduring mental health problems.

Principles for Reform

Social Firms Scotland would like to see the following guiding principles underpinning any future reform of the Welfare Benefits system. Although gathered from mental health professionals and service users it is felt that these principles are applicable to all disadvantaged groups:

- **Transitional flexible support** that enables transition within a flexible labour market including supported employment for those who need it
- **Making work Pay** even for those able to work only part time
- **Simplicity** to reduce and eradicate the current complexities in the development of a new system
- **Integration** of benefits, wages, tax and tax credits

² ONS (August 2003) Labour Force Survey

Key Recommendations

Transitional Flexible Support

A more coherent system of employment support services that increase consistency and reduce gaps in service provision needs to be developed in parallel with reform of the Welfare Benefits system.

Social Firms Scotland has identified an Employment Spectrum for people with severe and enduring mental health problems³ that outlines what interventions should be available depending on the individual's relationship to the labour market. Transitional employment options are crucial if people are to move into employment. Therefore based on the principle of flexibility the following options need to be considered:

1. Create specialist transitional employment market options aimed at individuals with mental health problems.

These should be developed along similar lines to New Futures, Progress2Work and/or StepUp and be built into the New Deal 'Menu for Help' being proposed within the prototype districts.

2. Social firms to be seen as a future specialist support option on the proposed New Deal Menu and as an employment option for those individuals being supported by Pathways to Work.

3. Adopt an innovative use of subsidy to enable social firm start-ups to create supported jobs in real businesses.

Germany, Ireland and Finland have accomplished this by using existing budgets more effectively and have shifted funding towards specialist agencies whose focus is to support the development of social firms.

2. Calculate the full cost of keeping someone on benefits and use this as a benchmark for the cost-benefit analysis of the various methods used in transitional employment.

This could easily be accomplished by the DWP and would stand as a benchmark for measuring the level of social return on investment (SROI).

3. Increase access to supportive employment placements for people with severe and enduring mental health problems

There is significant evidence that supported employment is more effective than pre-vocational training in helping severely mentally ill people to obtain competitive employment. There is no clear evidence that pre-vocational training is effective⁴. Therefore the following is required:

- Ensure 'Access to Work' is open to all individuals on Supported Permitted Work as well as those working 16 hours plus⁵
- Ensure delays in obtaining funding through 'Access to Work' are effectively dealt with if not eradicated
- As there is no funding for 'Supported Permitted Work', create a joint Department of Health and DWP fund for people on 'supported permitted work'. This will fund the 'support' element of an 'Individual Placement and Support' model for this group of people.

³ See p29

⁴ Crowther, R. et al (2004) Vocational Rehabilitation for People with Severe Mental Illness (Cochrane Review), the Cochrane Library, Issue 2

⁵ Access to Work support for people with severe mental health problems (within a social firm) might go towards mentoring/job coaching support, the provision of mental health awareness training for staff, personal development planning, training support, assessing reasonable adjustments, etc. For someone working less than 10 hours per week this might be around £2,000-£2,500 per year. For someone working 10 hours plus it might be between £2,500 to £3,500 per year.

- Additional funding for this provision to be injected from Department of Health under 'invest to save' due to potential cost savings from the ensuing health benefits linked to being in employment
- Funding to be made available for 100,000 supported employment places under Workstep specifically targeting people with severe and enduring mental health problems
- Ensure localised access to Workstep places rather than through large contracts to existing Workstep suppliers. This will remove incurred costs from intermediaries resulting in more monies going to the direct support of individuals
- Increase opportunities for professional development including recognised qualifications of those involved in vocational rehabilitation including NHS, Jobcentre Plus and social services staff as well as within the voluntary and social enterprise sectors

Make Work Pay

The discrimination experienced by those individuals who can only work part-time needs to be eliminated. The recommendations laid out below would do this. The group of people who moved into employment under 'permitted work' rules could become one 'pool' for the Jobcentre Plus Personal Advisors to work with in relation to Work Focused Interviews. This would simplify any rules and confusion around 'training allowances'. It would enable people to increase their employability without the financial risks that are currently in place⁶.

6. Discontinue the earnings disregard for all incapacity benefit recipients enabling them to earn up to 16 times the National Minimum Wage

This will allow people the desperately needed flexibility to try work regardless of where they are living while keeping their current income intact. It will reduce the issue of earnings disincentive, disruption and unnecessary stress and still be paying money back to the state in the form of taxes.

7. Raise the local authority mandatory earnings disregard and allow people in receipt of Housing Benefit, Council Tax Benefit and Income Support to earn up to 16 times the minimum wage including those in rented, supported and registered care homes

A weakness of many reform proposals in the past has been a failure to consider the role of housing support in its current form, and its interaction with benefits. Reform of HB, or at the very least removal of its impact on benefits designed to support the transition to work, should be a key ingredient of any reform.

8. Maximise the benefit from economic regeneration initiatives by ensuring the creation of new employment opportunities for disabled people

Build 'community benefits' into procurement contracts in line with recent EU directive on social and environmental clauses due to be implemented from January 2006.

9. Create a 'Benefits Transfer' option whereby people's benefits are transferred to their employers and paid back in the form of a wage or salary⁷.

Transfer IB (Incapacity Benefit) claimants onto JSA (Job Seeker's Allowance) at the same rate rather than incurring the need for legislative change⁸. People would be in receipt of a wage rather than benefits which would remove the perceived fear of moving off benefits, allowing people to get used to earning a wage with no pressure if they relapse.

⁶ Scottish Enterprise's (April 2005) Evaluation of the New Futures Fund Initiative demonstrated that projects concentrating on an individual's employability rather than a job outcome led to more people moving into employment.

⁷ Anecdotal experience of New Deal 25 Plus clients has shown that the subsidised employment option would seem to achieve a successful outcome for approximately 50% of participants against the 25% outcome for those who do not take this option. As a direct result of this the National Employment Panel (2004) recommended that "The Department of Work and Pensions and Jobcentre Plus should investigate why this option, which seems to be successful, is so little used." Social Firms Scotland would strongly support this investigation.

⁸ IB as it stands cannot be transferred or paid to a third party except in exceptional circumstances such as where a power of attorney has been granted. For a full discussion on this option see Taking the Initiative - Blue Sky Thinking for a Flexible Welfare Benefits System (Social Firms Scotland, 2005)

Simplicity

10. Ensure that all claimants have access to accurate information that will enable them to make informed decisions about moving into employment

- Provide an accurate Better Off calculation service that can provide information on how and when people's circumstances would change by moving into work
 - Provide this service throughout the period of moving into employment so that this information remains accurate according to a person's changing circumstances
 - Clearly advertise this service to claimants
 - Ensure that training and development in the system is consistent across all delivery staff
- i. Jobcentre Plus needs to continue to move towards becoming a greater facilitator for support delivery through more effective partnership working**
- Improve procurement practices with an emphasis on more localised procurement of services
 - Increase the development of partnership approaches with voluntary/community sector, social enterprises, private business and public agencies. This should lead to more local partners being involved in shaping local delivery solutions.

Integration

Recommendation for Eliminating the Gap

12. Abolish the existing welfare benefits system and replace it with an integrated income maintenance and tax model.

Use the range of personal allowances in the PAYE system as the basis for determining individual tax thresholds, above which tax is applied, but below which income maintenance payments are made.

Under this proposed system, the issue about hours of work and pay would be sidestepped, as would the issue about full-time education and training and availability for work. The difficulty of working between 4 and 15 hours would be removed, and capacity issues would not enter into it. The higher a person's earnings, the greater the savings flowing back to the state through increased tax contributions.

Implications for Stakeholders

There are a number of implications for stakeholders emanating from this paper that should be considered including:

The UK Government and its agencies should:

- Be bold in its thinking and subsequent implementation around the imminent reform of Incapacity Benefits
- Recognise the impact of reducing unemployment rates on the type of specialist support measures that need to be made available for those who are 'economically inactive'
- Recognise that a considerable amount of unemployed disabled people have never worked and so are in receipt of Income Support plus Disability Premium and the impact this has on the number of 'economically inactive' and their access to employment support
- Act as an exemplar employer in offering employment opportunities to disabled people
- Recognise that employment and health are intertwined and embed this across health, economic development, social work and employment agencies. This needs to be reflected in funding, strategic development and implementation of employability strategies at local and national levels

The Scottish Executive and its agencies should:

- Be supporting a call for a bold approach to be adopted across departments for welfare reform taking into consideration the impact on Scotland's Employability Framework
- Build upon and expand links with Westminster regarding the impact of welfare reform on devolved matters such as development of the social enterprise sector
- Develop a clear strategy for social enterprise that recognises the sector's ability to create sustainable new businesses and create jobs
- Place support for the development of the social enterprise sector in the right institutional environment similar to that of Westminster
- Recognise that social firms offer an enterprising and sustainable option for adoption within local employment strategy, and should be seen as part of a mainstream solution to increasing the economic activity of people furthest from the labour market.
- Act as an exemplar employer in offering employment opportunities to disabled people
- Raise awareness of the EU directive on social and environmental clauses due to be implemented from January 2006 and its potential impact on the power of procurement to influence job creation for those furthest from the labour market.
- Be aware and encourage the development of partnership working across sectors working with Jobcentre Plus
- Recognise that employment and health are intertwined and embed this across health, economic development agencies, social work and employment agencies. This needs to be reflected in funding, strategic development and implementation of employability strategies at local and national levels

Individuals with mental health problems interested in employment should:

- Be aware of what your local mental health and employment strategy is and ensure you have an input in this process. This can be accessed from your local authority and essentially dictates what employment related services will be commissioned by your local authority.
- Be able to access employment support that focuses on career development and not just accessing a job
- Continue to pressurise UK and Scottish governments for better access to education, training and employment through such means as Sections 26 of the Scottish Mental Health (Care and Treatment) Act (2003)
- Ensure you get involved in policy development and evaluation of employment related services by requesting accessible information on current developments

Chapter 1 - Introduction

“72% of people with a severe and enduring mental health problem are economically inactive. This group are the largest group of disabled people out of work”

Office for National Statistics, Labour Force Survey (LFS), August 2003

1.1 Purpose

Many gaps exist for unemployed and inactive people with mental health problems who want to work. The support structures and agencies that are in a position to help them overcome these gaps are inadequately organised, limited in their coordination and unevenly spread across the country. The current welfare benefits system has rules which discourage the motivation to work, and these have created more gaps which individuals alone cannot bridge.

In this discussion paper, Social Firms Scotland argues for a fresh approach to reducing economic inactivity amongst this group. The discussion paper highlights potential ways forward in bridging these gaps, and advocates for significant improvements in support. Social Firms Scotland argues that social firms and other types of social enterprises can make a significant contribution towards bridging these gaps, along with a raft of other improvements which are explored in this paper.

This discussion paper does not aim to add to the research base that exists in terms of the employment exclusion faced by people with mental health problems. Social Firms Scotland believes that the research evidence of widespread employment exclusion exists and that the supporting case for reform of the benefits and support systems has been made.

The question that needs to be answered is this - given that there is a gap between the employment aspirations of people with mental health problems and the employment opportunities available - **what steps are required to bridge this gap?**

The discussion paper will focus on the following key questions:

- What is the current situation and what are the key issues?
- Which current policy developments are impacting on employment exclusion and why?
- What lessons can be learned from other countries attempts to bridge the gap?
- What principles should underpin future welfare benefits reform to end employment exclusion?
- What urgent action is required to bridge the gap?
- What approach could eliminate the gap?

1.2 Background

In 2003, Social Firms Scotland published 'Mind the Gap'. This research identified the gaps in support which exist in a number of critical areas:

Discrimination - People with severe and enduring mental health problems experience stigma and discrimination within recruitment, employment and retention practices. There is a **gap** in people's knowledge and understanding of mental illness.

Benefits System - The labour market in the UK is becoming increasingly flexible. A clear **gap** has emerged between this flexible labour market and the inflexible, complex and bureaucratic Benefits System.

Service Provision - The provision of employment support services for people with mental health problems is patchy and inconsistent. Provision is seldom based on service user need. There is a **gap** between supply and demand.

Opportunity - People with severe and enduring mental health problems aspire to be in employment (often part-time and usually supported). They face personal, institutional and structural barriers that create a clear gap between aspiration and attainment. The consequences of this **gap** have been long-term unemployment, declining health, poverty and social exclusion.

During a visit to Scotland, the Department of Work and Pensions House of Commons Select Committee on Health and Disability invited Social Firms Scotland to set out some thoughts on welfare reform that looked beyond the current system, particularly with a view to more effectively supporting the transition between unemployment and work for disabled or vulnerable groups.

As a result of this invitation Social Firms Scotland have developed recommendations on this issue through consultative workshops with a range of individuals involved in the provision of welfare benefit advice to a wide range of disadvantaged client groups, e.g. lone parents, disabled people. The findings are set out in the sister paper 'Taking the Initiative - Blue sky thinking for a flexible welfare benefits system' (SFS, 2005).

Production of 'Bridging the Gap' has not followed a specific methodology, but has involved semi-structured interviews with organisations and individuals working at the frontline of providing services to people with mental health problems, semi-structured discussions within workshop settings at conferences and desk-based study of best practice emerging from the EQUAL ACCESS project.

EQUAL is the Community Initiative funded through the European Social Fund, which aims to promote new ways of combating all forms of discrimination and inequalities in relation to the labour market through transnational co-operation. EQUAL Theme A focuses around the thematic priority which is 'Facilitating Access and return to the labour market for those who have difficulty being integrated or re-integrated into a labour market which must be open for all.'

Social Firms Scotland has focused on people with severe and enduring mental health problems but many of the recommendations in the report are applicable for other disadvantaged groups such as people with substance abuse problems, other disabled groups, etc. Work undertaken within the Equal Access Development Partnership has confirmed that many clients share similar barriers, and experience similar difficulties in the transition to employment.

'Bridging the Gap' is a discussion paper which aims to link the specific findings and reform suggestions from the consultative workshops on welfare benefits reform, to wider reform of the welfare to work system related to employment support. It identifies principles for longer-term action and proposes urgent recommendations for reform of the current welfare benefits system to improve employment opportunities for people with severe mental health problems. It outlines current policy developments in the UK, and examines what lessons can be drawn from international experiences of welfare reform.

This paper places emphasis on the potential of social firms to provide a response to creating more effective employment support for people with severe and enduring mental health problems. Social Firms Scotland has focused on recommendations that would enable people to work more easily within social firms but recognises that there are other transitional employment approaches that are equally effective and many of the recommendations made are transferable to other contexts.

