



What if...?: Welfare to work

A report submitted to the pre-Budget consultation 2000 presenting the results of work by the Social Enterprise Zone on changes to the tax and benefit system that would help people move into employment

**Produced by the
Social Enterprise Zone
October 2000**

Based in one of the most intense areas of urban deprivation in Europe Community Links is an east London charity founded in 1977 which runs a wide range of projects for children, teenagers, parents, older and disabled people. Last year 27,000 people benefited from Community Links' projects run by over 450 volunteers in 60 key sites.

We share the lessons of our experience in east London across the UK through training and publications of which this evidence paper series forms a part. A list of current publications is shown inside the back cover.

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The Social Enterprise Zone

Community Links is founded on the principle that those who experience a problem know best how to solve it. In the past, this experience has largely gone untapped by policy makers and public sector practitioners resulting in mainstream services that fail to meet needs effectively. The Social Enterprise Zone (SEZ) is a project pioneered by Community Links to reconnect people, policy and practice through generating and testing ideas for making more effective use of mainstream spending programmes. Through an innovative tool called 'what if...?' the SEZ works with people who live and work in our community to gather their ideas for changes to the way mainstream resources are spent. These ideas are then shared with Government and local public sector agencies in order to secure licence to test them in the SEZ where ideas have originated and where new ways of working can make most impact. There is more information on the Social Enterprise Zone in appendix one.

The ideas in this paper are based on practical work undertaken through our 'what if...?' programme and with a network of colleagues from other community organisations, public sector departments and the private sector.

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1 Introduction

'Welfare to work' was one of Labour's five major manifesto commitments and is the cornerstone of the Government's wider strategy for combating social exclusion. Whilst the policy has had undoubted success at helping many people back into work, there remain significant numbers of people for whom finding and keeping work is still a distant ambition. In this paper, we identify three routes from 'welfare to work': self-employment, active citizenship and lifelong learning and present ideas around each one that people living and working in our area think would help to bring this ambition nearer. In the final section, we suggest ways of ensuring financial security during the transition from welfare to work.

In each section, we also highlight how successful testing of ideas could help departments across Government to meet their own objectives as stated in the Public Service Agreements. This helps to emphasise that in all cases, ideas are proposed in the spirit of improving the system on the basis of shared objectives. The SEZ is a mechanism for identifying and trying out new ways of meeting these objectives.

This paper is a very brief summary. Please get in touch if you would like further information.

Community Links
October 2000

Note

In March 2001, policy changes were announced which relate to ideas presented in this paper. These are noted in an Update section at the end of this report.

2 From Welfare to Work

Self-employment

Government is leading work on encouraging enterprise and investment in deprived areas. At the same time, Community Finance Initiatives are offering financial products and services to aspiring entrepreneurs. New investment and the provision of new services need to take place in conjunction with measures that enable people to take advantage of these opportunities as significant obstacles remain that prevent local people from participating.

In making the successful transition into self-employment, three building blocks need to be put in place: Covering living costs, increasing the net income of the business, building up savings. Current mechanisms do not offer adequate support for any of these building blocks. The following ideas suggest ways in which current support mechanisms can make an active contribution to all three. This work has been undertaken in conjunction with SEZ partners in particular micro finance providers Street Cred, Street UK and the Women's Employment, Enterprise and Training Unit (WEETU).

- 2.1 **Extend the principle of tax credits beyond Working Families to include Working People trying to set up their own business.**
- 2.2 **Extend Working Families Tax Credit to people unable to work over 16 hours a week.¹**
- 2.3 **Extend the length of time that housing benefit and council tax benefit run-ons are payable to e.g. 12 months followed by a staged decrease to nil over the following six months.²**
- 2.4 **Extend the principle of benefit run-ons to include mortgage interest payments for a specified period of time e.g. 12 months followed by a staged decrease to nil over the following six months.**
- 2.5 **Extend the principle of the Enterprise Rehearsal scheme to provide a guaranteed level of income for a specified period of time e.g. two years.³ Deposit the business revenue into a separate business bank account that can only be used for business development as under current New Deal rules.**

¹ Reasons may include ill health or because the person is disabled, a lone parent or a carer.

