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REPORT

Retention deficit

A new approach to boosting employment for people with health problems and disabilities

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Executive Summary

Despite the employment rate sitting at a record high, the government has positioned halving the disability employment gap as a central challenge for the UK labour market. This challenge of course is not a new one, and successive governments have attempted to tackle it via reforms to certain aspects of the policy landscape. However, too often these have driven at-best modest improvements to overall employment outcomes, as well as having a limited impact on related policy objectives such as reducing health and disability-related welfare spending.

To make significant progress, therefore, a more comprehensive set of changes will be needed, alongside a cultural shift in how we view the connections between disability, health and employment in this country. The Green Paper on this topic due to be published later this year provides the perfect opportunity for reflection. The primary purpose of this report is to offer a new set of ideas that can be considered and developed in it.

We are clear that employment is not right for everyone and that strategies designed to push people to enter or remain in work to drive the employment rate higher at all costs will have detrimental effects. But we see an opportunity for a renewed focus on one area of policy where we think attention has often been lacking and positive improvements are possible: the employment relationship and exits from work connected to disability and ill-health. We set out the evidence of the challenge in this area, evaluate the current policy offer, and provide recommendations for reform.

Post-crisis, the disability employment challenge is rising up the agenda

The renewed political focus on disability employment reflects both economic and health- and demography-related headwinds. The economic imperative is driven by the fact that following four years of remarkable jobs growth, employment and unemployment rates have seemingly 'plateaued' since the autumn. With the easiest employment gains of the recovery phase potentially now made, it's clear

that making further progress will require a more proactive approach.

In particular, achieving significant further employment growth requires a focus on the more disadvantaged groups in society, as we set out in our recent investigation into full employment. The key group is people with disabilities, who constitute nearly half of the employment increase required to meet our definition of full employment, one that is strongly linked to living standards for UK households. Addressing the disability employment challenge, then, sits at the heart of the Chancellor of the Exchequer's laudable objective of full employment in this country, and his target of an additional two million jobs within this parliament under this banner.

In addition, an ageing population means that people are increasingly working longer into old age, when health problems and disabilities become rapidly more prevalent. The nature or at least the perception of the challenge is also shifting, in particular towards mental health problems and fluctuating conditions, which are more likely to affect people throughout their lives than conditions concentrated in the older, retired population. These shifts underscore the economic imperative for a focus on disability employment.

Halving the gap is a huge task, but significant progress is possible

The ambition to halve the gap is clearly justified on economic and demographic grounds, but the size of the challenge should not be underestimated. The disability employment rate currently stands at 46 per cent, 34 percentage points below the employment rate for non-disabled people. We estimate that **halving this gap by 2020 would require a 1.5 million increase in the number of disabled people in work.**

To contextualise this, over the past couple of decades we have seen at-best marginal improvements in disability employment rates, and inactivity rates connected to ill-health more broadly. And while much has been made of the need to reverse the large, deindustrialisation-driven increases in disability-related benefit claims of the 1980s, delving into the evidence shows that this is not a relevant description of the health-related inactivity challenge in 2016. Therefore it is not as easily reversible as might be assumed. Shifting the dial on disability employment in the way that the government wants to is therefore a huge task that will require a step-change from past trends and ways of thinking.

But a comparative perspective suggests that change should be possible. In particular, we find large geographic variation in sub-regional disability employment rates, with over a 20 percentage point gap between the rate for 18-69 year olds in the South East (49 per cent) and Northern Ireland (28 per cent). And although cross-country data is harder to interpret, there is substantial variation in the size of the disability employment gap across European economies, with the UK a below-average performer. We don't expect all parts of the UK to ever be the same, and we acknowledge the cultural and institutional differences underpinning international variations. However, we think that these geographic comparisons give grounds for optimism that substantial improvements can be made.

The current approach is insufficiently focused on employment retention

The main contention of this report is that while there are things to be celebrated and continued, the policy focus around employment for people with health problems and disabilities has been too narrow, in three respects.

First, it is **too benefits-focused**, both in terms of the motivation and the preferred method of delivery. The dominant political narrative has been around reducing sickness and disability benefit caseloads and spend, most prominently via the introduction of a new, more active benefit, Employment and Support Allowance. The new system has been beset by implementation problems, and accompanied by an ongoing lively debate around the rate of payment and the level of conditionality that should be applied to those placed in different benefit categories.

While recent changes to the benefit system are still bedding in and we are not yet at steady state, there's no evidence yet that they've achieved one of their stated objectives of reducing costs, which have remained at the same level for the past decade. And more importantly, it's clear that they are not well targeted at the health and disability employment challenge, which is much broader than this. Many workless disabled people are not in receipt of benefits, and benefit off-flows do not always equate to sustained employment.

Our second criticism of the policy agenda is that it's **insufficiently focused on supporting people in work**. Stemming from the getting-people-off-benefits

rhetoric, the tendency has been to focus on supporting people with health problems or a disability to *enter* employment. There has been less recognition that supporting people to *remain in work* can play at least as much of a role in overall outcomes.

There are some promising policies in this area, for example the Access to Work Programme which provides grants for practical support for people with disabilities and health conditions to enter or remain in work, and is widely regarded as a success. And the new Fit for Work Service – an occupational health assessment for employees during periods of sickness absence – has the potential to make a difference to employment retention.

However, in general more emphasis has been placed on programmes and services that support those who are out of work (and usually only those claiming benefits) to re-enter. For example, much recent discussion of how the government might achieve its halving the gap ambition has focused on the Work and Health Programme, the new, health-focused welfare-to-work initiative that will replace both the Work Programme and Work Choice next year. But our assessment is that on current funding plans even a high-performing Work and Health Programme will only deliver 20,000 job outcomes per year, and therefore make little dent into the task of reducing the gap.