'Bridging the Gap' aims to initiate further discussion amongst policy makers and practitioners, particularly around the need to develop new transitional employment measures, and will be widely disseminated as a means of supporting the findings from the consultative process.

Chapter 2 - The Current Situation

Government statistics indicate that people with severe and enduring mental health problems face employment exclusion on a significant scale. The Department of Work and Pensions has identified that this group now make up the largest group of people claiming incapacity benefits in the UK.⁹

This discussion report does not intend to rehearse or repeat the arguments from the breadth of research evidence that exists in terms of employment exclusion as this was covered in the 'Mind the Gap'¹⁰ research report and more recently in the Social Exclusion Unit's report on Mental Health and Social Exclusion.

A copy of 'Mind the Gap' can be downloaded from the website www.socialfirms.org.uk



The Social Exclusion Unit's Report on Mental Health and Social Exclusion can be downloaded from www.socialexclusionunit.gov.uk

However key facts to emerge from the research are:

- People with severe and enduring mental health problems experience unemployment rates of 72% or higher. This rate has not reduced in line with increasing employment levels in the economy, with unemployment rates for disabled people in general at 30%¹¹. For example, in the Borough of Wandsworth unemployment amongst people with mental health problems increased from 80% in 1990 to 92% in 1999 despite a decreasing rate of general unemployment¹².
- By comparison, research from the US found that with effective rehabilitation support, up to 58% of people with severe and enduring mental health problems are able to sustain work using the Individual Placement and Support approach.¹³
- There is a strong case for increased investment in a range of employment services for people with mental health problems that will improve provision and potentially lead to long-term cost saving (Heyden et al 2002, Riddell 2002, Thomas 2002).
- Conversely long-term or prolonged unemployment can adversely affect an individual's physical and mental health (DWP, 2002), including an increased risk of suicide in particular¹⁴.
- In contrast a supportive working environment and the associated financial gain and social contact available through work can bring significant social inclusion and health benefits to users of mental health services (Secker et al 2001, McKeown et al 1992). Despite this, employment has not traditionally been seen as a health issue for people with severe and enduring mental health problems. There is a lack of a joined up approach to provision of employment-related services for people with mental health services (Durie, 2003). In fact there is little evidence of 'the system's' belief in the capacity of service users to become employed¹⁵.

⁹ Department of Work and Pensions (2002) Pathways to Work: helping people into employment

¹⁰ Social Firms Scotland (2003) Mind the Gap: Experiences of Unemployed People with Mental Health Problems moving in to Employment

¹¹ Office for National Statistics, Labour Force Survey (LFS), August 2003

¹² Perkins, R. & Rinaldi, M. (2002) Unemployment Rates among patients with long-term mental health problems Psychiatric Bulletin 26:295-298

¹³ Crowther, R. et al (2004) Vocational Rehabilitation for People with Severe Mental Illness (Cochrane Review), the Cochrane Library, Issue 2

¹⁴ Lewis, G. and Sloggett, A. 'Suicide, Deprivation and Unemployment: Record Linkage Study'. British Medical Journal, 317, (1998);1283-1286

¹⁵ Durie, S. (2003) Mental Health and Employment Policy for Scotland, SDCMH

- Over 55% of people with mental health problems see stigma as a barrier to gaining employment¹⁶. This in turn limits people's aspirations and can make it difficult to work. Previous campaigns to tackle stigma have had mixed success, although in Scotland, the 'See me' anti-stigma campaign seems to be having an effect on public attitudes. International evidence indicates that sustained effort to challenge discrimination is the best way to achieve behavioural change¹⁷.
- The Disability Discrimination Act 1995 outlawed discrimination against disabled people. However there may be poor awareness of the scope of the DDA amongst both people with mental health problems and employers. According to anecdotal evidence it is often the case that people are simply not well enough to pursue such a case - "My doctor advised me that if I took my employer to the tribunal I may not see the other side mentally intact."¹⁸ Discrimination can lead to relapses in mental health problems and can intensify symptoms (Link et al, 1997).¹⁹
- The inflexibility of the Benefits System is a significant barrier to the employment aspirations of people with mental health problems (McCormack 2001, Durie 2000). Scotland has a higher than average Incapacity Benefit (IB) claimant rate than the UK as a whole, 9% compared to 6.5%, with Glasgow rates the highest at 16%²⁰.
- 21% of Incapacity Benefit claimants in the UK have mental health problems. This is a rising trend thought to be a result of poor workplace mental health, with rates of depression and work-related stress increasing amongst IB claimants (BRSM 2001)²¹, and the difficulty of moving back into employment. Considering that 71% of IB claimants in Scotland have been on IB for 2 years or more the current support interventions are clearly not working²². Urgent action and investment is required if employment exclusion is to be eliminated for this group of people.

¹⁶ Office of the Deputy Prime Minister (June 2004) Mental Health and Social Exclusion - Social Exclusion Unit Report

¹⁷ Glendinning, R. et al, (2002) 'Well? What do you think: a national Scottish survey of public attitudes to mental health, well being and mental health problems', Scottish Executive

¹⁸ Personal Contact

¹⁹ BG Link, EL Struening, M Rahav, JC Phelan and L Nuttbrock, 'On Stigma and its Consequences, Evidence from a Longitudinal Study of Men with Dual Diagnoses of Mental Illness and Substance Abuse.' Journal of Health and Social Behaviour, 38 (1997): 177-190.

²⁰ Scottish Executive (2002) New Deal Intelligence Report Scotland

²¹ British Society of Rehabilitation Medicine (2001), Vocational Rehabilitation: the way forward, London: BSRM

²² Trends in Employment for the Disabled, Department of Work and Pensions presentation, London, (2002).

2.1 Key Issues

The evidence outlined above indicates that current employment interventions have not worked effectively for those people with severe and enduring mental health problems. In order for things to change for the better the following issues must be addressed:

- Greater flexibility within the Welfare Benefits system
- Improved understanding of the employment needs of people with severe and enduring mental health problems
- Improved transitional support to access employment
- Improved coordination between mainstream services
- Improved range of employment options to suit people's abilities
- A broader understanding of 'supported employment' and increased funding for this approach
- Recognition that part time work can be an outcome
- Aftercare and support for job retention.

It is critical that the Welfare Benefits system recognises that people furthest from the labour market may only be able to work under 16 hours and that for them this is an outcome. Working under 16 hours can still have positive effects on people's health and well being, their level of social inclusion and can help boost income, confidence and self-esteem.

There is significant evidence that supported employment is more effective than pre-vocational training in helping severely mentally ill people to obtain competitive employment. There is no clear evidence that pre-vocational training is effective²³. The challenge is to develop a wide range of employment-based support interventions that have demonstrated effectiveness and make them available for all who need them.

2.2 Defining the Gap

If 41% of existing IB claimants and 81% of new IB claimants want to work²⁴ yet continue to remain economically inactive then there is clearly a gap in service provision for supporting people to move off of IB and into employment.

People who are on incapacity benefits and out of work for more than 2 years have only a 5% chance of ever returning to employment²⁵. People claiming Incapacity Benefit for severe and enduring mental health reasons are more likely to be away from the labour market for longer²⁶, and are more at risk of leaving employment than people with other disabilities²⁷.

There are therefore three challenges:

1. How do you shape job retention services to stop people dropping out of work?
2. How do you support people who have been out of work and in receipt of incapacity benefits for less than 2 years?
3. How do you support people who have been in receipt of incapacity benefits for over 2 years?

²³ Crowther, R. et al (2004) Vocational Rehabilitation for People with Severe Mental Illness (Cochrane Review), the Cochrane Library, Issue 2

²⁴ NDDP :Evaluation Eligible Population Survey: Wave One Interim Report, DWP, WAE 170, Oct 2003

²⁵ Trends in Employment for the Disabled, DWP presentation, London, (2002).

²⁶ DWP, Information and Analysis directorate (Information Centre) 5 per cent sample based on 1999 inflow

²⁷ Buchardt, T. Employment retention and the onset of sickness or disability: Evidence from Labour Force Survey Longitudinal datasets, DWP in-house report, 109, (2003)

It should be noted that many of the interventions proposed or initiated up to now have focused on the first two challenges. Yet if the government is to show leadership in tackling employment exclusion the third challenge needs to be addressed. This will mean both learning the lessons from approaches that have been tried and providing leadership through taking risks in developing innovative approaches that work. Outlined below are some of the more recent policies and initiatives that are construed as influencing the impact on these challenges.

2.3 Policy Context and Initiatives

The range of policies and initiatives outlined below are by no means comprehensive. Instead, the following information is to provide readers with a flavour of what is currently happening and how these particular policies and activities might impact on the future development of employment services and financial support for those classified as 'inactive' in the labour market.

2.3.1 UK

- **National Employment Panel**

The National Employment Panel (NEP) is an employer-led body which provides independent advice to Ministers on the design, delivery and performance of the UK Government's labour market policies and programmes. The Panel is made up of 20 Chief Executives from a range of private and public sector organisations, the voluntary sector and trade unions. The NEP reports to the Chancellor of the Exchequer, the Secretary of State for Work and Pensions and the Minister for Adult Skills in the Department for Education and Skills.

The Panel recognises that reducing the three million people on sickness and disability-related benefits represents the largest and most complex challenge within the welfare reform agenda. The Panel has established a high-level employer advisory group to examine how to increase job opportunities for sick and disabled people. Its recommendations to the Prime Minister's Strategy Unit,²⁸ which has also conducted a cross-Government review of disabled people's life chances, include:

- Prioritising the roll out of Pathways to Work throughout the UK, if the DWP can demonstrate an acceptable return on investment in the pilots
- Ensuring work pays for all disabled people, whether they aim for full-time or part-time employment
- Ensuring that the benefits system encourages work rather than dependence on the state
- Insisting that the public sector acts as an exemplar employer, in offering employment opportunities to disabled people
- Government to ensure that effective support is provided to disabled people
- Ensuring SME's²⁹ can access more financial help from the Access to Work programme to assist in employing disabled people
- Maximising the benefit from economic regeneration initiatives in terms of creating new employment opportunities for disabled people.

Social Firms Scotland strongly supports all of these recommendations. However changes to incapacity benefits proposed so far by the DWP continue to ignore the need to find a means of encouraging the take up of part-time employment according to individual capacity. The newly proposed 'Disability and Sickness' benefit could serve to further exclude those with severe and enduring mental health problems from the labour market in the same way as IB does at present; all of which combined could greatly reduce the effectiveness of regeneration initiatives to encourage disabled people into employment.

²⁸ National Employment Panel, 2005, 'Able to Work'

²⁹ Small to Medium Enterprises

For more information on the National Employment Panel including their publications please go to: www.nationalemploymentpanel.gov.uk



- **National Framework for Vocational Rehabilitation**

'Vocational rehabilitation' is a term used by many people to describe an approach whereby those who have a health condition, injury or disability are helped to access, maintain or return to employment. In an attempt to create a shared vision of what this means the DWP has published a UK Framework for Vocational Rehabilitation which intends to:

- Demonstrate the Government's commitment to provide leadership on vocational rehabilitation;
- Be the first step towards a better understanding, and improving practice, of vocational rehabilitation;
- Provide longer-term help to establish a new approach to rehabilitation in the UK.³⁰

The aim of this initiative is to produce an effective framework that will provide a foundation from which to move forward. It covers all individuals who are ill, injured or have a disability and who need help accessing, maintaining or returning to employment. It also identifies the key underpinning principles, promotes effective interventions through, for example, case studies and identifies next steps in the process. The document recognises the lack of conclusive evidence on the effectiveness of vocation rehabilitation approaches. The issues to be considered further include:

- How best to link all rehabilitation support
- Future delivery mechanisms
- Generating capacity

The Framework has the potential to generate commitment to improvements and contribute towards the future development of welfare to work interventions for people with disabilities. The challenge will be to outline effective strategies for increasing access to employment opportunities for those furthest from the labour market. A starting point may be to calculate the costs of maintaining someone on welfare benefits and use this as a benchmark for the cost-benefit analysis of the various methods used in vocational rehabilitation.

To obtain a copy of the Framework go to:

www.dwp.gov.uk/publications/vrframework/dwp_vocational_rehabilitation.pdf



- **Social Exclusion Unit Report on Mental Health and Social Exclusion (2004)**

The Social Exclusion Unit were asked by the Prime Minister and Deputy Prime Minister to consider what more could be done to reduce social exclusion amongst people with mental health problems. Although this investigation only covered England and Wales it did consider input from Scotland. This report, and its findings, does have implications for Scotland, particularly in terms of the recommendations made in relation to employment and welfare benefits.

³⁰ DWP (2004) Building Capacity for Work: a UK Framework for Vocational Rehabilitation

The key actions in relation to employment to come out of the report concern:

- a) Improving access to employment programmes
- b) Easing the transition from benefits to work and
- c) Promoting enterprise and self-employment³¹.

While the report makes strong recommendations on various areas linked to social exclusion and mental health, the details of the key actions in relation to Welfare Benefits outlined above are not as far-reaching as was hoped however positive they are. 'Improving access to employment programmes' translates in practical terms to improving training for IB Personal Adviser's using experiences from Pathways to Work Pilots; improving the clarity of guidance on the use of Access to Work for people with mental health problems; and for the DWP to consider the scope to improve access to employment programmes including the New Deal.

'Easing the transition from benefits to work' translates as improving awareness of the continuing needs of those in receipt of DLA upon returning to work; for the DWP to consider the feasibility of making the Linking Rules more flexible; and to wait to see what the evaluation of the Permitted Work Rules will come up with³².

These recommendations seem weak in comparison to those made in other areas such as the role of health and social care services in tackling social exclusion. There is therefore a question as to why these recommendations were not more pro-active, given that many of the submissions and case studies submitted by mental health organisations referred to the benefits issue.

The report does recognise that being in work and maintaining social contacts improves mental health outcomes, prevents suicide and reduces reliance on health services. It stresses that health and social services have a lead role to play in relation to rehabilitation and advocates that support to move into employment should be a central part of care provision for individual's with severe mental health problems. This is good news in terms of encouraging the Department of Health and the DWP to jointly develop employment related services.

In particular the report seemed to favour the Individual Placement and Support Model. The IPS model, using a 'place-train' approach, assumes that clients will benefit from learning on the job more so than through pre-employment screening and training in sheltered workshops.

The key characteristics of IPS are its focus on competitive paid employment, rapid job placement, long-term support and integration with mental health services.

This approach is regularly used by social firms in particular, e.g. Forth Sector assesses and places individuals in their various social firms with continual support both within the workplace and externally by the business managers and an employment support team. Forth Sector has strong links with key local agencies such as health care professionals, local employers, Jobcentre Plus. Forth Sector also provides access to information and support on benefits issues for each individual, including in-work benefit calculations.