² Income is particularly likely to fluctuate during the early stages of setting up a business. People need to feel a certain level of income is guaranteed if they are to have the confidence to *take the plunge*.

³ 80 per cent of people who stop trading will do so in the period 18-24 months after start up (Cowling, 1998). In interviews conducted by the SEZ with 119 people who said they would 'start their own business if they had the money', 45 per cent said they believed it would take over one year, with 26 per cent saying over two years, before the business broke even (SEZ, 2000).

- 2.6 **Provide that after a period of receiving a guaranteed income the participant could collect the entire business account balance (plus interest) if the business succeeds but forfeit the business account balance if the business fails.**
- 2.7 **Make existing schemes available to a wider range of people e.g. it seems counter productive to wait 18 months before becoming eligible for the New Deal for over 25 self-employment option as currently proposed for April 2001.⁴**
- 2.8 **Establish a tax-free income bracket for first business revenue generated (including VAT and NI).⁵**
- 2.9 **Remove the asset cap to qualify for benefits.⁶**
- 2.10 **Relax FSA anti-money laundering restrictions on the opening of personal and business bank/ credit union accounts.⁷**

Links to other objectives

Joint HM TREASURY/ DTI PSA Performance Target XIV 'To secure an increase in the number of successful high growth business start ups'.

HM TREASURY PSA Aim 'To raise the rate of sustainable growth, and achieve rising prosperity, through creating employment opportunities for all'.

HM TREASURY PSA Objective 3 'Improving the quality and cost effectiveness of public services'.

HM TREASURY PSA Objective 4 'Increasing the productivity of the economy and expanding economic and employment opportunities for all, through productive investment, innovation and enterprise'.

HM TREASURY PSA Objective 5 'Promoting a fair and efficient tax and benefit system with incentives to work, save and invest'.

DSS PSA Performance Target 'To promote opportunity and work instead of dependence, working on the principle that barriers to work are removed from the system'.

European Commission (DG XXIII) support for developing the social economy.

⁴ 21 per cent of the women joining Full Circle, a programme operated by the Women's Employment, Enterprise and Training Unit offering start up support to women unable to borrow money from conventional lenders, have been unemployed for less than 6 months (WEETU, 2000).

⁵ There is no incentive to 'declare' revenues due to the high cost of income tax, VAT and NI. The disconnection between Inland Revenue and DSS leads to unproductive tax liability for welfare recipients.

⁶ The primary method of poverty alleviation is savings accumulation – (a) Rainy day money enables risk-taking; (b) Reserves for future investment enable planning.

⁷ Current measures disqualify many people from opening a bank account.

3 From Welfare to Work

Active Citizenship

Encouraging people to play a more active role in the community helps communities through making the word neighbour not just a geographical term but a social term as well. It is also a way for people to build confidence and self worth, learn new skills, raise personal aspirations, enhance employability (where relevant) and it means a person is more likely to hear about job opportunities and to have up-to-date references.⁸ At the same time it releases skills into the community, raising the quality of life for all. The following changes suggest ways in which both employability and active community involvement could be supported, helping to meet the Government's own targets in both these areas.

- 3.1 **Modify, or clarify, benefit rules so that small advance payments voluntary organisations make to cover volunteer costs, such as transport, do not affect benefit entitlements.**
- 3.2 **Abolish the rule on JSA that states that claimants have to be available for paid work at 48 hours notice. Allow claimants to volunteer a notice period of two weeks or even one month (the normal required notice period).⁹**
- 3.3 **Provide a fund that voluntary organisations could access to cover the costs of a criminal records check.¹⁰**
- 3.4 **Allow particular claimants to continue current voluntary work where this may be more appropriate than forcing them into a *dead end* paid job. Benefits Agency and Employment Service staff need training on the policies governing volunteering and benefit eligibility and the value of many forms of community activity as a route to employment.**
- 3.5 **Permit unlimited voluntary work while on benefits as an alternative to the job seekers' agreement.¹¹**

⁸ Research in 1998 by the Institute for Volunteering Research revealed that up to 10 per cent of unemployed people might consider volunteering if presented with it as an option. In Sept 2000 there were 2,943 JSA claimants in the SEZ (GLA/ ONS claimant count).