Importantly, there is evidence that this lack of focus on employment retention is reflected in outcomes. We find that while the rate of entry has been improving in recent years, there appears to have been an increase in employment exits connected to disability and ill-health in the same period. This represents a major challenge. In 2015, a total of 350,000 people in the UK transitioned from employment to health-related inactivity. And each year just under 1 million employees in Great Britain are on sick leave for a month or more.

Building on this employment retention focus, our final criticism of the current policy agenda is that it is **too late to engage**. A typical trajectory from employment, to sickness absence, to worklessness and benefit receipt involves six months in receipt of Statutory Sick Pay, followed by at least three months waiting to be assessed for Employment and Support Allowance and then directed towards back-to-work services. While a number of employers offer high levels of rehabilitation services to staff who are experiencing health problems, for many this is a period in which very little happens in the way of support.

This is a problem because, as is well known, time away from work is a key determinant of the chances of re-entering employment. Our analysis finds that this is particularly true for disabled people. 16 per cent of disabled people who have had a job within the past year re-enter work each quarter, compared to just 2.4 per cent for those who left a job more than a year ago, meaning the chance of re-entering after a year out is 6.5 times lower than in the first year of worklessness. For non-disabled people the chance of re-entering after a year out is just three times lower than in the first year. This means that disabled people, as well as having lower chances of re-entry overall, face more than twice the 'time out' penalty.

Together, we think that these three criticisms of the current system – too benefits-focused, insufficiently focused on supporting people in work, and too late to engage – warrant a shift in approach.

A new approach for boosting disability employment

On this basis we offer a set of recommendations for change mainly focused on the employment relationship and health-related journeys out of work. We emphasise that there is no silver bullet for comprehensively improving employment outcomes for disabled people, and the things we advocate absolutely should not shift resources or focus away from the design of the benefits system or intensive support for those out of work. However, we believe that a parallel emphasis on employment outflows and incentives and support during periods of sickness absence can deliver measurable returns.

With the government Green Paper due later this year, we present a package of options for reform. These are deliberately set out to benefit from piloting, testing and further refinement, and as such they are not always specified in detail but rather seek to establish key themes for consideration. And while many of these recommendations could stand on their own, we emphasise the need for a cultural change in workplace relationships and expectations among employers and employees, and to this end we encourage their consideration as a package.

Our recommendations for change cover the key challenges of creating an overarching framework for a focus on employment exits; improving support when in work; reforming sickness absence; expanding support to re-enter

employment; and enhancing work incentives. They include:

- » The expansion of the successful Access to Work Programme to maximise its role in supporting people to remain in work, including greater publicity and accessibility for employers.
- » The introduction of a 'right to return' period of one year from the start of sickness absence during which employers must keep jobs open, learning from the success of maternity policy in this country.
- » A rebate on Statutory Sick Pay costs for firms who support their employees to make a successful return to work from long-term sickness absence.
- » Early referral to the Work and Health Programme for those in receipt of Statutory Sick Pay for whom changing jobs is likely to represent the best chance of a successful return to work.

A summary of all nine recommendations is provided in Table 1. Taken together, our intention is that they provide a starting point for thinking about how meaningful progress towards halving the disability employment gap and improving outcomes around health and employment more broadly can be made. In the first instance, we hope that the government will incorporate and develop these ideas in its Green Paper on employment, health and disability that is due to be published later this year.

Table 1: Summary of recommendations

Creating an overarching framework for a focus on employment exits
Recommendation 1: Alongside its ambition to halve the disability employment gap, the government should establish a disability employment outflow reduction target, as a framework to underpin efforts to reduce the rate at which people become detached from the labour market due to disability and ill-health.
Improving support when in work
Recommendation 2: The government should make more of the apparent success of the Access to Work Programme by opening it up and expanding it. In the longer term, the government should consider integrating it with the Fit for Work Service as part of a unified occupational health architecture.
Reforming sickness absence
Recommendation 3: The government should learn from the success of maternity policy by introducing a statutory 'right to return' period of one year from the start of sickness absence.
Recommendation 4: To encourage progress towards returning to work and protect firms against the risks of abuse, an employee's right to return should be conditional on engagement with the Fit for Work Service when an assessment has been recommended.
Recommendation 5: By way of sharpening incentives for employers to engage with supporting a return to work, the government should offer a rebate on Statutory Sick Pay costs to firms whose employees make a successful return to work from long-term sickness absence within one year.
Recommendation 6: The government should open up access to and expand the Fit for Work Service to become a bigger instrument for vocational rehabilitation.
Expanding support to re-enter employment
Recommendation 7: The Fit for Work Service should be empowered to offer early referral to the Work and Health Programme to support progress to alternative employment when this represents the best chance of a positive outcome.
Recommendation 8: The Work and Health Programme should adopt the best elements of Work Choice and the Working Well initiatives and offer a single, comprehensive, local employment support service for those with disabilities and health problems, regardless of benefit receipt.
Enhancing work incentives
Recommendation 9: In order to make the most of the key advantage of Universal Credit – namely to ensure that everyone is better off in work – 'work allowances' for disabled recipients should be significantly boosted. As a minimum, they should be restored to the value originally intended, and in the longer term increased.

Section 1

Introduction

While the challenge surrounding employment outcomes for people with health problems or a disability has been a prominent concern for decades, its salience has recently risen. This is a product of both political and economic shifts, and of changes in the nature of the health and employment challenge itself. With a government Green Paper due later in the year, this report digs deeper into the employment barriers faced by those with health problems or a disability, and presents a range of recommendations for change.