For more information on Forth Sector go to: www.forthsector.org.uk



³¹ This work will be funded through the Phoenix Fund only available in England and Wales. Futurebuilders Scotland is has been waiting since January 2003 on for word from the Scottish Executive on the Social Economy Action Plan which could possibly fund this type of activity.

³² See S Dewson et al, 2004, 'A stepping stone to employment? An evaluation of the Permitted Work rules Wave 2f, Institute for Employment Studies for DWP

Recently Edinburgh City Council in partnership with Scottish Enterprise Edinburgh and Lothians and Capital City Partnership used this approach in their Joined Up for Jobs Initiative which is delivered in conjunction with a range of partners from the voluntary sector. The local authority recognised that it was in a position to pull a partnership of organisations together to deliver a joint approach to supporting people back into employment.

For more information on Joined up for Jobs go to:
<http://www.capitalcitypartnership.org/joinedupforjobs.html>



To view copies of the detailed report and a summary please go to:
www.socialexclusionunit.gov.uk/mental_health/mental_health.htm

• Pathways to Work and Incapacity Benefit Reform

The Government has recognised the need to reverse the increasing trend of people moving onto Incapacity Benefits and staying there for long periods of time, sometimes indefinitely. The DWP produced Pathways to Work as a Green Paper in 2002, and set out a range of proposals to help people on Incapacity Benefits realise their aspirations of a return to work.³³

There are 7 pilots being delivered across the UK, three of which began in October 2003 in Renfrewshire, Inverclyde and Argyll & Bute (RIAB), Bridgend and Derby with a further four pilots in East Lancs, Somerset, Essex and Gateshead and South Tyneside beginning in April 2004. All seven pilots will run for a total of 30 months to establish what works. In his most recent Budget Gordon Brown announced that the pilots are to be expanded to cover one third of the UK by the end of 2006.

The key features of the new system being administered under the **'Pathways to Work'** pilots rely on the opening up of the employment services side of Jobcentre Plus. Previously this was only open to those on Job Seekers' Allowance (JSA) thus creating a 'Choices' package that clients can choose from. This fundamental change of culture towards balancing ability with disability has the following features:

- More skilled adviser support and help to return to work combined with action planning during the early stages of a claim including employment advisers specially trained to deal with people with health problems/disabilities (Personal Advisers), disability employment advisers (DEAs) and occupational psychologists (Ops).
- Easier access to the existing range of specialist employment programmes plus new work-focused rehabilitation programmes, offered jointly by Jobcentre Plus and local NHS providers;
- Improved financial incentives for IB³⁴ recipients both to seek work and to move into some form of employment such as the Return to Work Credit and Adviser Discretionary Fund³⁵;
- Early, tailored support for those having to move off IB onto JSA;
- Engagement of other key stakeholders - particularly employers and GPs.
- In-work support from PA's in crucial early months of work including supporting clients to develop coping strategies

³³ DWP (2003) Pathways to Work: Helping People into Employment The Government's response and Action Plan (Cm 5830)

³⁴ Incapacity Benefit

³⁵ Return to Work Credit provides a client with £40 per week for 52 weeks for work of 16 hours or more based on personal earnings of less than £15,000pa. This credit is over and above tax credits, Housing Benefit and Council Tax Benefits. It is payable after 13 weeks on IB or if a client has been in receipt of SSP or 13 weeks or more. Adviser Discretionary Fund is for items that will help the client get back to work and is worth up to £300

Making these services an integral part of claiming IB means that shortly after claiming benefits (8 weeks) the client will be required to discuss their work goals and work aspirations with Jobcentre Plus. The aim of these pilots is to help more IB clients back to work as soon as possible to avoid drifting into long-term IB dependency.

Informal feedback from the initial Pathways to Work pilots indicates the method is successful simply because it allows individual assessment and action to be commissioned and undertaken. However, the pitfalls are its cost and that it does not effectively target those most excluded from the workplace, only those that are 'quick hits'.

Early evaluation results were published at the end of 2004 from the first three pilot areas³⁶. DWP reported early indications of an increase of between 8 and 10 percentage points in off-flows from incapacity benefits within four months of a claim, which was reported to be in excess of expectations over the lifetime of the pilots. The number of Jobcentre Plus recorded job entries for sick and disabled customers in the pilot districts had doubled compared with the same period in the previous year.

It is inevitable that the 'Pathways to Work' approach will be central to any reform of incapacity benefits in the next 3 years. This is reflected in its view of long-term reform of Incapacity Benefit published as part of the DWP's five year strategy³⁷.

The new proposals develop the government's themes of rights and responsibilities, and have tried to reduce the all-or-nothing division of claimants into those who cannot work and those who can. The plans at present include:

- At first claim, people will move onto a 'holding benefit' paid at JSA rates, prior to their Personal Capability Assessment (PCA)³⁸, which will remain as the gateway to the main benefits
- The PCA process will include an employment and support assessment
- Those identified as capable of some work will receive a Rehabilitation Support Allowance, with mandatory work-focused interviews and employability development activity. Those who do not cooperate will remain on the holding benefit
- Those with more severe conditions will receive a Disability and Sickness Allowance, paid at higher levels than IB, which aims to ensure those unable to work are lifted out of poverty. Work-focused interviews will be mandatory, but not engagement with employability activity.

A consultation document is in circulation at time of writing, with the Green Paper expected to be issued in October/November 2005 for consultation.

In order to assess what interventions are most effective prior to mainstreaming there needs to be a detailed analysis of the cost-benefits of the various transitional employment approaches. A starting point, as was suggested above, would be establishing the full cost of keeping someone on benefits which would provide a benchmark for comparing to the cost and potential savings of employment interventions. This could easily be accomplished by the DWP.

³⁶ S Dickens, A Mowlem & K Woodfield, 2004, 'Incapacity Benefit Reforms - the Personal Advisor Role and Practices', National Centre for Social Research for DWP and Annex A 'Analysis of IB Reforms Administrative Data'

³⁷ DWP Five Year Strategy: 'Opportunity and security throughout life', 2005, DWP

³⁸ Which according to the DWP's 5 Year Plan would normally occur within the first 12 weeks

• Building on the New Deal

The DWP recently published their strategy for the evolution of their welfare to work policies and programmes in relation to the New Deal³⁹. This strategy has been based on 3 core principles:

- A national framework of rights and responsibilities in which all individuals should have a 'clear idea of the benefits they are entitled to and the responsibilities that go with them'
- Greater local flexibility, devolution and discretion
- Accountability, targets and contestability

Central to this strategy is the application of flexibility. A 'New Deal Menu of Help'⁴⁰ has been developed that will enable District Managers to have a high degree of flexibility over what employment programme provision is made in the local area in order to meet local need. The elements within the menu will be available to all clients regardless of which benefit they receive. Current routes via named programmes will no longer be necessary giving clients direct access to tailored support in agreement with their Personal Adviser. There will also be fewer rules on eligibility, programme mix and length, with more flexibility, variation and local innovation.

Prototype Districts will test the implementation of the 'mix and match' approach beginning around October 2005. These will be evaluated and will inform the further development and implementation of this approach.

If the more flexible New Deal menu is to be tested and evaluated with greater efficacy in relation to the 'most disadvantaged' groups including people with severe mental health problems then the Prototype Districts need to be in areas of low unemployment. There is no point in testing an approach to helping people with severe mental health problems in an area that experiences high unemployment as they will be competing in a labour pool with other groups that will not face the same discrimination. If tested in an area where there is low unemployment and high job vacancies then this will allow for 'purer' testing of whether the approach works⁴¹.

It appears from this document that although there is a drive for more flexibility when it comes to disabled people there will be no radical changes such as removal of the earnings disregard. Instead expansion of the Pathways to Work Pilot areas will be implemented.

This type of provision will go some way to addressing the challenge of supporting those individuals who have been on incapacity benefits for less than two years. However it does very little for those who have been unemployed and in receipt of incapacity benefits for more than 2 years without including some form of specialist employment support provision similar to Progress2Work.

³⁹ DWP (June 2004) Building on New Deal; Local Solutions Meeting Individual Needs

⁴⁰ Ibid p.20

⁴¹ Two countries that have had spectacular success in reducing their unemployment rate over the last decade (Denmark and the Netherlands, which both report unemployment rates around 4 per cent) still have a major problem of income support reliance on other workforce-age payments (McClure, 2000).

• Permitted Work

New Permitted Work rules were introduced in 2002, with a view to encouraging more people to try out work. Under the new rules, incapacity related benefit claimants can work up to 16 hours per week and earn a set amount each week, but for a limited period of time only (a maximum of 52 weeks). This is called the 'permitted work higher limit' or PWHL. For some claimants, and mainly those with more severe health conditions and impairments, this work can be undertaken indefinitely but only if they are supervised by a local authority, voluntary organisation or social firms; this work is called 'supported permitted work' or SPW. The new rules have lifted the burden from GPs, who are no longer required to support the work's therapeutic content.

But the scheme was introduced without taking into account that a large proportion of individuals in receipt of incapacity related benefits were dependent on Housing Benefit and Council Tax Benefit and as a consequence their earnings would be restricted to £20.

Individuals can earn more than the disregard limit of £20. However if an individual is in receipt of Housing Benefit and Council Tax Benefit and earns above the limit, earnings are lost at very high rates. For every £1 earned above the threshold, a combined total of 85p needs to be paid back towards Housing Benefit and Council Tax Benefit. In practice therefore, those who want to work while on incapacity benefits and in receipt of HB and CTB can only earn up to the disregard limit unless they wish to be 'taxed' at 85% on earnings above this. Surveys suggest high proportions of IB claimants involved in employability development are in receipt of Housing Benefit.⁴²

What is consistently ignored by Government is the impact of the National Minimum Wage (NMW). At present the standard main rate of NMW is £4.85. This is set to rise to £5.35 by 1st October 2006. This equates to people being legally able to work around 3 hours work per week if they are in receipt of HB and CTB if they are to earn up to the disregard level of £20. While Social Firms Scotland strongly supports the NMW, the need for further flexibility is clearly apparent.

As well as disincentivising those on IB who might like to try out work, this has therefore had unintended consequences for those involved in the Permitted Work (PW) system.⁴³

The evaluation of the new Permitted Work rules showed that a significant proportion of people involved in PW had reduced their hours due to these rules (36%) or had given up altogether (24%). 45% who planned to give up work were doing so because of the earnings rules. Worryingly, more than half of those who said they wanted to go on working for up to 16 hours were unaware that they would not be able to do this beyond a year. As one of the Personal Advisors involved with PW stated:

'There is discrimination against those working part-time hours if you can only work 10 hours per week then you are not allowed to work.. particularly when there's so much research that shows it is advantageous to work'.⁴⁴

The DWP Five Year Strategy includes a commitment to implementing changes to the PW rules for people on IB by 2006.

⁴² 95% in a survey of 2000 individuals in training and employment projects in Scotland, as reported in Forth Sector, (2001), 'The Benefits Trap: research into benefits issues and barriers to work for people with disabilities in the social firms sector in Scotland', Edinburgh. Of those on Permitted Work, 54% are in receipt of other benefits such as Housing Benefit, as reported in S Dewson et al, 2004, 'A stepping stone to employment? An evaluation of the Permitted Work rules Wave 2', Institute for Employment Studies for DWP

⁴³ See S Dewson et al, 2004, 'A stepping stone to employment? An evaluation of the Permitted Work rules Wave 2', Institute for Employment Studies for DWP

⁴⁴ S Dickens et al, 2004, 'Incapacity Benefit Reform - Personal Advisor Role and Practices', National Centre for Social Research for DWP

2.3.2 Scotland

• Employability Framework for Scotland

The Scottish Executive will be introducing an Employability Framework for Scotland later in 2005. Its aim will be to clarify the roles and relationships of the different organisations involved in employability and improve the coherence and effectiveness of local, regional and national approaches and practice across Scotland. This work has been initiated at Ministerial level, to combat a number of threats to the economy from the current levels of economic inactivity, and to maximise the contribution of disadvantaged and excluded individuals and groups.

The Scottish Executive established 5 work streams which reported at the end of March 2005. They were tasked with focusing on the following areas:

- The demand side (engaging with employers);
- The supply side (characteristics of the client groups and the barriers they face to employment);
- Interventions (what works and why, how to improve the coherence and impact of interventions);
- Specific issues around 16-19 year olds not in education, employment or training and
- Specific issues around people in low paid work.

The Framework is set within the overarching 'Closing the Opportunity Gap' strategy of the Scottish Executive.

• Healthy Working Lives

In comparison with other European countries, Scotland's health record is not good. In order to tackle this problem the Scottish Executive aim to initiate a step change in health, as set out in Improving Health in Scotland - the Challenge. The Challenge identifies the workplace as one of four main areas to focus on to drive positive change and reduce health inequalities. Healthy Working Lives is the title of the policy developed to take forward the workplace strand of the Challenge, and a new Centre for Healthy Working Lives is being established to drive this policy forward.

In the past, health in the workplace was primarily focused on preventing accidents and injuries. Healthy Working Lives aims to develop a holistic approach to improving the health of working age people in Scotland, stretching beyond the traditional health agenda and bringing together the interests of workplace health, social justice and lifelong learning. In addition, because of the well established links between health and work, Healthy Working Lives also considers ways of securing more and better employment opportunities and promoting job retention for people with mental or physical health problems or other disadvantages in the labour market.

The ultimate aim of this policy is to promote healthy working lives that continuously provide working age people with the opportunity, ability, support and encouragement to work in ways and in an environment which allows them to sustain and improve their health and well-being⁴⁵.

Effective partnership working will be crucial in achieving the aims of the policy. Health legislation is mostly devolved and is a responsibility of the Scottish Executive. However workplace legislation is mostly reserved and is extensively the responsibility of the DWP, HSE and DTI. Also other departments within the Scottish Executive will have an interest in the policy outcomes such as 'Enterprise and Lifelong

⁴⁵ Scottish Executive (2004) Healthy Working Lives - A Plan for Action

Learning' and 'Communities'. In terms of delivery other key stakeholders exist such as NHS Scotland and the social enterprise sector, trade unions, employers and the voluntary and community sector.

This policy could hold the key to developing a more cohesive framework for support agencies to deliver client centred support that is appropriate and can be work focused.

• National Programme for Improving Mental Health and Well-being

The Scottish Executive has recognised that working to improve mental health is fundamental to achieving a healthier Scotland. This is being achieved through a variety of activities based around increasing people's awareness about positive mental health and through promoting mental health and well-being.