⁹ This would not only give voluntary work equal status with paid work, but also open up the possibility for volunteers to have a greater stake in more challenging and involved voluntary work.

¹⁰ Under the Police Act, volunteers working unsupervised with children or vulnerable people must undergo a criminal records check, the cost of which, in many cases, has to be covered by the volunteer.

¹¹ The state pays for the cost of unemployment yet, through benefits rules, appears reluctant to use untapped human resources to ease the huge social problems which its resources subsequently have to tackle.

Links to other objectives

Home Office PSA Objective 5 'Helping to build, under a modernised constitution, a fair and prosperous society, in which everyone has a stake, and in which the rights and responsibilities of individuals, families and communities are properly balanced'.

Home Office PSA Performance Target 7(iii) 'Increasing the quantity and quality of people's involvement in their community'.

Active Community Unit's stated priority to support the development of volunteering and work which:

- Engages with volunteers at a community and neighbourhood level;
- Promotes community development and self help;
- Develops and promotes volunteering by under-represented groups e.g., older people, disabled people, minority ethnic groups.

HM TREASURY PSA Objective 4 'Increasing the productivity of the economy and expanding economic and employment opportunities for all through... increased employability'.

HM TREASURY PSA Performance Target XV 'Put in place policies to reduce structural unemployment over the cycle'.

DSS PSA Objective 1 'To reduce the cost of economic failure by actively helping people without a job into work....'

DSS work on 'Increasing the productivity of operations... by improving the efficiency and effectiveness of welfare'.

DfEE PSA Objective 3 'Helping people without a job into work'.

DfEE Millennium Volunteers initiative to change attitudes to volunteering amongst 16-24 year olds.¹²

¹² 28.2 per cent of the unemployed but economically active population in the SEZ is under 24 years old. In one of the wards, this figure is 54.2 per cent (GLA and ONS claimant count Sept 2000).

4 From Welfare to Work

Life long learning

Government is putting measures in place to help people into work and promote life long learning. Training can enhance confidence, self-esteem, skills and employability. Current measures reflect the tension between the Government's belief in encouraging unemployed people into work as quickly as possible and supporting those with low skills to enhance their employability through learning. A common theme is that individuals need tailored advice and support and a range of appropriate options to choose from to help them increase their employability and get back to work.

- 4.1 **Provide grants to / create a 'learning pot' for claimants to pay for the resources they need in order to participate in training courses.¹³**
- 4.2 **Permit greater flexibility in the type of training courses accredited by the Employment Service.¹⁴**
- 4.3 **Abolish the 16-hour rule for JSA, IS, IB claimants, drawing on the principles of the New Deal.**
- 4.4 **Having started a training course, allow JSA claimants to finish the course rather than be forced into taking low paid work.**

Links to other objectives

DSS PSA Objective 1 'To reduce the cost of economic failure by actively helping people without a job into work and providing them with financial support while they are unable to support themselves through work, ensuring that rights are matched with responsibilities'.

HM TREASURY PSA Objective 4 'Increasing the productivity of the economy and expanding economic and employment opportunities for all through... increased employability'.

DfEE PSA Objective 2 'Developing in everyone a commitment to lifelong learning, so as to enhance their lives, improve their employability in a changing labour market and create the skills that our economy and employers need'.

DfEE PSA Objective 3 'Helping people without a job into work'.

¹³ A SEZ 'what if...?' participant revealed that she was forced to undertake work in the informal economy in order to pay for books she needed for her training course.

¹⁴ If the Employment Service does not accredit a course, the claimant cannot participate even if it is the course most suited to the claimant's development needs.