A renewed political agenda around employment, disability and ill-health

The government has recently placed a great deal of emphasis on labour market outcomes for people with health problems or a disability. Most prominently, it has set an ambition to halve the gap between the employment rates of disabled and non-disabled people,^[1] the 2015 Conservative manifesto stating:

“Last year alone, 140,000 disabled people found work. But the jobless rate for this group remains too high and, as part of our objective to achieve full employment, we will aim to halve the disability employment gap: we will transform policy, practice and public attitudes, so that hundreds of thousands more disabled people who can and want to be in work find employment.”^[2]

Building on this aim, the 2015 Spending Review committed to a real-terms increase in funding to support those with health problems and disabilities to enter or remain in work. And it announced an intention to publish a White Paper that would set out policies and reforms for further reducing the disability employment gap.^[3] The government has subsequently stated it will publish a Green Paper in the first instance, due later this year. We hope that the analysis and recommendations in our report can contribute to its development.

The economic context for a focus on disability employment

This enhanced political focus has been underpinned by the remarkable recent performance of the labour market. Over the past four years, the UK employment rate has not only recovered the ground lost during the post-crisis downturn, but soared to a four-decade high of 74.2 per cent. It is in this context that the question of how much further we might be expected to go has increased in salience, putting the concept of ‘full employment’ back on the agenda. Indeed, the Chancellor has committed the government to this ambition, targeting the highest employment rate of G7 economies and a 2 million employment increase within this parliament under this banner.

[1] For a more detailed description of how this ambition is defined and the scale of employment increases for disabled people that would be required to achieve it, see the following section.

[2] *The Conservative Party Manifesto 2015*, April 2015

[3] HM Treasury, *Spending Review and Autumn Statement 2015*, November 2015

However, employment and unemployment rates have seemingly ‘plateaued’ since the autumn. We may or may not be at the end of the jobs recovery, but the recent period certainly highlights the end of the easiest employment gains. It is becoming increasingly clear that a proactive approach will be needed if significant further progress is to be made.

As our recent nine-month investigation into full employment outlined, with more advantaged people already displaying high and geographically invariant labour market outcomes, achieving employment growth of the scale the Chancellor has targeted necessitates a focus on the more disadvantaged. In particular, our definition of full employment – which entails an additional 2 million people in work relative to today – is underpinned by an increase of nearly one million in disability employment.^[4] Addressing the disability employment challenge, then, sits at the heart of an economic objective of full employment in this country, and this necessitates a new policy focus.

Reflecting a shifting health challenge across developed nations

These economic and political ambitions are set against a health and employment landscape that is changing. This is a result of demographic trends and changes in the experience of health and disability over the life course (and our understanding of it within and outside the workplace).

Overall, there is evidence that activity-limiting health problems and disabilities are not increasing in prevalence in this country.^[5] However, ageing populations around the world create an economic imperative for people to work longer into old age, when health problems and disability become rapidly more prevalent.^[6] And this trend is underscored by high levels of working-age disability benefit claims in all countries like the UK, which have proven hard to reduce through reforms. The greying of the workforce and the long-term benefits problem imply an enduring if not growing challenge in terms of the relationship between disability and employment. In absolute terms, in the UK today around 7 million 16-64 year olds report being disabled (see Box 1 in the following section for definitions and data sources used throughout this analysis).

Alongside a rise in the prevalence of health problems within the workforce, the *nature* or at least *perception* of these problems is shifting, particularly in relation to mental health. While mental health conditions still account for a minority (10-15 per cent) of primary health problems, survey-based measures show rapid increases within the working age population in recent years (with their prevalence more than doubling since 2003^[7]). These increases are even more rapid when focusing only on those in work. However, it should be noted that symptoms-based assessments from health surveys do not show such increases in prevalence.^[8] Others have suggested that this reflects the ‘medicalisation’ of mental health, with trends such as improved diagnoses and greater societal acceptance leading to higher mental health reporting, while underlying symptoms have shifted relatively little.^[9]

Taking these complexities into account, the Organisation for Economic Co-operation and Development (OECD) has further underscored the challenge of mental health and employment, highlighting the low employment rates of those who report as suffering from mental ill-health, and the fact that such issues are now the primary cause of a new out-of-work sickness or disability

[4] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

[5] Office for National Statistics, *Disability in England and Wales: 2011 and comparison with 2001*, January 2013

[6] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[7] Statistics based on RF analysis of ONS, *Labour Force Survey*

[8] T MacInnes et al., *Disability, long-term conditions and poverty*, New Policy Institute, July 2014

[9] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010; T MacInnes et al., *Disability, long-term conditions and poverty*, New Policy Institute, July 2014

benefit claim in most developed countries.^[10]

Alongside the shifting mental health challenge, the other main development in recent years has been an increase in the incidence of progressive illnesses – such as cancers and heart disease – within the working age population.

In addition, emerging evidence from across Europe highlights the need to see ill-health and in particular disability not as a static characteristic of an individual, but rather a dynamic experience across the life course. This reflects the fluctuating nature of many health conditions (in particular the growth areas of mental health problems and progressive illnesses, identified above) and a better understanding of their complex interplay with social factors, including work.^[11] It's also worth noting that mental health problems are much less concentrated in older age groups. The implication is that disabilities are (increasingly) not always permanent nor consistent in how they affect people at different points in their lives.

Global workforce ageing, a growing challenge around mental illness, and a better understanding of the fluctuating nature of health problems across the life course must be reflected in any coherent strategy around disability employment. The implication is that if (as we have said) the recent slowdown in employment growth necessitates a new, proactive approach with a focus on disability, the changing nature of the health challenge only deepens this requirement.