As part of a National Programme for Mental Health one of the key priorities is 'Improving Mental Health and Well-Being in Employment and Working Life'. This priority focuses on:

- Promoting mental health at work through [Scotland's Health at Work \(SHAW\)](#), and through providing training in mental health awareness for employers
- Addressing employment discrimination linking with the work of 'See me' campaign and the [Equalities Unit](#)
- Enabling and supporting people to remain in work through the development of work on job retention for people who develop mental health problems
- Helping to improve the employment opportunities for people with mental health problems through working across Scottish Executive Departments, with [Scottish Enterprise](#), the [Department of Work and Pensions](#) and others to increase the profile of mental health and employment (getting into work, transitions to work and employability) and support the mainstreaming of mental health into employment policies and initiatives.

More recently the Scottish Executive pulled together the key representative organisations in meeting this priority in order to share information and promote partnership working. A strategy document will be published later this year.

To find out more about the National Programme for Mental Health go to:
www.wellontheweb.net



• Mental Health Act 2003 (Scotland)

The recent Mental Health (Care and Treatment) Act 2003 places a direct responsibility on local authorities to support the aspirations of mental health service users towards 'obtaining and undertaking employment'⁴⁶. Action Plans were to be drawn up and submitted by local authorities by April 2005.

This is a significant challenge, given the Scottish estimate is only 1 person in 14 with a severe mental health problem may be accessing an employability service (Durie, 2001). In addition out of the 75 (approximately) specialist mental health and employment services in Scotland many are voluntary organisations whose sustainability is vulnerable due to poor funding, lack of investment and a lack of coherent funding streams.

⁴⁶ Mental Health (Care and Treatment) Act 2003 Section 26

Despite this the voluntary and social enterprise sectors have developed and are continually improving innovative approaches to transitional employment for people with long-term mental health problems. However these approaches, including social firms, are yet to be mainstreamed in any great volume due to these capacity restraints.

The chances of finding a service that will help an individual into employment are dependent on where they live, what diagnosis they have (if any), who their GP is, what links their Community Mental Health Team has established with local networks and what information can be sourced in the local community⁴⁷.

The introduction of this Act is a significant step forward in legally supporting the development of employment services for people with mental health problems. It also offers the opportunity of innovative practices developed in the social economy to be mainstreamed. However the law is still to be interpreted through local authorities' action plans. In addition the perpetual issue over funding for such initiatives exists. In Edinburgh for instance they have a budget of £150,000 to support the implementation of their programme. This amount falls staggeringly short of the numbers of individuals the Act covers who would be eligible for support. Also the responsibility for employment is not only spread across several Scottish Executive Departments but many powers are still reserved for the UK Government, e.g. Welfare Benefits.

2.3.3 Specific Initiatives

The following are initiatives which have been run for some time, have proven to be successful and have robust evaluation to back up very good practice that would be scandalous if it wasn't mainstreamed.

- **New Futures Fund Initiative**

The New Futures Fund (NFF) was an initiative funded by the Scottish Executive and delivered by Scottish Enterprise and Highlands and Islands Enterprise. New Futures began in 1998 and was due to finish in March 2005, with a total funding budget of approximately £34 million. However several projects have had their funding extended until September 2005 in a bid to encourage further mainstreaming.

A major impetus to establishing New Futures was the fact that mainstream employment focused provision had not been successful in reaching or working with the most disadvantaged and excluded individuals.

The evaluation of the first three years of New Futures showed that the initiative worked by taking a holistic approach to developing employability amongst the most disadvantaged and most socially excluded in the labour market. A key difference between New Futures and other national labour market oriented programmes is that New Futures was responsible for funding specialist organisations that understood the client and then supported them to employ, network with, refer to, or contract with employment focused organisations. Other programmes, such as the New Deal, approach this issue from the other end of the spectrum contracting with training providers, employment advisers or careers services and requiring the clients to fit into whatever labour market model or programme is developed.

Had New Futures not existed over the past seven years there would be limited effective labour market intervention models of this type on the ground for agencies⁴⁸ to engage with or to learn from. In this sense, New Futures has already impacted on mainstream agencies in a range of areas⁴⁹. The key challenge is not just to continue the approaches pioneered through NFF but to expand their application.

⁴⁷ Durie, S. (2003) Mental Health and Employment Policy for Scotland, Scottish Development Centre for Mental Health

⁴⁸ Jobcentre Plus, Local Authority Social Work Departments, Scottish Prison Service, Scottish Enterprise, Careers Scotland, ADAT's, Homeless and Housing Agencies

⁴⁹ Scottish Enterprise (Oct 2003) Services to People - New Futures Fund Mainstreaming

NFF has focused on disadvantaged groups within the 16-34 age range, the majority of whom had multiple barriers to employment. In particular it has been shown to work well with young people with severe mental health problems. NFF has published its own Employability Framework and Employability Model, detailing what has been found to work well, and new methods of evaluating progress with individuals.

The evaluation of the approaches adopted by NFF projects may be the most robust analysis of what type of approaches work with those most disadvantaged groups who are long-term unemployed. Scottish Ministers appear to be committed to the mainstreaming of this policy⁵⁰ however there is still little information on future funding for existing projects beyond extensions and limited examples of lessons from these projects being incorporated into existing local services⁵¹.

To find out more information on the New Futures Fund's Employability Framework and Model go to: <http://www.scottish-enterprise.com/newfuturesfund>



• Progress2Work and Progress2Work Linkup

Specialist support for the most disadvantaged groups has been developed by DWP in recognition that mainstream support has not been effective. These initiatives will form an option in the New Deal Menu. Progress2Work is an employment support service directly funded by central government through Jobcentre Plus aimed at helping individuals to overcome barriers associated with drug use and addiction. The service is voluntary and delivered through local partnerships across the UK. It has an emphasis on joint planning, support and referral with drug treatment agencies. Jobcentre Plus staff have received specific training to spot and refer those with drug problems to specialist employment caseworkers (also known as p2w providers) under contract to Jobcentre Plus. These p2w providers support clients to access mainstream programmes like the New Deal and help with job placement and continuing support for the first 13 weeks of employment.

Progress2Work is open to people aged 16 plus who have experienced problems related to drug misuse, are currently unemployed, claiming any benefits (e.g. Income Support, Incapacity Benefit or Job Seekers Allowance), are likely to have completed some primary stabilisation goals and wish to engage in employment, education or training. All participants are assessed and provided with an individual action plan targeting not only employability steps, but also any other barriers hindering Progress2Work.

Progress2work Link Up builds on the P2W's model by piloting a similar service to ex offenders, people who misuse alcohol and/or are homeless. This initiative is funded from 2003-2006.

There is no economic case for the above programmes as yet due to the short timescales they have been active. However early indications are that the gross cost per job is £6000, suggesting an economic return considering the high cost of problematic drug use.⁵²

If current mainstream provision is still not meeting the needs of people with severe mental health problems then there is a strong economic and social argument for the development of specialist employment support for people with severe and enduring mental health problems, based on the experience gained through these programmes.

⁵⁰ Mark Batho Speech to EQUAL Conference 19th April 2004

⁵¹ Scottish Enterprise (April 2005) Evaluation of the New Futures Fund Initiative

⁵² DWP (June 2004) Building on New Deal; Local Solutions Meeting Individual Needs, p.48

• StepUP

StepUp is based on the intermediate labour market model (ILM) and is being piloted in 20 locations to see if it can address the problem of helping those clients who have particular difficulties in coping in the labour market.

StepUP provides a guaranteed job and support for up to 50 weeks for those who are unemployed six months after completing their New Deal Option or Intensive Activity Period on New Deal 25 Plus. Support is provided through: a Jobcentre Plus Personal Advisor; a Support Worker from a Managing Agent; and workplace buddies. Training may be provided but StepUP does not require it. Other support, such as advice on drug misuse, can also be provided.

The Managing Agent sources the guaranteed jobs from employers in the private, public or voluntary sectors. Given the scale of disadvantage demonstrated by StepUP clients securing unsubsidised jobs in the open labour market is a challenging objective. Employers are paid a wage subsidy for 50 weeks of at least the minimum wage and a fee to reflect their additional costs.

A StepUP job constitutes a job offer under the Jobseeker Agreement, and sanctions may apply if a job is refused without good reason. Support during the job is split into two phases. The first 26 weeks is the 'Retention Phase' which aims to maximise retention in the StepUP job. The final 26 weeks is the 'Progression Phase', which aims to increase jobsearch so that StepUP employees progress into a job in the open labour market. It is the Retention Phase on which this report focuses.

While it is too early in the evaluation to draw robust conclusions, initial evidence⁵³ suggests StepUP is successfully targeting those JSA customers who are the most distant from the labour market.

This type of option should be extended to all disadvantaged groups regardless of whether they have been through New Deal or not, and irrespective of their benefit status.

2.4 Conclusions

All of the above seems to indicate that there are some positive policies and practical initiatives being considered to support people with severe and enduring mental health problems into employment. This demonstrates a growing recognition that the current welfare to work system is not working, and that people with mental health problems have some of the most difficult barriers to overcome. Lessons are being learned and are now beginning to inform the future development of support services. With over 72% of people with a mental health problem still economically inactive however, there remains a long way to go in bridging the gap between health and employment.

A starting point would be establishing the **full cost of keeping someone on benefits** and use this as a benchmark for the cost-benefit analysis of the various methods used in vocational rehabilitation, including those innovative approaches that have as yet not been mainstreamed. This could easily be accomplished by the DWP.

⁵³ Bivand, P. et al (2004) Evaluation of StepUp: Interim Report, Department of Work and Pensions Research Report, WAE 186, March 2004

Further links between health and social services in relation to employment support provision are welcomed. However, these links need to be extended to include the agendas of economic and regeneration agencies, as was suggested by the National Employment Panel. The issue of what areas are devolved and what areas are reserved can only be addressed through the encouragement of a robust discursive approach between government departments, specifically the DWP, Department of Health, Inland Revenue and the devolved administrations. This in turn would support a more strategic partnership approach between these agencies and departments in developing and implementing employment support measures for those who are currently economically inactive.

There are strong arguments that the major levers affecting disability and employment are to be found within the benefits system and its relationship with employment support systems⁵⁴. Caution needs to be deployed in the pending reform of incapacity benefits. The proposed changes so far appear on the surface to most likely compound the existing problems within the system unless better support structures are developed. Increased flexibility in order to take up part-time work is non-existent; the issues surrounding the Permitted Work rules highlighted above do not appear to be acknowledged and it could be argued that the newly proposed 'Disability and Sickness' benefit will only serve to further exclude those with severe and enduring mental health problems from the labour market in the same way that IB does at present.

The expansion of Pathways to Work Pilot areas is welcomed as is the individualised support they offer. This type of provision will go some way to addressing the challenge of supporting those individuals who have been on incapacity benefits for less than two years. However, considering that 71% of IB claimants in Scotland have been on IB for 2 years or more, other types of approaches that are successfully targeting this group need to be seriously considered.

There is a strong economic and social argument for the development of a more specialised approach targeting people with severe and enduring mental health problems such as those utilised under the New Futures Initiative or StepUP should be given fuller consideration.

It can be concluded that the reshaping of service delivery and welfare reform has so far neglected the needs and issues of those who are furthest from the labour market. This next chapter explores these issues further, and examines what lessons can be learnt from international experiences of re-designing new support systems.

⁵⁴ Riddell, S., Banks, P. & Tinklin, T. (2005) Disability and Employment in Scotland: A review of the Evidence Base, Scottish Executive

Chapter 3 - Bridging the Gap

3.1 Developing a range of support options

Durie (2003) noted that in any randomly picked group of (mental health) service users there will be people who have never worked and people who have held responsible jobs. There will be a wide range of occupational interests and a wide variation in how people think their mental health problem will impact on their capacity to work. This, of course, has significant implications for the design and delivery of services for people with severe and enduring mental health problems.

Participants of research commissioned by Social Firms Scotland⁵⁵ described the key elements they thought should be included within service provision. As a guide for future development and extension of services these can be categorised into: 'personal development'; 'advice'; 'education and training'; 'employment-related activity'; and 'employment support' and are outlined in more detail below:

Category	Key Elements
Personal Development	<ul style="list-style-type: none"> • Reinforce motivation • Build confidence • Develop learning in the broader sense • Develop work goals
Advice	<ul style="list-style-type: none"> • Specialist benefits advice including: <ul style="list-style-type: none"> - Entitlement to benefits - Work benefits compared with non-work benefits - Hands on help to fill in benefits forms - Advocacy to intercede with Benefits Agency - Better Off calculations • Debt and debt management • Advice about further education • Advice on range of options available including voluntary work, supported employment, permitted work, open employment and social firms.
Education and Training	<ul style="list-style-type: none"> • Accredited qualifications
Employment-related Activity	<ul style="list-style-type: none"> • Work experience • Vocational training • Work-based training • Developing core work skills • Voluntary work • Job search skills
Employment Support	<ul style="list-style-type: none"> • Quality supported employment that helps people to develop routine and structured work activities in a supportive environment. • Develop coping skills • Job coaching • Development of 'core skills' within a realistic work environment • Transitional support • Vocational training

⁵⁵ Social Firms Scotland (2003) Mind the Gap - Experiences of People with Mental Health Problems Moving into Employment available at www.socialfirms.org.uk

3.2 Developing the Transitional Employment Market

Social Firms Scotland has identified an Employment Spectrum for people with severe and enduring mental health problems that outlines what interventions can be available depending on the individual's relationship to the labour market.

Through the Employment Spectrum it can be seen that the majority of current funding and service provision is located within three areas: sheltered employment; job brokerage; and employment support. The focus of statutory provision has been either on providing 'daytime occupation' for people within sheltered environments or getting those close to the job market into work.

However in recent years new models of employment rehabilitation and provision have emerged (social firms, intermediate labour market projects, clubhouses, etc) in an attempt to bridge the gap between the existing pillars of mainstream provision. This new service provision can be seen as part of an emerging 'Transitional Employment Market'⁵⁶, where the focus is on helping people to increase their employability. Services within the Transitional Employment Market place an emphasis on distance travelled with the ultimate objective being job placement. They recognise that for some people employment in the 'open labour market' is often not the most desirable option due to a lack of employment support.

The majority of the transitional employment-related activity is developed and delivered by the voluntary sector and social enterprise sector. However there is little mainstreaming of this type of activity due to policy fragmentation and the contractual purchaser/provider relationship that many statutory agencies adopt. The exception to this has been the New Futures Fund Initiative. In addition the inflexibility in the benefits system often puts organisations off attempting to create real jobs, instead creating training placements⁵⁷.