5 From Welfare to Work

Ensuring financial security during the transition

The Government has introduced measures to ensure that work pays and these reforms are helping people into work. There remains however a significant number for whom the financial consequences of moving from benefits and into employment are of such concern that they see no alternative but to remain on benefits. This is increasingly true in current labour market conditions where the choice is less between unemployment and employment and more between unemployment and short periods of employment. Moving in and out of the benefits system is extremely complex and time-consuming as well as an extra burden on the already struggling administration systems. The following changes could strengthen incentives for people to move into and stay in work bringing longer term savings to public expenditure.

- 5.1 **Extend the length of time that housing benefit and council tax benefit run-ons are payable to e.g. six months followed by a staged decrease to nil over the following six months.**
- 5.2 **Extend the principle of benefit run-ons to include mortgage interest payments for a specified period of time e.g. six months followed by a staged decrease to nil over the following six months.**
- 5.3 **Re-instate automatically all previous benefits at their previous levels where a job comes to an end within a specified period of time e.g. six months.**

Links to other objectives

HM TREASURY PSA Objective 3 'Improving the quality and cost effectiveness of public services'.

HM TREASURY PSA Objective 5 'Promoting a fair and efficient tax and benefit system with incentives to work, save and invest'.

HM TREASURY PSA Performance Target XV 'Put in place policies to reduce structural unemployment over the cycle'.

DSS PSA Objective 1 'To reduce the cost of economic failure by actively helping people without a job into work'.

DSS PSA Aim to 'Provide a system that is efficient, effective, easy for people to use and makes the best use of the resources available'.

DSS PSA Performance target 'To promote opportunity and work instead of dependence, working on the principle that barriers to work are removed from the system'.

DfEE PSA Objective 3 'Helping people without a job into work'.

Benefit's Agency Business Plan that stresses 'the importance of delivering active customer focused services efficiently and effectively'.

PAT 1 recommendations 52 (a) and 52 (b) on strengthening incentives for moving into work.

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6 Update – March 2001

This paper was submitted to the Chancellor of the Exchequer Gordon Brown in October 2000 as part of the pre-Budget Consultation. The following changes were announced in the Budget in 2001.

SEZ proposal - Re-instate automatically all benefits at their previous levels where a job comes to an end within a specified period of time e.g. six months.

Budget announcement – From April 2002 the process for re-claiming benefit for people on Jobseekers' Allowance and Income Support returning to benefit after taking up full-time work for periods of up to 12 weeks will be streamlined... The Government is also attracted to the principle of introducing a similar arrangement for Housing Benefit'.

SEZ proposal - Extend the length of time that housing benefit and council tax benefit run-ons are payable to e.g. six months followed by a staged decrease to nil over the following six months. This also includes the need to make the existing Housing Benefit run-on of 4 weeks automatic.

Budget announcement – From April 2001 the rules of the Housing Benefit Extended Payment scheme for recipients of Income Support and Jobseekers' Allowance... will be simplified to ensure that payments are as near automatic as possible, reducing the likelihood of rent arrears building up whilst claims for in-work support are processed'.

SEZ proposal – Extend the principle of benefit run-ons to include mortgage interest payments for a specified period of time e.g. six months followed by a staged decrease to nil over the following six months.

Budget announcement – The Income Support Mortgage Interest (ISMI) scheme will be extended to provide a four week ISMI run-on for those entering work. The existing linking rules will also be improved so that everyone receiving ISMI will be able to re-qualify for it directly if they return to benefits within one year of taking a job'.

DAVID BLUNKETT POLICY ANNOUNCEMENTS

SEZ proposal - Benefits rules should be modified or clarified so that small advance payments voluntary organisations make to cover volunteer costs, such as transport, do not affect benefit entitlements.

Policy announcement: 'The DSS will extend the current disregard of volunteers' reimbursed expenses in the calculation of benefits to include payments made in advance. This will mean that volunteers receiving income-related benefits need not be out of pocket while volunteering'.

SEZ proposal – The 48-hour rule should be changed where its application impedes community and voluntary activity. Allow claimants to volunteer a notice period of two weeks or even one month (the normal required notice period) which not only gives voluntary work equal status with paid work, but also gives volunteers the opportunity to undertake more challenging and involved voluntary work.