Requiring a broader and more employment-focused approach

Since the 1980s, equalities legislation has progressively modified the regulatory arena. However, the primary policy focus has been on out-of-work sickness and disability benefits which, while related to employment, is nonetheless a distinct approach. And an approach not confined to the UK: a recent OECD review of sickness, disability and work focused almost exclusively on the fiscal challenge of benefit caseloads, as opposed to the wider social and economic challenges of disability employment rates and labour market transitions connected to ill-health.^[12]

Nonetheless, the headline picture suggests only modest progress in reducing disability-related benefit spend in this country. The working age, incapacity-related benefits bill peaked at £17 billion in 2001-02, fell to £15 billion by 2005-06, and has remained stable at that level ever since.^[13]

To the extent that employment has been targeted, the tendency has been – stemming from the welfare-to-work rhetoric – to focus on supporting people with health problems or a disability to *enter* employment. There has been less recognition that the rate at which people *exit* work plays at least as much of a role in overall outcomes – both those with existing, longstanding health problems and those whose health condition develops while in employment. The phrasing of the Conservative manifesto pledge in the quotation above, committing to support “hundreds of thousands more disabled people who can and want to be in work find employment,” is revealing in this respect.

Of course, strategies designed to boost entry into employment and reduce reliance on benefits have an important role to play, and several ideas have been advanced in light of the new ambition to halve the disability employment gap which merit further consideration.^[14] But our contention

[10] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[11] M Jones, 'Disability and labor market outcomes', *IZA World of Labor* 2016 253, April 2016

[12] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[13] All figures are real-terms, expressed in 2015-16 prices. Source: *DWP, Budget 2016 Expenditure and Caseload Forecasts*

[14] C Pickles, E Holmes, H Tittley & B Dobson, *Working welfare: a radically new approach to sickness and disability benefits*, Reform, February 2016; M Oakley, *Closing the gap: Creating a framework for tackling the disability employment gap in the UK*, Social Market Foundation, March 2016

is that a comprehensive strategy to close the gap needs to be much broader and better-targeted than this benefits and employment *entry* focus. Indeed, when looking across developed countries there is no evidence of a relationship between rates of disability benefit receipt and disability employment gaps.^[15] And as the discussion above highlights, health and disability problems should increasingly be seen as things that happen to people over the life course (and therefore very often when in work), rather than a fixed status that keeps people out of work from the start.

Boosting employment for people with health problems and disabilities

The main contention of this report, then, as we outlined in our full employment investigation, is that the disability employment policy agenda is overly focused on benefit caseloads rather than employment outcomes, and too focused on job entry (benefit off-flow) rather than employment exit. We argue that much can be gained from an additional focus on preventing this situation from occurring in the first place by maintaining attachment to employment and intervening earlier in periods of absence. While some policy initiatives are in place to support this attachment, there is far more to be done to enhance their impact and effectiveness. Building on our full employment investigation, the purpose of this report is to provide a more detailed assessment of the disability employment economic and policy landscape, and a more comprehensive set of recommendations for reform.

The remainder of this report is set out over five sections:

- In **Section 2**, we **assess the scale of the employment challenge for people with health problems and disabilities**, including geographic comparisons.
- In **Section 3**, we describe **transitions into and out of work connected to health and disability**, the underlying drivers of the overall picture presented in Section 2.
- In **Section 4** we **describe the policy landscape in the UK**, and highlight alternative approaches piloted locally or pursued in other countries that are instructive in terms of reform.
- In **Section 5** we set out our **recommendations for a new policy approach**.
- We provide **concluding remarks** in **Section 6**.

[15] T MacInnes et al., *Disability, long-term conditions and poverty*, New Policy Institute, July 2014

Section 2

The scale of the employment challenge

On any reckoning, labour market outcomes for people with health problems or a disability represent a major challenge. The UK appears to be a relatively poor performer by international standards, and despite modest improvements rates of worklessness due to disability and ill-health remain stubbornly high. However cross-country and sub-regional variation give grounds for optimism that a different set of outcomes is possible. In this section we summarise these patterns, evaluating the current position on disability employment and labour market outcomes connected to ill-health.

The UK is a poor performer by international standards

As our recent investigation into full employment set out, disabled people experience by far the lowest participation rates of any of the groups typically considered disadvantaged in the labour market: they had an 18-69 year old participation rate of 46 per cent during 2014-15, compared to a rate of 75 per cent for all 18-69 year olds.^[16] (See Box 1 overleaf for details of how we define disability – and ill-health more broadly – here and elsewhere in our analysis.) In the first part of this section we review the UK's position when compared internationally.

The institutional and cultural factors driving international variation in labour market outcomes are complex and comparisons will not always be like-for-like. However, what is evident is that at face value at least, the UK is a below-average performer in Europe in terms of employment outcomes for people with health problems or a disability. This is shown first in Figure 1 overleaf, which summarises the disability employment gap (using a slightly different definition to the new government ambition, which we discuss below) across European nations, showing a significantly larger gap in the UK than the EU average.

[16] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

i Box 1: Our approach to measuring labour market outcomes for people with health problems and disabilities

This report is concerned with labour market outcomes for people experiencing ill-health in a broad sense, and not just those fitting precise definitions of incapacity, such as disability or the conditions for benefit receipt. The interplay between these statuses is complex: for example, not all recipients of sickness and disability benefits are disabled, and not all those who leave work for health reasons will be in either of these groups.

The economic and social challenge is not confined to any one of these groups, so the policy directions in Section 4 are offered with a broad view of disability and health status in mind. However, by necessity the analysis presented in this section and the next must draw on specific definitions that are identifiable in the data we use (primarily the Labour Force Survey). Our approach is as follows.