The value of this kind of specialist support for people moving into mainstream employment is clearly demonstrated by Jobcentre Plus's Progress2work co-ordinators. The best of these staff are highly experienced (frequently from the voluntary sector) and seem to operate as a combination of technical expert on the disadvantaged; link person with providers and strategic bodies (health, criminal justice, Drug Action Team, etc.); deal-doer and bureaucratic buccaneer, operating outside the box to solve problems, find funding, bend rules, and serve as a passionate advocate for those most at risk⁵⁸.

Despite the Transitional Labour Market offering innovative solutions to social and economic inclusion **inflexibility in the current welfare benefits system** has been recognised as a major barrier for disabled people on incapacity benefits moving into work.⁵⁹

⁵⁶ The Transitional Employment Market is sometimes referred to as the Alternative Labour Market within research studies.

⁵⁷ Author's own experience

⁵⁸ National Employment Panel (2004) Report of the National Employment Panel's Working Group on New Deal 25 Plus - A New Deal for All

⁵⁹ See Appendix II for details of the barriers inherent in the existing system.

Employment Spectrum						
TYPE OF INTERVENTION	NON-WORK ACTIVITY	SHELTERED Employment-related activity	TRANSITIONAL Employment-related activity	JOB BROKERAGE	EMPLOYMENT SUPPORT	JOB RETENTION
CURRENT POSITION IN TERMS OF OPEN EMPLOYMENT	Not interested in work or, Not able to sustain any form of employment	Want employment related activity but not job ready or not able to progress to open employment	Want employment experience but not job ready	Job ready but needing support to access employment	Job ready and in work	In work with pre-identified problem In work with new problem
RELATIONSHIP OF CLIENT TO LABOUR MARKET	Not oriented towards employment	Distance great but either: - possible transition towards labour market - limited transition towards labour market	Distance moderate Still in receipt of benefits	Distance close Still in receipt of benefits or on tapered scale, e.g. tax credits	Commencing or in work On tapered scale of incentives, e.g. Tax credits or fully generating own income	Working but requiring support Generating own income
POTENTIAL and ACTUAL SERVICE DELIVERY OPTIONS	Day Care Personal Development	Employment/ Training projects Occupational therapy Clubhouse (activity) Voluntary work Sheltered workshops Social Firms (Inclusive)*	Social firm (Intermediate) * ILM's Clubhouse (Transitional Employment Programme) Job mates* New Futures Fund projects*	Disability Service Team New Deal Programme* Employment Intermediaries Pathways to Work* Progress to Work Link up* Social firm (Intermediate) *	Supported employment Social Firm (Integrated)* Individual Placement and Support* StepUP* New Deal Programme*	Supported employment Employee Assistance Programmes SHAW - Mental Health at Work award*
CURRENT SOURCES OF FUNDING	Health Service Social Services	Health Service + Social Services Workstep ++ ESF** Limited income generated from sales of goods and services	ESF** Grant funding Income generated from sales of goods and services Service level agreements	Access to work NDDP JIS/Work Prep +++ etc Income generated from sales of goods and services	Workstep Access to Work Income generated from sales of goods and services	Company EAP schemes and occupational health

* Italics denote new service provision developed in past 5 years to meet demand for more integrated, inclusive, participative working environments.
 ** It must be noted that ESF funding is projected to be far less readily available beyond 2006/07 due to the number of new member states ascending to the EU.
 + Health Service and Social Service provision is patchy throughout the country with only a few health services and social service departments funding transitional employment options such as social firms.
 ++ Workstep is used to support some people to work full-time within sheltered workshops.
 +++ Jobcentre Plus has a range of employment interventions to support job brokerage and return to work that are offered on a national basis. However information and access varies by local office and is inconsistent across the UK.

3.3 Can social firms bridge the gap?

Social firms are small commercial businesses developed to provide employment opportunities for people with a disability or other disadvantage in the labour market.

Social Firms aim to generate over 50% of their income from the sale of goods and services to a commercial market. They are non-profit distributing, with any surplus being shared by employees or re-invested in the business or community.

A social firm will ensure that at least 25% of its workforce are people with a disability or other disadvantage to create an integrated workforce. Social firms usually have the feel of a family business and are predominantly characterised by the provision of a supportive working environment, team working and participation in the development and operation of the business.

There is a range of employment options created through social firms, from full time to part time employment and training placements. Some people use the work experience as a springboard to get back into mainstream employment. Some people use the work experience as a means of recovering from ill health and it is this group in particular who suffer greatly from the restrictions placed on what they can earn while remaining on benefits.

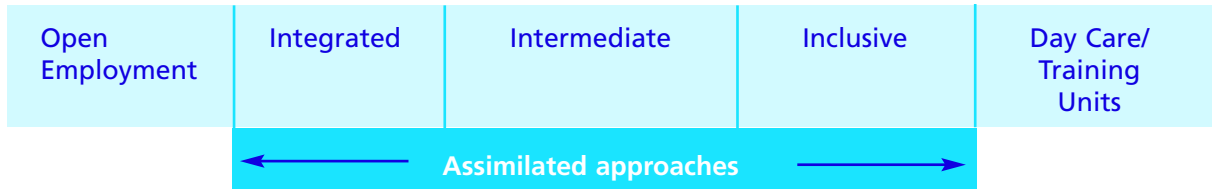
Social firms are evolving to a point where they are catering for clients with a range of varying support needs. There are no subcategories of social firms but what is emerging reflects clients own distance from the labour market. Quite often a social firm will employ people furthest from the labour market in need of a high level of support mixed in with employees who have perhaps moved off benefits and are working full time in the business. This can put strain on the business itself and often results in the 'Push-Pull' effect⁶⁰. Organisations that have operated social firms for the last 10 years are beginning to identify a pattern emerging that is illustrated in the Employment Spectrum. They are identifying the following employment intervention functions of social firms⁶¹:

- **Inclusive Social Firms** - Inclusive Social Firms have a greater focus on providing a therapeutic working environment where the majority of the workforce will be working part time and requiring high levels of support in relation to severity of illness. Although these social firms provide a sheltered employment opportunity they combine disabled staff working alongside non-disabled staff within a community setting rather than reinforcing institutionalisation. There is usually a higher level of service users in the social firm.
- **Intermediate Social Firms** - Intermediate social firms act in similar fashion to Intermediate Labour Market projects with a focus on improving individual's employability, providing a clear stepping stone to mainstream employment opportunities.
- **Integrated Social Firms** - Integrated Employment social firms provide supported employment within a SME mirroring supported employment in the open labour market. Employees will usually be job ready but need higher-level support within a non-discriminatory, supportive environment. These social firms should be seen as an 'alternative labour market' within mainstream employment.

⁶⁰ The business needs and the support needs of the employees often pull in different directions.

⁶¹ For a more detailed description of each type of social firm outlined here see Appendix IV

It is very rare to find a social firm that does not provide at least two out of three of these vocational interventions. Some social firms provide all three approaches as demonstrated below:



Adapted from Social Firms UK

People who work in social firms recognise the flexibility and range of opportunities they offer. Social firms offer people a means of:

- 'Testing the water' and trying out work in a supportive environment.
- Adjusting to a work routine and developing stamina.
- Obtaining the sense of having a real job with real pay.
- Progressing to jobs within the social firm.
- Progressing to open employment, if desired.
- Working with people who understand mental health problems
- Feeling valued
- Accessing a real job in a real business
- Integrated working environment
- Small 'family business' atmosphere and environment

The majority of those service users with whom Social Firms Scotland currently work have stated that it is the sense that the work is 'real' that has prompted them to get involved in the development activity for new social firms.

Social firms therefore operate at many different levels that could meet the various agendas being set by the policies outlined above. If a broader understanding of 'supported employment' was adopted (and included part-time working less than 16 hours) then social firms could become part of an IPS⁶² approach for people with severe disabilities. The advantage of this approach would be to enable people to move away from a cycle of training schemes into real work opportunities within the social firm.

Social firms provide a bridge between health and employment, clearly demonstrating significant health benefits such as improved mental health and social functioning. Health cost benefits are also significant with small-scale research indicating a 98% reduction in use of in-patient facilities, day centres and day hospitals and a 47% reduction in use of medication⁶³.

Social Firms offer an alternative to mainstream employment in a supportive working environment without reducing any sense of social inclusion. It is a real job in a real business offering training and personal development but with a far greater understanding of the support needs of individuals with severe mental health problems thus eliminating stigma. Social Firms already incorporate many of the approaches used under New Futures with an emphasis on developing people's employability. Social firms should be seen as a future specialist support option on the proposed New Deal Menu or an employment option for those individuals being supported by Pathways to Work.

⁶² Individual Placement and Support

⁶³ Coughlan, M. (1993) Changing the context to change the behaviour: A Study of the European Project on Mental Health: The Irish Social Firms Initiative, Contribution to the IVth World Congress for Psychological Rehabilitation, Dublin

Comparing this with the findings of Secker and Membrey (2003) who examined ways in which employers could facilitate the transition or return to work by people with mental health problems many parallels begin to emerge. Drawing on the accounts of 17 employment project clients, Secker and Membrey suggested that flexibility in working hours, work schedules and job tasks was critical. In addition, there were a number of 'natural supports' which would arguably benefit all employees. These included adequate training and support to learn the job and a focus on supportive interpersonal relationships at work, workplace culture and approaches to staff management. All of these approaches form the core ethos of social firms. It could be argued that mainstream employers could learn a significant amount from the best practice displayed in social firms.

Social firms are more likely to succeed than mainstream businesses. This is due to the substantial amount of feasibility work that is conducted before the business start-up stage. A greater amount of caution is utilised as jobs will be created for people who are financially and socially vulnerable and a certain amount of sustainability needs to be ascertained. The business idea needs to be suitable for the client group, for instance a stressful working environment would not be suitable for people with severe mental health problems.

By using business as a means of creating real employment opportunities, social firms offer a more sustainable option compared to employment and training projects due to their ability to generate their own income. Social firms offer an enterprising and sustainable option for adoption within local employment strategy, and should be seen as part of a mainstream solution to increasing the economic activity of people furthest from the labour market.

3.4 The International Perspective

This section provides a snapshot of what is happening in relation to the development of interventions in other countries. It must be noted that there are contextual differences that may not translate to the UK. The purpose of this section is to encourage and inform a more creative approach to welfare to work reform rather than any attempt to compare or analyse the various systems. Details of reforms adopted in four countries - Germany, Finland, the USA and Australia - can be found in Appendix II, and offer fascinating insights into what could be achieved here in the UK.

Helping every person who wants to work and who can work to find the right job is the surest way out of poverty and social exclusion. It is the surest way to build healthy communities and to help enterprises thrive. The alternative is not only morally wrong; it will result in unacceptably high social and economic costs. This appears to have been recognised by various governments in developed countries and it can be concluded that there now appears to be a collection of thematic methods developing to tackle this complex issue.

- **Personalised Support**

Across all the systems investigated there appears to be a definite emphasis on **tailored, personalised support** that involves coordinated delivery of services between various agencies. **Specialist support packages** have been developed to tackle particular issues that certain disadvantaged group's experience.

This is reflected in the UK where there is a growing body of evidence on the benefits of embedding flexibility into support packages and especially giving those directly responsible for supporting people back in to work increased freedom to design packages of individualised support to match their client's needs. There also appears to be a growing recognition that interventions work best in combination rather than as separate discrete elements of support⁶⁴. These themes have been partially addressed through the new flexibilities proposed for the New Deal.

⁶⁴ DWP (June 2004) *Building on New Deal; Local Solutions Meeting Individual Needs*

- **Distance Travelled**

There appears to be a broad consensus that soft targets to mark employability development are critical to underpin any system that is designed to assist severely disadvantaged people without detracting from the ultimate objective of supporting people into employment.

The development of 'distance travelled' measures, such as the Rickter scale used by New Futures, has been demonstrated to help solve the problem of monitoring paying providers serving the most disadvantaged but it does not necessarily prevent 'cherry picking'. Australia has developed a system through which clients are assessed and assigned to funding levels designed to reflect severity of need. Providers then receive payments linked to the achievement of measurable benchmarks or milestones in the individual's path towards the agreed outcome. Benchmarks can be weighted "to reflect the risk involved at each stage which requires further investment, and makes the overall financial risk more manageable by the providers."⁶⁵

- **Financial Incentives**

Financial Incentives have been used to great effect and have been applied in different ways. **Wage Subsidies** that are paid directly to the employer and paid back to the employee as a wage have proved a popular method of supporting people financially to move in to work.

Adjustments to the workplace that enable a person with a disability to take up employment were common to most countries investigated. In the UK, this principle is enshrined in the Disability Discrimination Act, but in practice, has proved difficult to interpret and enforce in the mental health field.

- **Early Intervention mechanisms**

The benefits of early intervention mechanisms that either support people to retain their job or gain entry to the labour market sooner are central to many of the reforms and is a method being more strongly reflected in the recent published Vocational Rehabilitation Framework in the UK.

- **Social Enterprise Development**

A more innovative use of subsidy applied in Germany, Ireland and more recently in Finland is the **subsidisation of social enterprise start-up**. This has enabled the creation of supported jobs in a real business and offers those furthest from the labour market an opportunity to develop their employability in a supportive working environment, while moving off benefits.

By using existing budgets more effectively these countries have been able to shift funding towards specialist agencies whose focus is to support the development of small businesses that create jobs for unemployed disabled people and those furthest from the labour market.

Common to all of these methods is the development of support provision that is more work focused, has improved assessment methods and can tackle issues with people at an early stage to prevent long term unemployment.

⁶⁵ 'Results-based Funded Supported Employment: Avoiding Disincentives to Serving People with the Greatest Need', Ann Corden and Patricia Thornton, Jobcentre Plus Research Report W 160, March 2003.

Chapter 4 - Reform

The economic exclusion of those people furthest from the labour market urgently needs to be addressed through a detailed and lateral investigation of welfare benefits reform. A new, more flexible, system needs to be created, that is capable of supporting people into sustainable employment.

However any reform of the financial system that currently restricts movement from economic inactivity to employment must be investigated in parallel with the reshaping of support services.

It is the contention of Social Firms Scotland that benefits reform could open up cost-effective routes to create a new transitional employment market, based on social firms and social enterprise, which will meet the needs of those furthest from the labour market.

More specific actions need to be delivered to address particular issues faced by disadvantaged groups, especially people with severe and enduring mental health problems. At the very least solutions need to be discussed and explored in more detail.

Outlined below are a set of guiding principles on which to base reform as well as specific recommendations that would incentivise people to move into work and provide better support structures that would effectively produce significant cost and health benefits.