Policy announcement – ‘We will relax the current rule that requires volunteers to be available to take up employment at 48 hours notice and instead allow them to give a week’s notice’.

SEZ proposal – Being active in the community can incur costs such as travel expenses or, in some cases, a criminal records check. (Under the Police Act, volunteers working unsupervised with children or vulnerable people must undergo a criminal records check, the cost of which, in many cases, has to be covered by the volunteer). In a SEZ, volunteers could have these expenses covered by Government fund to ensure people are not discouraged from starting valuable volunteer work.

Policy announcement – ‘From August 2001 voluntary organisations will not have to pay for criminal records check’.

7 Appendix One

SEZ Background and Purpose

From the roof of our building, it is possible to see every Government-sponsored regeneration initiative since the 1960s and yet still be in part of one of the most deprived areas in Europe. These initiatives have had some success, but the scale of the problem remains.

In 1998 we calculated that up to 70 per cent of the GDP in the London Borough of Newham was derived from public sector sources. Of this amount only 2 per cent was dedicated to urban regeneration; the other 98 per cent was spent on mainstream programmes primarily the benefits budget.¹⁵ We realised that until we harness mainstream resources more effectively regeneration could generate isolated successes but would not necessarily have a wide impact on deprivation.

Both staff and users of public services, with their front-line experience, have important and practical contributions to make to improving the effectiveness of services. We saw that the environment in which ideas were generated did not encourage creativity and new ways of working.

Business Enterprise Zones offered scope for making rules and procedures more flexible to ensure fitness for purpose – kick-starting economic creativity – and proved a useful means of testing new approaches in a designated area.

We asked what if we could transfer this flexible model to the provision of community services? Could we start to harness public sector resources more effectively? We proposed the establishment of Social Enterprise Zones - designated areas where local people, community organisations, the public and private sectors work together on identifying and subsequently changing rules and procedures governing the spending of mainstream programmes wherever such changes are likely to progress social and economic regeneration.¹⁶

In January 2000 the UK's first Social Enterprise Zone (SEZ) was established in an area of Newham with Single Regeneration Budget 5 funding. The ideas presented in this paper, which are briefly explained, have been generated through on going development work with people living and working in the area. We have looked at other initiatives including Government programmes to see where objectives are shared across sectors.

¹⁵ Work undertaken by Tony Travers for the London Borough of Newham

¹⁶ See Robinson D, Dunn K, Ballintyne S (1998) 'Social Enterprise Zones: Building innovation into regeneration'. YPS for Joseph Rowntree Foundation: York

Appendix Two

SEZ Development Network

Jane Bevan	Women's Employment and Enterprise Unit
Paul Brickell	Bromley by Bow Centre
Frances Clarke	Community Links
Rosalind Copisarow	Street UK
Stuart Duffin	Citizen's Income Trust
Mavis Fernandes	First Steps
Ann Griffin	London Borough of Newham
Donald Hirsch	Joseph Rowntree Foundation
Stephen Jacobs OBE	Stratford Development Partnership
Ella Joseph	Institute for Public Policy Research
Jennifer Kavanagh	Street Cred
George Leahy	East London and City Health Authority
John Low	Joseph Rowntree Foundation
Jim McCormick	Scottish Council Foundation
Matthew Pike	Scarman Trust
Charles Richardson	3i Plc
Ian Woolford	London Borough of Newham

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EP2 Prospects for Enterprise A report by Dr. Andrew Travers, University of Exeter, on work with the Social Enterprise Zone to uncover through interviews with informal workers the motivations for working informally and highlighting why current government policy in this area needs re-thinking.		£5:00		£
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EP4 What if...?: Employment Tax Credit A report submitted to HM Treasury highlighting issues for the proposed Employment Tax Credit. Jointly produced by the Social Enterprise Zone and Celia Minoughan of LB Newham Social Regeneration Unit.		£3:50		£
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