A large part of our analysis uses legal definitions of disability. This is because it is against these that the prominent government ambition to halve the disability employment gap is commonly measured. In addition, legal definitions more closely reflect labour market disadvantage than others captured in the data. For example, the 'work-limiting disabled only' group experiences much better employment outcomes than legally disabled people.

For the latest picture we use the Equality Act definition, because the disability employment gap is generally measured using this.^[1] However it is relatively new, so to measure change over time we use the old Disability Discrimination Act definition, as in our full employment investigation. We account for breaks in the series and

[1] For example, see: 'Disability employment gap inquiry launched', *Work and Pensions Commons Select Committee*, 30 March 2016

changes in the population covered where necessary.^[2]

While the Labour Force Survey is the most appropriate source for analysis in an employment-focused project such as this (and the common basis for measurement of the employment gap ambition), there are question marks over its accuracy in terms of disability employment trends. Specifically, the prevalence of disability captured in the Labour Force Survey appears to have risen relative to other surveys, likely to be driven by an increase in reporting among less-severely disabled people. This has the effect of implying an improvement in labour market outcomes.^[3] This should be taken as a note of caution when interpreting our results.

Disability cannot be measured in the data prior to the late 1990s and, as we have said, not all of those experiencing health problems are disabled. Therefore we also analyse trends in economic inactivity for reasons of sickness, injury or disability; in sickness and disability benefit receipt; and in employment separations for health reasons.

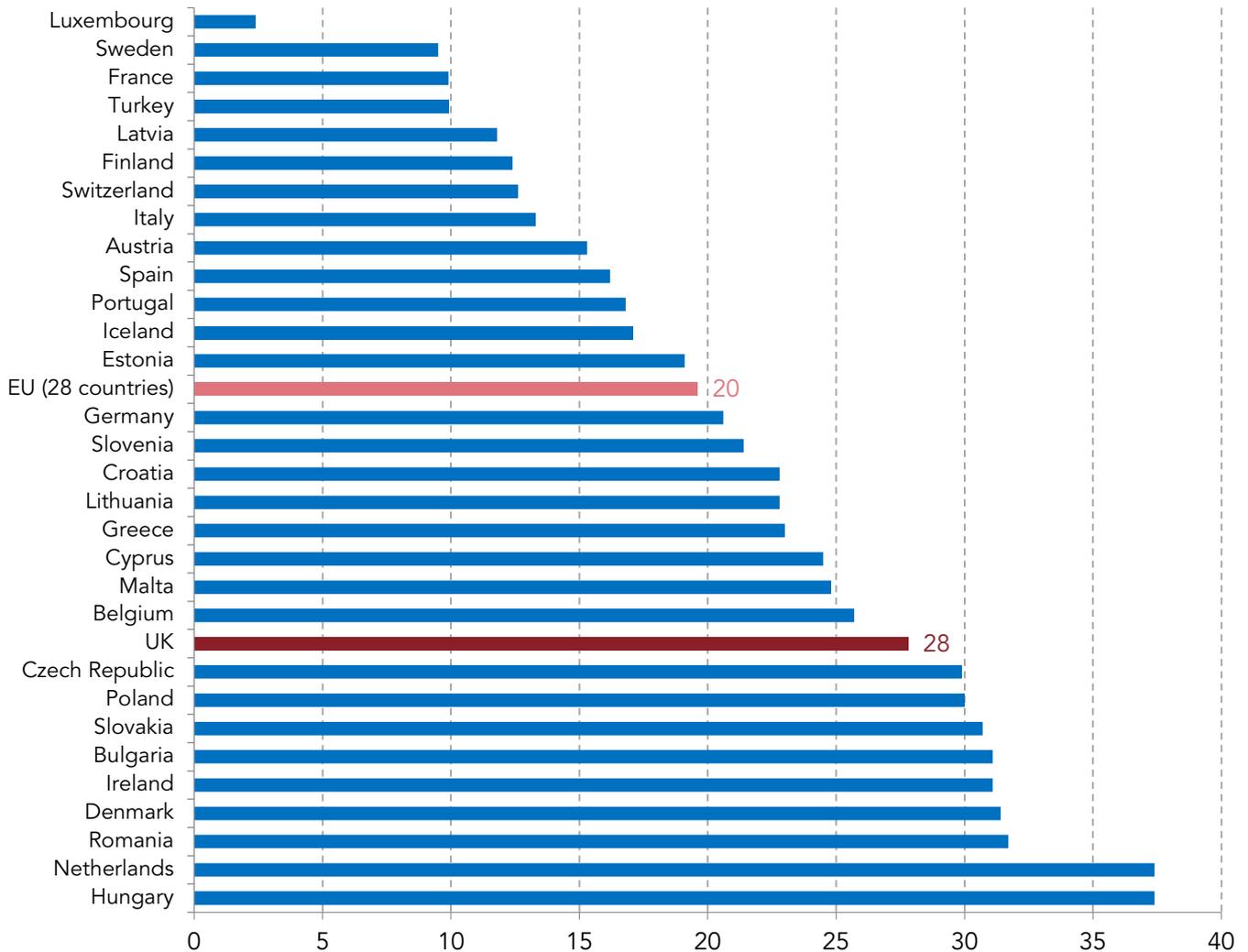
Finally, as in our full employment investigation, we focus on a broader and older definition of working age – 18-69 year olds – whenever the data allows. The exception is when we discuss the government's disability employment gap ambitions, which are based on the 16-64 year old population.