4.1 Guiding Principles for Welfare Benefits Reform

Social Firms Scotland would like to see the following guiding principles underpinning any future reform of the Welfare Benefits System. Although gathered from mental health professionals and service users it is felt that these principles are applicable to all disadvantaged groups:

- **Integration** of benefits, wages, tax and tax credits
- **Making work pay** even for those able to work only part time
- **Transitional flexible support** that enables transition within a flexible labour market including supported employment for those who need it
- **Simplicity** to reduce and eradicate the current complexities in the development of a new system

Underlying these principles needs to be the recognition that as the unemployment rate reduces, further measures need to be focused on those who are 'economically inactive', which is then reflected in a new system of support for those who cannot work and to better support people in the move off benefits and into employment.

The current proposals in the DWP 5 Year Plan propose reforming the existing system to create a new benefit that might allow for a transitional phase between incapacity to work and full-time engagement in the labour force.

The proposals are for an initial 'Holding Benefit' which would then be quickly followed up by a Personal Capacity Assessment (PCA) which will decipher whether or not a person has the capacity to return to work. A person will be placed on a new 'Rehabilitation Support Allowance' and be provided with employment support options if they have the capacity to return to work. If not they will receive Disability and Sickness Allowance and be occasionally expected to participate in work-focused interviews.

Social Firms Scotland recognises the innovative approaches proposed in the Five Year Strategy and those developed through the DWP's Pathways to Work 'pilots', and supports the further roll out to cover a third of the UK.

However Social Firms Scotland argues that if the Department of Work and Pensions seriously want to engage people with severe mental health problems in employment-related activity and support their transition to work then a bolder approach is required.

4.2 Bridging the Gap through Reform

Urgent action and investment is required if employment exclusion is to be eradicated. In order to enable people from various disadvantaged groups to move into employment there needs to be an effective and enabling framework of agencies whose focus is on offering holistic client centred support. This is echoed in the Framework for Vocational Rehabilitation, the approach taken in Pathways to Work and Scotland's emerging Employability Framework.

The recognition that employment and health are intertwined needs to be embedded across health, economic development agencies, social work and employment agencies. This needs to be reflected in funding, strategic development and implementation of employability strategies at local and national levels.

It is not enough to reform the Welfare Benefits System in isolation from those who deliver employment related support services that feed into the welfare to work programmes. One will not work without the other.

In order to enable this to happen effectively, the key areas of intervention outlined below must be considered in order to move towards a less bureaucratic, seamless approach to employment support. Any approach taken needs to create a clear pathway to work and link all benefit payments, wage payments, tax credits and tax payments into a coherent package that supports people to move into employment. This can only go towards easing the transition into employment for all disadvantaged groups.

4.3 A Framework of Recommendations for Reform

The following key areas of interventions and series of recommendations are all based on the guiding principles:

Transitional Flexible Support

In order to develop a more coherent system of employment support services that increases consistency and reduces gaps in service provision in parallel with reform of the Welfare Benefits system, the following recommendations urgently need to be considered:

1. At the core of any reform there needs to be specialist transitional employment market options for people with severe mental health problems.

A Specialist Support Package for Mental Health developed along the same ethos as Progress2Work could offer the flexible support method required to support people off Incapacity Benefits into work. As illustrated in the Employment Spectrum (see Appendix I), many individuals need skills development and confidence building, which can be provided by engaging in work experience. The reported experience of many NDDP brokers is of a high percentage of individuals contacting them are not job ready and therefore fall into this trap, where they need more employment support through work experience than the system can currently provide.

Work experience is presently offered in different ways: through Work Preparation contracts; by work placements negotiated with employers by voluntary sector projects such as clubhouses and supported employment agencies; and through placements in social firms and other types of social enterprises. Permitted Work is the current vehicle for delivering this work experience to build up to working over 16 hours per week, but in practice, the limits imposed by the Housing Benefit and Council Tax Benefit system do not allow the maximum advantages to be obtained⁶⁶.

Development of a specialist transitional employment market needs to be drawn from the best practice examples developed under likes of the New Futures Initiatives, StepUP and the experience of social firms. More importantly, it needs to be derived from what people themselves have identified would work for them, namely enough flexibility to allow for the fluctuation in people's mental illnesses.

Specialist support packages tailored to the needs of individuals would place a greater emphasis on the transitional employment phase outlined in the Employment Spectrum. They could be built into the greater flexibilities proposed within the New Deal 'Menu for Help', with a mix of existing employment expertise and specialist mental health expertise.

⁶⁶ If a person is in receipt of Incapacity Benefit, HB and CTB they have an earnings disregard of £20 per week. If they earn above this amount they pay 85p to every pound earned back to HB and CTB thus effectively being taxed at 85%. On top of this the National Minimum Wage is applied to Earnings Disregard so an individual on IB, HB and CTB can only work approximately 4 hours per week. Four hours per week is simply not enough time for individuals to benefit from work, especially in terms of social inclusion, e.g. becoming an accepted member of the team or building up relations with customers.

2. **Social firms should be seen as a future specialist support option on the proposed New Deal Menu and as an employment option for those individuals being supported by Pathways to Work.**
3. **An innovative use of subsidy needs to be adopted to enable social firm start-ups to create supported jobs in real businesses. Germany, Ireland and Finland have accomplished this by using existing budgets more effectively and have shifted funding towards specialist agencies whose focus is to support the development of social firms.**
4. **Increase opportunities for professional development including recognised qualifications of those involved in vocational rehabilitation including NHS, Jobcentre Plus and social services staff as well as within the voluntary and social enterprise sectors**
5. **Increase joint working between the DWP and Department of Health that improves and expands on experiences in the Pathways to Work pilots**
6. **Calculate the full cost of keeping someone on benefits.**

By establishing this as a benchmark a cost-benefit analysis of the various methods used in transitional employment can be carried out. This will enable funders, practitioners and policy makers to make informed decisions as to which services really work.

7. **Increase access to supported employment placements for people with severe and enduring mental health problems**

There is significant evidence that supported employment is more effective than pre-vocational training in helping severely mentally ill people to obtain competitive employment. There is no clear evidence that pre-vocational training is effective⁶⁷. Therefore the following is required:

- Ensure 'Access to Work' is open to all individuals on Supported Permitted Work as well as those working 16 hours plus
- Ensure delays in obtaining funding through 'Access to Work' are effectively dealt with if not eradicated
- As there is no funding for 'Supported Permitted Work', create a joint Department of Health and DWP fund for people on 'supported permitted work'. This will fund the support' element of an 'Individual Placement and Support' model for this group of people⁶⁸.
- Additional funding for this provision injected from Department of Health under 'invest to save' due to potential cost savings from the ensuing health benefits linked to being in employment
- Funding to be made available for 100,000 supported employment places under Workstep specifically targeting people with severe and enduring mental health problems
- Ensure localised access to Workstep places rather than through large contracts to existing Workstep suppliers. This will remove incurred costs from intermediaries resulting in more monies going to the direct support of individuals

All of the above will enable more people to be supported back into work and would provide a funding stream to do so. These actions would increase the supported work opportunities for people with severe mental health problems and allow them to take first steps towards employment. For some accessing 'supported permitted work' would allow people the opportunity to move out of day care and reduce costs for health and social services.

⁶⁷ Crowther, R. et al (2004) Vocational Rehabilitation for People with Severe Mental Illness (Cochrane Review), the Cochrane Library, Issue 2

⁶⁸ Access to Work support for people with severe mental health problems (within a social firm) might go towards mentoring/job coaching support, the provision of mental health awareness training for staff, personal development planning, training support, assessing reasonable adjustments, etc. For someone working less than 10 hours per week this might be around £2,000-£2,500 per year. For someone working 10 hours plus it might be between £2,500 to £3,500 per year.

8. Create a 'Benefits Transfer' option whereby people's benefits are transferred to their employers and paid back in the form of a wage or salary⁶⁹.

Alternatively a new approach altogether needs to be adapted. Social Firms Scotland has suggested this option previously (Mind the Gap, 2003) and still feels that it needs to be further investigated by the Department of Work and Pensions as an alternative to the current system.

This could be accomplished by transferring IB claimants onto JSA at the same rate rather than incurring the need for legislative change⁷⁰. People would be in receipt of a wage rather than benefits which would remove the perceived fear of moving off benefits, allowing people to get used to earning a wage with no pressure if they relapse.

Make Work Pay

The discrimination experienced by those individuals who can only work part-time needs to be eliminated. The recommendations laid out below would do this. The group of people who moved into employment under 'permitted work' rules could become one 'pool' for the Jobcentre Plus Personal Advisors to work with in relation to Work Focused Interviews. This would simplify any rules and confusion around 'training allowances'. It would enable people to increase their employability without the financial risks that are currently in place⁷¹.

9. Discontinue the earnings disregard for all incapacity benefit recipients enabling them to earn up to 16 times the National Minimum Wage

This will allow people the desperately needed flexibility to try work regardless of where they are living while keeping their current income intact, reduce the issue of earnings disincentive, reduce disruption and unnecessary stress and still be paying back money to the state in the form of taxes.

10. Raise the local authority mandatory earnings disregard and allow people in receipt of Housing Benefit, Council Tax Benefit and Income Support to earn up to 16 times the minimum wage including those in rented, supported and registered care homes

A weakness of many reform proposals in the past has been a failure to consider the role of housing support in its current form, and its interaction with benefits. Reform of HB, or at the very least removal of its impact on benefits designed to support the transition to work, should be a key ingredient of any reform.

A necessary pre-condition is that income from any new transitions to work benefit is disregarded when assessing Housing Benefit. There is already a precedent for this within the Return to Work Tax Credit in the Pathways to Work pilot areas, which may be partly responsible for the better outcomes reported from the early evaluation report⁷².

⁶⁹ Anecdotal experience of New Deal 25 Plus clients has shown that the subsidised employment option would seem to achieve a successful outcome for approximately 50% of participants against the 25% outcome for those who do not take this option. As a direct result of this the National Employment Panel (2004) recommended that 'The Department of Work and Pensions and Jobcentre Plus should investigate why this option, which seems to be successful, is so little used.' Social Firms Scotland would strongly support this investigation.

⁷⁰ IB as it stands cannot be transferred or paid to a third party except in exceptional circumstances such as where a power of attorney has been granted. For a full discussion on this option see Taking the Initiative - Blue Sky Thinking for a Flexible Welfare Benefits System (Social Firms Scotland, 2005)

⁷¹ Scottish Enterprise's (April 2005) Evaluation of the New Futures Fund Initiative demonstrated that projects concentrating on an individual's employability rather than a job outcome led to more people moving into employment.

⁷² Durie, S. (2005) Taking the Initiative - Blue Sky Thinking for a Flexible Welfare Benefits System Social Firms Scotland

11. Maximise the benefit from economic regeneration initiatives by ensuring the creation of new employment opportunities for disabled people

In order to maximise added value 'community benefits' need to be built into procurement contracts in line with recent developments in EU directives on social and environmental clauses due to be implemented from January 2006. Increased use of social firms and other social enterprises as a means of supporting people into work would stimulate greater employment creation and business start up.⁷³

Simplicity

12. Ensure that all claimants have access to accurate information that will enable them to make informed decisions about moving into employment

- Provide an accurate Better Off calculation service that can provide information on how and when people's circumstances would change by moving into work
- Provide this service throughout the period of moving into employment so that this information remains accurate according to a person's changing circumstances
- Clearly advertise this service to claimants
- Ensure that training and development in the system is consistent across all delivery staff

13. Jobcentre Plus needs to continue to move towards becoming a greater facilitator for support delivery through more effective partnership working

- Improve procurement practices with an emphasis on more localised procurement of services
- Increased development of partnership approaches with voluntary/community sector, social enterprises, private business and public agencies. This should lead to more local partners being involved in shaping local delivery solutions.

4.4 Eliminating the Gap

Integration

The proposals outlined above could be investigated and implemented over the next few years and may lead to bridging the gap between employment and remaining on welfare benefits. But what about removing the gap all together? What about a more radical reform of the existing system of welfare support?

There is a need to remove some of the distinctions enshrined in the current system, that have been shown to create barriers for economically inactive groups, while recognising the need to increase the income of people who cannot work and lift them out of poverty. The following option needs serious consideration:

14. Abolish the existing welfare benefits system and replace it with an integrated income maintenance and tax model

How would it work?

Harmonisation of the tax and benefits regimes is not a new idea, and the increasing emphasis on tax credits, first with WTC and now with the Return to Work Tax Credit, indicates that government may be thinking along these lines already. IB is already set at levels close to the NI and PAYE thresholds, and is taxable.

⁷³ The NEP in their recent publication 'Able to Work' (2005) recognised that 'government should seek to maximise the impact of publicly funded economic development and regeneration initiatives on the employment opportunities available to disabled people'

The system of personal allowances in the PAYE system would be the basis for determining individual tax thresholds, above which tax is applied, but below which income maintenance payments are made.

The personal allowances could reflect the increased costs associated with disability status, lone parent status etc, meaning that more income is kept by these groups before tax is paid. The existing principle of funding passported benefits could be retained as a tax code increase in the personal allowances system. The tax system already includes different allowances e.g. a blind person can claim an additional personal allowance.

Under this proposed system, the issue about hours of work and pay would be sidestepped, as would the issue about full-time education and training and availability for work. The difficulty of working between 4 and 15 hours would be removed, and capacity issues would not enter into it. The higher a person's earnings, the greater the savings flowing back to the state through increased tax contributions.

Variations of this proposal have been suggested before, e.g. a 50:50 Therapeutic Earnings Tax Concession scheme was suggested before the introduction of the new Permitted Work rules and a 'Tax Credit Starter' has also been proposed.⁷⁴ As part of the investigation of the 50:50 proposal, people with mental health problems thought it was fair that if they were able to earn more, they should pay more tax, a proposition which reflects the 'rights and responsibilities' agenda of government.

The nature of the PCA would change, towards assigning an appropriate tax code based on personal allowances which reflect the individual's status and the nature of any changes that may qualify the individual for additional personal allowances. Who would determine the tax code is for further discussion and it may be helpful however to consider establishing an independent assessment service.

For those who become ill, or develop a disability, or who's other circumstances change, there would need to be a re-assessment of the tax code, and a triggering of Inland Revenue income maintenance payments. The existing system, whereby GP's start this process, could be continued, with others being involved as the government's proposed reforms of the PCA take hold. Tracking of individuals' economic activity would be simplified and more comprehensive.

The tax code is individual, and therefore overall household income need not be taken into account, which is a complication in the existing benefits system. This issue would need further exploration, as would the relationship between the tax system and the Housing Benefit system. HB could remain, possibly with increased thresholds or reduced tapers, and continue to offer financial support for housing costs where individuals were in work but still below a minimum income threshold.