[2] For a full description of these, see Annex 1 of: P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

[3] B Baumberg, M Jones & V Wass, 'Disability prevalence and disability-related employment gaps in the UK 1998–2012: Different trends in different surveys?', *Social Science & Medicine* 141, September 2015

Figure 1: Disability employment gap in selected European countries: 2011

Percentage point gap between disabled and non-disabled employment rates for 15-64 year olds



Notes: 2011 is the latest year for which data is available. Disability is defined slightly differently in this data – capturing those with ‘long-standing difficulty in basic activities’ – to the UK-specific definitions described in Box 1 and used elsewhere in this report.

Source: Eurostat, European Union Labour Force Survey reproduced from: M Jones, ‘Disability and labor market outcomes’, IZA World of Labor 2016 253, April 2016

Analysis of the related measure of rates of health-related inactivity in European countries presents a similar picture of the UK as a below-average performer, particularly for men and women aged under 50.^[17]

As we have said, institutional and population-specific factors make it difficult to draw immediate conclusions from these European comparisons. For example, relatively high disability employment gaps (and high rates of female health-related inactivity) in nations like Denmark and the Netherlands are likely to be partly driven by historically higher (and welcome) labour market participation by women in these countries. This means out-of-work women are more likely to report being disabled (or attribute their worklessness to ill-health) than women in other countries, where long-term worklessness connected to looking after the family or home is more common. And relatively better outcomes in those states sometimes described as having a ‘Bismarckian’ welfare model (including Germany, Austria, France and Switzerland) are likely to reflect institutional and industrial factors

[17] Source: RF analysis of Eurostat, European Labour Force Survey

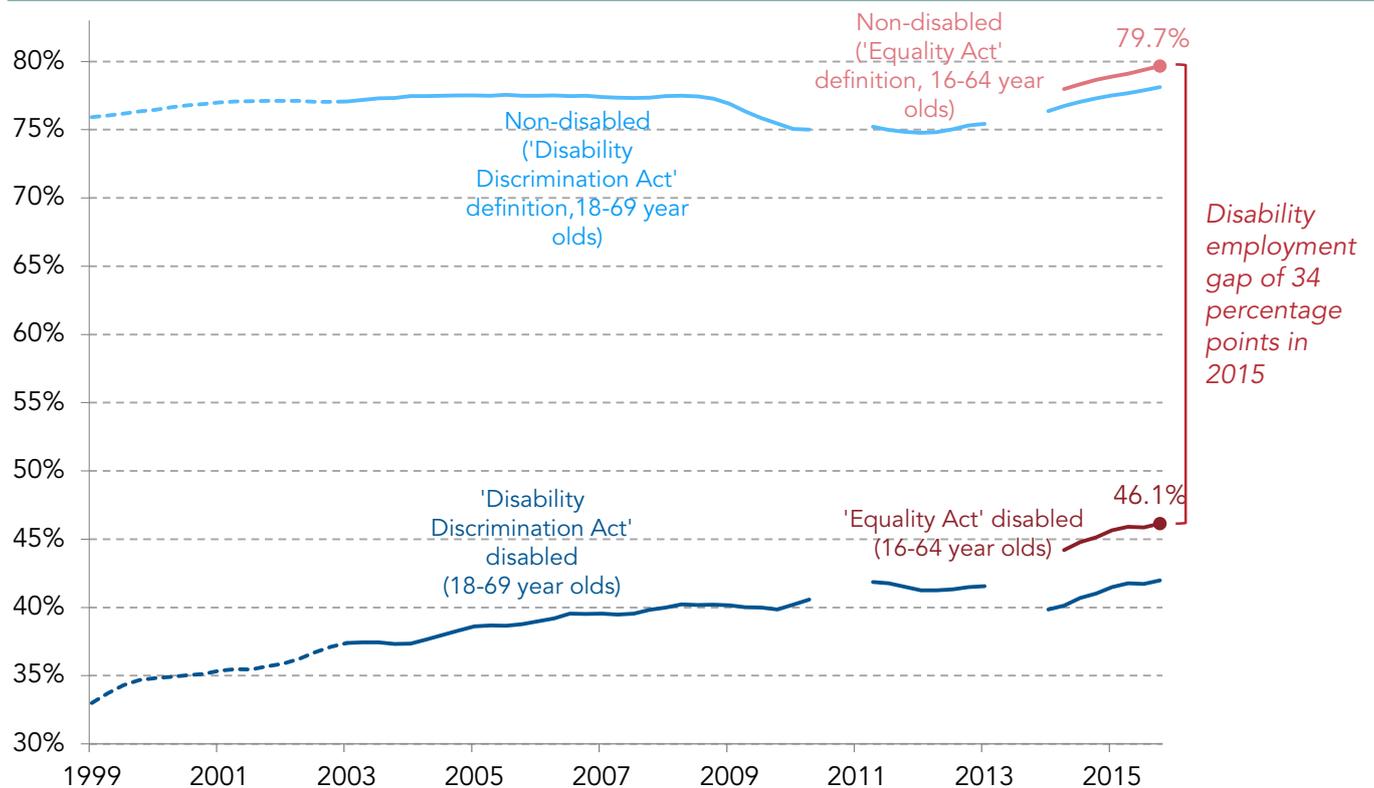
in these coordinated market economies that mitigate against employment exit. Finally, there is evidence that self-ascription of sickness and disability varies with the economic and social context even among nations which are quite similar in other respects.^[18]

Bearing these caveats in mind, it nonetheless seems reasonable to expect that the UK can move closer to the better health and employment outcomes of other similar nations while maintaining broadly flexible labour market environment. In part this will involve learning from those policy, institutional and demand-driven factors that we have said help explain some of these differences, an issue to which we turn in subsequent sections.

There have been modest improvements in the context of a shifting challenge

Figure 2 presents the recent history of disability employment rates in the UK. As set out in Box 1, changes to legal definitions necessitate the use of different measures to capture the current disability employment gap versus trends over time, and these trends should themselves be interpreted with a degree of caution given they aren't reflected in other surveys. But the suggestion is of possible marginal improvements in disability employment outcomes relative to non-disabled people since the late-1990s, meaning that in 2015 the disability employment rate stood at 46%. This represents 3.2 million 16-64 year old disabled people in work, or 3.5 million aged 16 and over.

Figure 2: Disabled and non-disabled employment rates: UK, 1999-2015



Notes: Annual rolling averages, year to date shown. Historical dashed lines represent trends based on the 18-59(women)/64(men) population. Breaks in the series reflect changes in survey questions or method.

Source: RF analysis of ONS, Labour Force Survey

[18] T MacInnes et al., *Disability, long-term conditions and poverty*, New Policy Institute, July 2014

This leaves a still far-too-large disability employment gap of 34 percentage points in the latest data. We estimate that **halving this gap over the course of the parliament would be equivalent to an additional 1.5 million disabled 16-64 year olds in work relative to 2014-15** (see Box 2 for details of this estimate). This is clearly a hugely stretching ambition, much higher than the 900,000 increase in disability employment entailed by our definition of full employment.^[19] Any substantial progress towards halving the gap would therefore represent a successful outcome.

i Box 2: What would it take to halve the disability employment gap?

Measuring from the financial year prior to this parliament (2014-15) an 'overnight' 50 per cent reduction in the disability employment gap would equate to an additional 1.1 million disabled people in work. Two recent assessments, using the same approach but a more recent starting point, have put the figure at 1.2 million.^[1] But we suggest that truly halving the gap would require a higher employment increase still. This is because improvements would happen over time and these figures assume no corresponding improvement in non-disabled employment rates, nor do they account for population growth.

For a more realistic estimate, we consider the scale of increase that would be required if the gap were to be halved over the course of the current parliament. As in our full employment investigation, we use population

[1] 'Disability employment gap inquiry launched', *Work and Pensions Commons Select Committee*, 30 March 2016; M Oakley, *Closing the gap: Creating a framework for tackling the disability employment gap in the UK*, Social Market Foundation, March 2016

forecasts from the Office for National Statistics, assuming equal growth in the disabled and non-disabled 16-64 year old populations.^[2] And approximately mirroring the results of our full employment estimation (which is based on improving employment outcomes for other disadvantaged groups as well as disabled people),^[3] we assume the non-disabled employment rate grows at one quarter of the pace of the disabled rate. On this basis, halving the disability employment gap by 2020-21 would entail an additional 1.5 million disabled 16-64 year olds in work. Given forecast population growth and assumed trends in non-disability employment, the required increase would be bigger still if the date for achievement is pushed back.

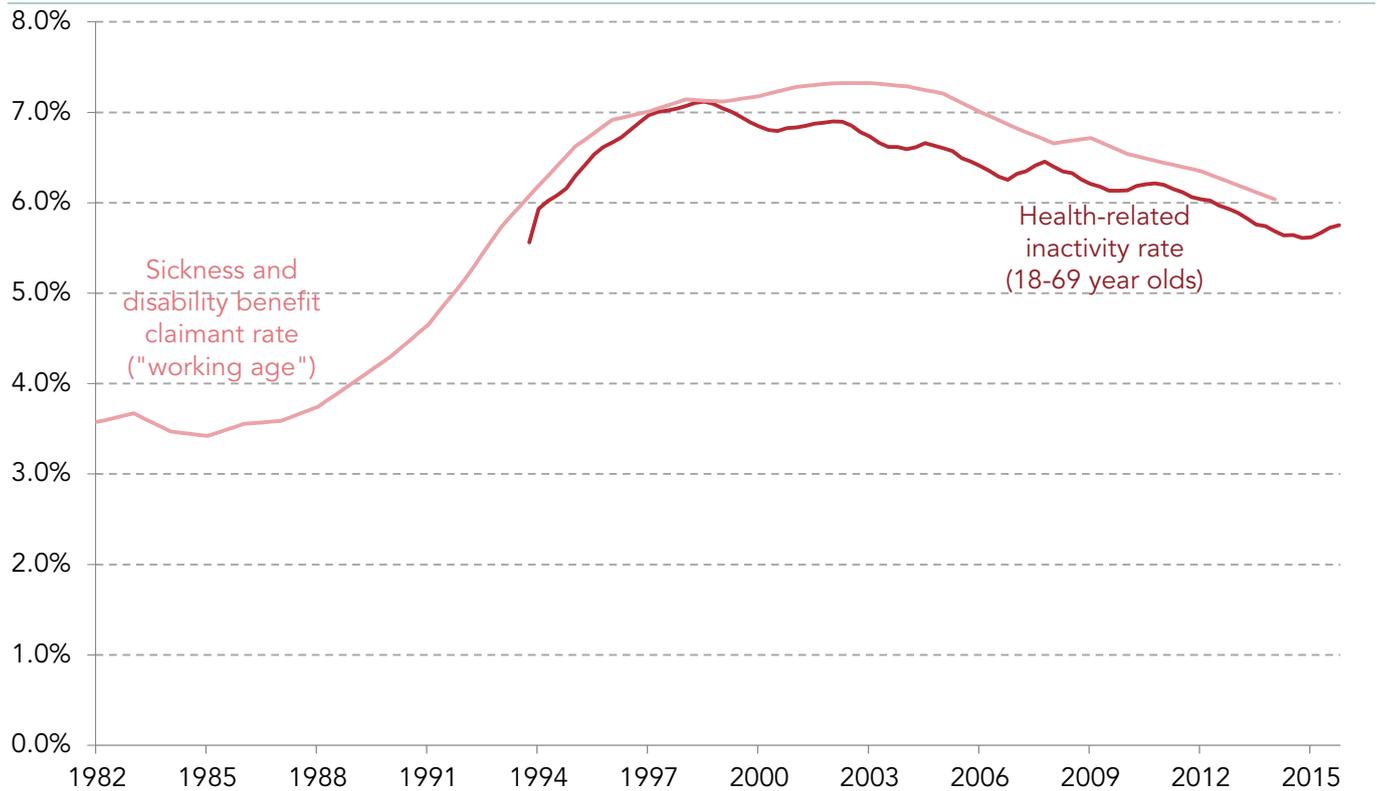
[2] Additionally, we do not account for transitions in and out of disability within the population, which an assessment of the longitudinal element of the Labour Force Survey suggests may have played a role in disability employment trends in recent years.