In the proposed system, there would need to be a threshold of annual salaries above which Inland Revenue income maintenance payments would cease. The Scottish Low Pay Unit recommends the NMW should be £7.44 per hour, if poverty is to be alleviated.⁷⁵ This equates to two thirds of the median average wage, and translates to £13,500 per annum, if a 35 hour working week is used. This figure could also be used as the minimum income threshold.

People with a tax code would have their tax contribution managed by their employer as at present, with no requirement to disclose why their code might be higher. The PAYE system already includes a 'T code' for people who do not fall into the main categories. When a notification of a new start is received by the Inland Revenue at present, those without a tax code are put onto an emergency tax code, whereas in theory, everyone in the system would already have a tax code. The notification of a new start would lead to the payment from Inland Revenue stopping if wages were above the threshold, but this could be done something like 6 weeks after starting work, ensuring that there is an equivalent of a benefits run on.

⁷⁴ P Seebohm and J Scott, 2004, 'Addressing the Disincentives to Work associated with the welfare benefits system in the UK and abroad', The Social Enterprise Partnership

⁷⁵ See www.spu.org.uk. The New Policy Institute also recommends a threshold for 'poverty pay' of £7 per hour

The role of Jobcentre Plus would change focus, to support and encourage people who are out of work into work, and advise others on career progression and maximising earnings. With the current link with people's benefits payments being broken, more constructive relationships may be encouraged to form.

It is beyond the scope of this discussion paper to look at this proposal from a cost benefit analysis perspective. However if the 1 million people who say they want to work did move back into work as a result of this system, even as very part-time employees, then savings could be substantial despite higher income maintenance payments for those with higher levels of need.

Some of the complexity in the administration of the benefits system would be reduced, with no complex linking rules, re-claims processes or applications for tax credits. Staff would be faced with a simpler system to explain, and this would reduce some of the burden on staff training currently experienced with Jobcentre Plus, who would be 'released' to focus on supporting individuals. In addition there would be less distinction between those who are able to work and those who cannot.

It would however mean a radical overhaul in the DWP, Benefits Agency and the Inland Revenue. The track record of the Inland Revenue in administering existing tax credits does not bode well for this proposal, and serious thought would have to be given to the fact that IR processes information a year in arrears, which has already caused difficulty with the tax credits system.

Chapter 5 - Conclusions

For the majority of people work forms a central part of their lives. It defines a lot of who we are, who we meet, what our goals are and how we live our lives. It allows us to meet friends, partners and to develop and practice our social, practical and intellectual skills. And yet for so many this fundamental human right to be able to answer the question 'What do you do?' is denied them. Too often people are excluded due to lack of support, outdated assumptions and a welfare system that has ignored the barriers to work that people with mental illness face.

If 21% of people on incapacity benefits have severe and enduring mental health problems this translates to approximately 550,000 people being out of work and is a growing trend. Given the scale of the problem there is a need for a similar scale of response. The Government need to 'invest to save' if these numbers are to reduce.

People who have been on incapacity benefits for more than 2 years should not have a higher chance of dying prematurely than they do of moving into employment. Considering that 71% of IB claimants in Scotland have been on IB for 2 years or more the current support interventions are clearly not working⁷⁶. Urgent action and investment is required if employment exclusion is to be eliminated for this group of people.

A social firm in every town could be an integral component of a successful vocational rehabilitation framework, providing enterprising solutions to social and economic inclusion across disadvantaged groups in the UK. Social firms are a tried and tested model in other countries particularly Germany and Italy. Finland has more recently placed a very heavy emphasis on social firms playing a major role in alleviating long term unemployment for disadvantaged groups.

Social firms make a concerted effort to focus on those people who are long term unemployed and can demonstrate very positive results. With investment, a radical overhaul of the existing welfare system and a coordinated more holistic support approach between agencies social firms could play a significant role in maximising the employment options available to people.

Bridging the gap will take time and a change in attitude from all stakeholders. The policy context and economic environment are ripe for change. However careful consideration and a bold approach are required to create a welfare support system fit for people's needs in the 21st century.

It is hoped that this report will provide a catalyst for informed discussion for constructive reform of the UK's Welfare System.

⁷⁶ Trends in Employment for the Disabled, Department of Work and Pensions presentation, London, (2002).

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Appendix I

Current barriers within the Welfare Benefits System

- **16-Hour Rule** - Given the fluctuating nature of mental ill health the fixing of permitted work limit at 16 hours creates a barrier for people who want to test out working and need flexibility to build up their stamina within a real working environment. Conversely the 16-hour limit on the Workstep Programme and Working Tax Credit does not act as an incentive for those people who wish to work less than 16 hours.
- **Earnings disincentive** - There is a risk that people will be financially worse off in work than on benefits. The Scottish Development Centre for Mental Health has calculated that the average person claiming Incapacity Benefit⁷⁷ or Income Support (with a Disability Premium) need to be working over 25 hours per week with Working Tax Credit in place to be marginally better off than when on benefits⁷⁸. These calculations revealed that if the person lost their DLA⁷⁹ as a result of commencing employment then they would be significantly worse off.
- **Part-time Work** - Part-time work opportunities are preferred by a reasonable proportion of people with mental health problems. Although more job opportunities are part-time, as indicated above the earnings disincentive inherent within the current system will limit movement from permitted work into part-time employment.
- **Staged Progress** - If a person is working 4 or 5 hours per week on permitted work earnings disregard and they are offered a job at 25 hours per week there are very limited options to make a gradual transition from current working hours to new working arrangements⁸⁰. The lack of mechanism to test out the option would inevitably lead a majority of people to not move towards the job.
- **Status & Entitlement** - There is concern about the risk of losing 'disability' status and the benefit entitlement that goes with this, if people show an interest in or begin to prepare for work. There is also concern that starting work will lead to a loss of Disability Living Allowance.
- **Disruption** - As above, there is a concern that there will be a disruption to benefit entitlement when moving from incapacity benefits onto a wage. This is particularly related to the length of time of assessment of needs-based benefits such as Income Support and Housing Benefit.
- **'Supported' Housing/Accommodation Costs** - For those in supported accommodation there is both the limitation of the earnings disregard (above) and yet if they try to move into paid employment then to sustain their 'supported accommodation' is virtually impossible due to cost of this type of provision.
- **Training** - The current 'rules' within the Benefit System are unclear concerning the potential for, and role of, allowances gained from training. Social Firms Scotland is aware that throughout the UK there is a wide range of interpretations of the rules, which leads to confusion and misunderstanding.

⁷⁷ An receiving £66.00 per week via Higher Limit Permitted Work.

⁷⁸ These figures were based on case scenarios developed as part of the response to the DWP Pathways to Work Green Paper. The calculations were made on the basis of the person receiving the Minimum Wage and took into account average costs for rented housing, council tax and payment of prescriptions. The scenarios were developed to test the impact of the proposal to introduce a £40 return to work incentive for 52 weeks. The scenarios identified that this £40 incentive would enable people who retained their DLA to be marginally better off at 16 hours per week while the incentive was in place but raised the question about economic hardship when the incentive was removed.

⁷⁹ Disability Living Allowance.

⁸⁰ This factor was highlighted as significant by Secker et al (2001)

- **First Steps** - Legislation does not allow for a flexible and experimental approach to engaging with employment where people who are very distant from the job market but motivated to attempt to work can 'try' out work without involvement of 'bureaucracy' and the associated fear⁸¹ that this step will lead to the potential loss of DLA and personal capability testing.
- **Social Interaction** - One of the few negative impacts of the introduction of the Minimum Wage has been the ending of a number of 'therapeutic earnings' (now permitted work) schemes. The reason being that people were primarily engaged in 'therapeutic earnings' for social and supportive reasons rather than productive work. This was often the case for those people with very severe and enduring mental health problems and/or dual diagnosis where distance from the labour market is greatest and productivity lowest/support needs the highest. While SFS is supportive of the idea that the Minimum Wage should be paid to disabled people, there is a clear Benefits Trap for those people who will never attain levels of productivity that justify minimum wage payment but who do not want to remain confined to a perpetual cycle of day centre activities.
- **Advice** - There is a perception amongst people with mental health problems of a lack of trustworthy and concise advice on benefits entitlement and clear return to work calculations. The complexity of the situation is often reinforced by a perception on the part of claimants that they face stigma in terms of their mental health problem, that often staff within the Benefits System do not understand them and this leads to a lack of trust on the part of claimants in the system.

⁸¹ Although these steps may not happen, research (Pressland (2000) The Benefits Trap) has identified that this fear is a strong barrier and impacts on motivation to try out work.

Appendix II

International Measures to support people into Employment

1 German Measures to support people into employment

With the introduction of a law promoting employment for severely disabled people in 2000 and part IX of the social welfare code on the rehabilitation and participation of disabled persons in 2001 the German government have developed various initiatives aimed at improving access to employment for people with disabilities.

Central to this reform have been the following guiding principles:

- Ensuring a **participative approach**, based on self-determination and individual responsibility
- The principle of **finality** according to which the necessary assistance must be offered, even when responsibility for this assistance is held by a number of different funds and institutions whose eligibility requirements for the provision of assistance vary,
- **Intervention at the earliest possible stage**
- **Tailored individual assistance**⁸².

Between October 1999 and October 2002 the number of unemployed disabled people dropped by 24 percent nationwide, in contrast to the trend shown for the total number of unemployed. Bearing in mind the current weakness of the German economy this demonstrates that even in difficult times it is possible to bring about a noticeable improvement in the employment situation for disabled people⁸³.

The new law has several components but those specifically related to accessing employment can be broken down as follows:

1. **Capital** - Funding is available and can be used for investment in equipment, adjustments and so on (similar to the UK's Access to Work fund)
2. **Specialist Services for Integration** - These are nationwide and support employment offices, the other rehabilitation funds and integration offices in fulfilling their tasks, especially in relation to employment support: pre employment, job readiness and job retention plus advice and support to companies.
3. **Special Protection Against Dismissal** - this commences six months after the start of employment. The employer is obliged to obtain the approval of the integration office before giving notice of dismissal to give time to examine all forms of assistance that might secure continuing employment and to weigh the interests of both parties.
4. **Compensation** - there are various levels of wage subsidy available to the employer dependent on the level of the individual's disability, some of which are tie limited.
5. **Consultancy** - Advice and support offered to employers

A significant proportion of the funding for this type of approach is raised through around 80% of companies in Germany not meeting their 'employment obligation' and having to pay a 'compensatory levy' which is used primarily for the engagement and employment of severely disabled persons, which means that the greater part of it is returned to employers.

⁸² Federal Ministry of Health and Social Security (2003) Rehabilitation and Participation of Disabled Persons (Law stated as of 1 May 2003)

⁸³ http://www.bundesregierung.de/en/News-by-subject/Labour_-Economy-and-Welfare-St/News-,10988.620391/artikel/German-government-sets-good-ex.htm

Although the new law is open to the private sector it appears that it is social firms who are using the law to the most effective. Germany uses the same definition of a social firm as the UK in that at least 25% of the employees must be people with a disability and at least 50% of their income needs to be generated through sales. Social firms draw down support from the components outlined above and are able to access grants for the following:

- Grants or loans are available for creating jobs. Each individual Laender⁸⁴ decides the amounts with the maximum only being restricted by budget as opposed to a set amount.
- Adjustment of a workplace to the specific needs of a person with a disability
- Wage subsidies are available for people with disabilities for the first three years at approximate rate of 80/70/60% depending on the on the budgets available to the Laender
- Compensation for possible lower productivity rates amongst disabled employees of approximately 300 Euro per month
- Business development consultancy for starting a social firm (around 5,000 Euro - in some Laenders, FAF⁸⁵ has a contract to deliver the consultancy and the Laender pays directly to FAF instead of paying to the individual social firms that apply)

The combination of these measures has helped to create many social firms in Germany. The latest number is 400 firms employing 6,000 people (50% are disabled) and making an average annual turnover of 900,000 Euro per business⁸⁶.

These figures demonstrate that with flexible funding, which is not necessarily long term, a significant amount of people with disabilities can move into employment.

To find more detailed information on the German System and social firms in Germany go to:
http://www.bmgs.bund.de/eng/gra/sicherheit/index_3562.cfm
http://www.faf-gmbh.de/proconcept/english/adress_links.html
<http://www.faf-gmbh.de/eIndex.htm>



⁸⁴ Germany is a federal republic of 16 states or Laenders, including the former state of East Germany

⁸⁵ FAF is a social firm support agency providing similar support available through Social Firms Scotland

⁸⁶ Personal correspondence with Gerold Schwarz, Director of Social Enterprise Partnership GB Ltd

2 Employment Integration Measures adopted in Finland

Finland has recognised that disabled people and the long-term unemployed are threatened with complete exclusion from the labour market. They have also recognised that social firms are a solution to this issue and with their broader social function should be entitled to subsidies. 'The subsidies are society's payback for the social responsibility undertaken by a social enterprise.'⁸⁷

To this end the Finnish Government passed the Act of Social Enterprises, which came in to effect at the beginning of 2004. A national social enterprise support and advice service network has been established, led by the VATES foundation, to advise and support start-up social enterprises and to provide a focus for networking. The majority of its funding comes from the Ministry of Labour.

The definition of a social enterprise contained in the Act is very similar to that of a social firm and does not take into consideration the range of different types of social enterprises that we are familiar with in the UK⁸⁸.

As a result of the Act the rules regarding employment subsidies and combined subsidies have been altered so that social enterprises can access these on more flexible terms and for longer time periods than other companies. These subsidies are accessed by the employer and consist of:

- a. An Employment Subsidy
 - b. A Combined or Combination Subsidy
 - c. A Project Subsidy for social enterprise development
- a) The employment subsidy is targeted at a range of long-term unemployed, including people with disabilities. Unlike other sectors, a social enterprise does not need to sign a contract with employees in order to be eligible for subsidies. The employment office will decide on the amount of employment subsidy, which ranges from 430 - 770 Euros per month⁸⁹, dependent on the individual's capabilities. Full payment of the normal increased employment subsidy requires that the working hours of the employee correspond to at least 85% of the normal working hours for the relevant sector. Employment subsidy can be paid for three years at a time for employing a disabled person. This can be reactivated immediately after the end of the three-year period if this is feasible with regard to their working capacity and employment potential⁹⁰. The employment subsidy can also be used to cover the support costs of an employment planner; employment support worker or job coach being the closest equivalent in the UK.
- b) The combination subsidy is available to the long-term unemployed who have been in receipt of benefits due to unemployment for more than 500 days and are entitled to labour market subsidy (a bit like the UK's JSA) at the time of starting employment. The subsidy is divided into two parts so that in the first year the employer may access and receive both employment subsidy and labour market subsidy; during the second year the employer may only receive labour market subsidy. This gets passed on to the employee as a wage. The full subsidy for social enterprises for employing a long term unemployed person eligible for combined subsidy is about EUR 930 per month for the first year and about EUR 500 per month from the second year. There is a discretionary possibility of paying about EUR 930 per month for a second year for employing an unemployed disabled person.

⁸⁷ Tarja Filitov, Minister of Labour, Introduction to Finland's' first Social Enterprises (2004) Ministry of Labour

⁸⁸ For a full exploration of what a the UK's definition of a social enterprise please see www.sel.org.uk

⁸⁹ The figures quoted here are at the levels for 2004

⁹⁰ Some social firms in Scotland have had individuals take 8 years to move into mainstream employment.

For more detailed information on Employment and Combined Subsidies go to:
<http://www.enterpriseinland.fi/liston/page.lsp?r=4027&l=en>



c) A project subsidy is paid to social enterprises when the objective of the enterprise is to provide employment specifically for those furthest from the labour market. A project subsidy can be granted to cover up to 50% of the accepted overall initial costs for setting up a social enterprise and creating jobs within the business for up to three years. The subsidy appears to focus on job creation and will not cover general start up costs apart from minor purchases of materials, machines or equipment. The social enterprise will only be eligible for this subsidy for the estimated duration of the start-up process.

Finland's Act on Social Enterprises can be found at:
<http://www.mol.fi/tyoministerio/sosiaalinenyrittys/actonsocialenterprises.PDF>
More information on the VATES Foundations can be found at:
<http://www.vates.fi/english/7-4.htm>



3 The USA Welfare System and Employment Integration

In the United States if you have a disability that prevents you from accessing employment you should be eligible for the following benefits or 'social insurance program':

- **Social Security Disability Insurance (SSDI)** is a federal payment and is paid for through tax deductions from wages so is based on an individual's average lifetime earnings. This is similar to The UK's Incapacity Benefit where eligibility is based on National Insurance contributions. Your own assets are not taken into consideration when calculating a payment level.
- **The Supplemental Security Income (SSI)** program is funded by taxes from the general fund. This program is based on individual financial need and is designed to assist those who have limited income and resources. The amount of SSI varies from state to state. Each state determines if they will supplement Federal Benefit Rate (FBR) or will add to this. The state of California for example provides a State Supplemental Payment (SSP). These amounts may be adjusted annually to account for cost of living changes.
- **State Disability Insurance (SDI)** is only available in five states including California. This payment is available to those employees who have paid into the State Disability Insurance fund through an employer and provides a wage replacement income but no health cover.

State Disability Insurance usually only covers someone for one year however there is no time limit on SSDI and SSI benefits as long as the individual is classed as disabled and cannot work because of their disability. People also have the option while working of paying into private short term and long term disability insurance programs.

The combined amount of Social Security benefits plus State Disability Insurance, and other public disability such as workers' compensation, cannot exceed 80 percent of what Social Security considers your average current earnings.

For more detailed information on disability benefits and explanations of Trial Work Periods, Substantial Gainful Activity and Extended Periods of Eligibility go to: www.disabilitybenefits101.org



The US Government became concerned with the flow of people moving on to disability benefits and in 1999 passed the Ticket to Work and Work Incentives Improvement Act. This was driven by a need to extend health coverage (Medicaid and Medicare) and to increase opportunities and choices for disabled people to access vocational options including employment.

Prior to the Act, individuals receiving SSDI and SSI benefits risked losing their cash benefit and medical coverage if they returned to work. It was also estimated that if 0.5% of those individuals currently receiving Social Security disability benefits or Supplemental Security Income were to attain self-supporting employment, the savings in cash assistance would total \$3.5 billion over the work life of these individuals.

The Ticket to Work Programme provides beneficiaries with even more choices for receiving employment services while increasing provider incentives to serve these individuals. Under the Ticket Program, the Social Security Administration (SSA) provides disability beneficiaries with a Ticket they may use to obtain the services and jobs they need from a new set of organisations called Employment Networks (En). The process is entirely voluntary for the beneficiaries and on the whole the En can choose which services they want to provide, where and to whom. Beneficiaries receiving Tickets can contact one or more En to discuss services and once an agreement between the beneficiary and EN is reached, the two work together to develop a work plan to assist the beneficiary in reaching his or her employment goal. Every month a Ticket-holder is employed at a certain wage level, En receive revenue.

Day-to-day administration of the Ticket Program is the responsibility of the Program Manager (PM). SSA has contracted with MAXIMUS, a private company, to perform this role.

For more detailed information on Ticket to Work please go to:
www.yourtickettowork.com



There is also the option of PASS - Plan for Achieving Self Support Program which allows individuals to set aside money for a specified work goal. An individual must be disabled and have some form of potential income through a job.

Under SSI rules, any income that is received may reduce your benefit. However, with a PASS that income can be used to pay for the items, services or skills needed to reach a specified vocational goal. For example, a PASS can be used towards going to school for specialised training for a job or to start a business. If a PASS is for self-employment, a detailed business plan must be provided that supports the financial viability of the business.

If in receipt of SSDI an individual may qualify for a Plan for Achieving Self-Support by transferring all but \$20 of SDDI into a PASS. This will make them eligible for the SSI rate for their state which is usually lower than SDDI.

For further information on the whole of the US Social Security System go to:
www.ssa.gov



4 Australia and Welfare Reform

Around seven years ago Australia made a strong commitment to advancing its social policy. Australia's social security system dates back to the beginning of the last century and since that time, not unlike the UK's Welfare Benefit system, it has been constantly added to, tweaked and modified.

Long-term unemployment is a major problem in Australia. In August 2003, 22 per cent of unemployed people had been without work for a year or more; of this group, 59 per cent had been unemployed for over two years⁹¹

Australia is also facing major demographic changes over the next 40 years, with an ageing population indicating that there will be fewer people of working-age to support growing numbers of retirees. The Australian Government has recognised that welfare reform is critical to increasing participation among working-age people as a strategy for addressing the impact of an ageing society. The problem as they see it isn't too many older people - it's having too few people working.

The McClure Report published by the Welfare Reform Reference Group in 2000 offered a blueprint for Welfare Reform. It encouraged government to take a fresh look at how a new and improved system could work and was based on five pillars of reform: individualised service delivery; simpler income support system; incentives and financial assistance; social obligations and community capacity building. With a government commitment of \$1.7 billion over four years for its implementation, the reforms sought to provide opportunities and incentives for social and economic participation for people dependent on income support.

'Australians Working Together' (AWT) is the first step towards a more responsive and personalised social support system in Australia. The AWT is a package of choices targeting all working-age people on income support. In relation to disabled people this has resulted in:

- 11,000 additional support places in disability employment services
- a heavier emphasis on better assessment and early intervention for people on Disability Support Pension (DSP)
- New Disability Coordination Officers to support students into vocational training, education or where possible into employment
- A new Quality Assurance system that has benchmarked quality standards for disability employment services
- Extra support services such as a specialised Personal Support Programme and Language, Literacy and Numeracy Supplement

For information on Australians Working Together go to:
www.together.gov.au



⁹¹ Brotherhood of St Lawrence website www.bsl.org.au

Australia also has subsidies available for employers to access when employing people with disabilities.

Most people with a disability can access jobs at full award wages but some cannot because of the effects of their disability. **The Supported Wage System (SWS)** is a Commonwealth Government program available in every state and territory.

Previous to a productivity assessment, a 12 week trial period is offered, according to need, during which the individual is paid \$45 per week by the employer. The productivity rate is determined by comparing the employee with a disability's productivity against an equivalent employee without a disability. The person will receive the percentage of the full wage, e.g. if you are assessed as being 70% productive you can be paid at 70% of the full award rate by the employer with a potential top up from their Disability Support Pension (DPS).

The sliding scale of the DPS means that all SWS employees should be financially better off compared to receiving the DSP alone as well as retaining all of the entitlements linked to the DSP such as the Health Care Card. Under the SWS the minimum hours an employee may work is 8 hours per week and the minimum wage payable is \$60 per week regardless of the assessed capacity.

The **Wage Subsidy Scheme** encourages employers to provide job opportunities under open employment conditions to eligible people with disabilities by subsidising wages for up to 13 weeks. Wage subsidies are available for a range of employment situations but must average a minimum of eight hours work per week for a vacancy to be eligible. Employers receiving a subsidy must make every effort for the position to result in ongoing employment of at least three months after the subsidy ends. The amount payable per vacancy is flexible and discretionary according to the particular circumstances of the job and the employee.

Up to \$5,000 may be available from the Commonwealth Government for **workplace modifications** that enable a person to perform a job. In addition to structural alterations, this can include the purchase or hire of specific equipment or aids, or a specialist workplace assessment to determine what might be necessary in the way of physical modifications or equipment. All funding is subject to an application and approval process.

For information on all of the above go to the Australian Government's Department of Families and Community Services:
www.facs.gov.au



The McClure Report specifically recognised that 'social enterprises have the capacity to go beyond a traditional welfare approach that hasn't tackled the multi-layered social and economic problems that persist in many locations despite economic growth'⁹². As yet there appears to have been little policy development from the Government regarding the use of social enterprises as a means of reducing social and economic exclusion. However Social Firms Australia was recently established and several other organisations now exist whose sole purpose is to develop social enterprises to tackle their country's social and economic issues.

For more information on Social Firms Australia go to:
www.socialfirms.org.au
www.socialventures.com.au



⁹² Welfare Reform Reference Group (July2000) Final Report - Participations Support for a more Equitable Society

Appendix III

Description of social firm types

1 Integration

The primary motivation for this approach is for the Social Firm is to act as an alternative labour market within mainstream employment for those people with disabilities or disadvantage who are job ready but need higher-level support within a non-discriminatory, supportive environment.

The Social Firm will be characterised as follows:

- All 'disabled' staff are paid wages at market rate
- 'disabled' and 'non-disabled' staff work alongside each other in an integrated environment, enjoying the same terms, conditions, rights and responsibilities
- Positions within the business will be seen as permanent, subject to market fluctuations
- 'disabled' staff will make up 25%-50% of the staffing of the business
- 'disabled' staff will usually be working on a full-time basis (over 16 hours per week)
- There will be an emphasis on developing a realistic working environment and providing real work
- A supportive working environment will be developed based on the concept of reasonable adjustments

Social Firm 'co-operatives' could be seen as the purest form of integrated approach where aside from all of the above the 'disabled' staff are members of the co-operative with the same rights as 'non-disabled' staff.

2 Intermediary

The primary motivation for this approach is for the Social Firm is to act as an intermediate labour market for people with disabilities or disadvantage. The Social Firm will act as a stepping stone for people to move back into open employment or supported employment. The focus of activity in the Social Firm will be assist people to improve their job readiness.

The Social Firm will be characterised as follows:

- 'disabled' staff may be paid market rate wages or may be trainees within the business
- Positions within the business will be temporary and time-limited (often one to two year contracts). There will be an emphasis on supporting 'disabled' staff to move into open employment
- 'disabled' and 'non-disabled' staff will work alongside each other in an integrated environment but may not enjoy the same terms, conditions, rights and responsibilities given the time-limited nature of some positions
- 'disabled' staff will usually be working on a full-time basis (over 16 hours per week) to prepare them for open employment
- Up to 50% of the staffing may be 'disabled'. Payment of the supplementary income might only be secured when the 'disabled' staff member moves into other employment
- There will be an emphasis on developing skills through real work
- A supportive working environment will focus on job coaching, skills development and personal development planning
- A learning environment will be developed to enable 'disabled' staff to become job ready and able to move on

3 Inclusive

The primary motivation in this approach to Social Firm development is to offer people supported employment as an alternative to day care or sheltered workshops. The Social Firm has a focus on providing a therapeutic and participative working environment for participants.

The Social Firm will be characterised as follows:

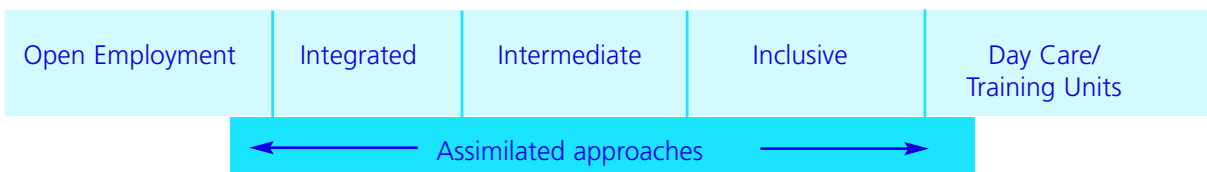
- 'disabled' staff may be paid market rate wages or may be trainees or volunteers within the business
- It will aim to create a large number of jobs for people with a disability or disadvantage and will often have up-to 50-75% of the employees being people with a disability
- The employees will usually work on a part-time basis, often less than 16 hours per week and although receiving wages through schemes such as 'permitted supported work' (at or above Minimum Wage level) may still have a high reliance on welfare benefits. Because of the restrictions of the welfare benefits system, some of the people with disabilities may only be able to be classed as trainees
- A participative working environment will be developed that values the contribution of each employee regardless of the nature and effect of their disability
- A therapeutic working environment will be developed on the concept of assisting to support recovery and rehabilitation
- There will be a high focus on fostering inclusion, teamwork, developing job skills and providing real work experience
- The Social Firm might also provide more counselling support and crisis intervention than would be normal within a mainstream business.

Usually inclusive approaches to Social Firm development are adopted where the people have a more severe disability or disadvantage in the labour market. Many Social Firms that have been developed out of existing day care provision focus on an inclusive approach.

4 Assimilated

This is where the Social Firm is developed with a blend of some or all of the above approaches. The emphasis has been on incorporating all the characteristics. The primary motivation behind this has been to offer a wide range of supportive employment opportunities for people with a disability.

Below is a brief outline of the four approaches in relation to what is classed as 'open employment' at one end of the spectrum or day care at the other end. Motivation is often related to whether you have a health focus or an employment focus to what you are trying to achieve.



Each approach has advantages and disadvantages. There is no right answer as to which approach is better; as indicated your approach will depend on the motivation that you have towards providing employment for people with a disability and disadvantage in the labour market. Also your approach need not be set in stone. It is possible to start out in one direction and alter. For example you may have commenced with the idea of an inclusive approach to Social Firm development but as you develop realise that the group of people with disabilities you are working with are more job ready than you recognised. You could then opt for a more integrated approach and possibly work with the group to develop a Social Firm Co-operative.