[3] For details of this estimate, see: P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

To look back beyond the late-1990s (and consider other definitions capturing labour market outcomes connected to ill-health), Figure 3 displays the proportion of the population giving health, disability or injury as their main reason for economic inactivity, and the sickness and disability benefit claimant rate. We find a consistent trend of rising health-related inactivity and benefit receipt from the mid-1980s, followed by slow improvements from the late-1990s onwards (mirroring the picture on disability employment rates). Nonetheless, today nearly a quarter of all 18-69 year old economic inactivity is due disability or ill-health, with more people inactive for health reasons than due to family and caring responsibilities.

[19] In addition, our full employment definition is based on a slightly larger population – 18-69 year olds – than the 16-64 year olds population used to measure the disability employment gap. See: P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

Figure 3: Health-related inactivity and disability benefit receipt as a proportion of the population: UK / GB: 1982-2015



Notes: Annual rolling averages, year to date shown. Sickness and disability benefit claimants are drawn from the prevailing definition of working age at the time, shown as a proportion of the 15-64 year old population. The sickness and disability benefit claimant rate covers Great Britain, the health-related inactivity rate covers the UK.

Source: RF analysis of ONS, Labour Force Survey; DWP, Budget 2016 Expenditure and Caseload Forecasts; ONS, Mid-year Population Estimates

We said in the introduction that focusing only on the stock of out-of-work sickness and disability benefit recipients misses much of the broader disability employment challenge. However, given the strong correlation with health-related inactivity, it is worth pausing on the longer-term trend in Figure 3. The proportion of the working age population in receipt of these benefits (Employment and Support Allowance (ESA), Incapacity Benefit (IB), and their predecessors) more than doubled between the mid-1980s and the early-2000s, and hasn't fallen much since.

As has been well documented, this increase reflected labour market developments associated with deindustrialisation, with older male blue-collar workers moving from work, sometimes to active unemployment benefits, but eventually onto inactive sickness benefits.^[20] This fact was – and has repeatedly been – used as a justification for the significant changes to the sickness and disability benefit system of the past 15 years, and more broadly as a description of the root of the UK's health and employment 'problem'. For example, in 1999 Tony Blair argued that Incapacity Benefit was, "not a benefit which compensates those who have had to give up work because of long-term illness or sickness, [but] an alternative to long-term unemployment or early retirement. That's why it must be reformed."^[21] As Box 3 describes, that perspective may have had some truth to it at the time (if exaggerated), but is now completely outdated.

[20] D Webster et al., 'Falling Incapacity Benefit claims in a former industrial city: policy impacts or labour market improvement?', *Policy Studies* 31:2, March 2010

[21] S Griffiths, 'The misuse of evidence in incapacity benefit reform', *Soundings* 47, April 2011

i Box 3: The long shadow of deindustrialisation?

Many countries experienced sharp increases in sickness and disability benefit receipt during the 1980s and 1990s, largely reflecting labour market developments. In the UK increases in receipt were dominated by (but not confined to) older male blue-collar workers, with their white-collar counterparts more likely to be offered early retirement. The geographical distribution of claims was strongly tilted towards former-industrial and mining areas, driving the view that such benefits were a form of ‘hidden unemployment’.

Insofar as the rise in benefit receipt was driven by specific cohorts of workers experiencing large-scale job destruction, we might have expected this to reverse as these cohorts moved into retirement age. But at the aggregate this expectation seems to be confounded: the rate of claims has indeed reduced somewhat even during the recent recession, but there is no question of a return to earlier levels.

However, a detailed examination shows more rapid changes for the group most strongly associated with the historic growth of claims. Rates of receipt among men over 55 have reduced by more than half since the mid-1990s,^[1] and have fallen fastest in the post-industrial areas which contributed most to the historical increase in claims.^[2] While there remain substantial differences between areas,

[1] RF analysis of DWP, 5% sample benefits data; DWP, *Work and Pensions Longitudinal Study*; ONS, *Mid-year Population Estimates*

[2] D Webster et al., ‘Falling Incapacity Benefit claims in a former industrial city: policy impacts or labour market improvement?’, *Policy Studies* 31:2, March 2010

these are less marked than in the past.

The implication is a new composition of sickness and disability benefit recipients (and by extension the wider economically inactive population). If the labour market is less challenging than in the past, those with better prospects due to factors such as less severe impairments and better work histories are less likely to be inactive, while those who remain inactive are more disadvantaged. As a 2010 study of claimants in Glasgow noted, “the number of people moving onto [Incapacity Benefit] who are in circumstances which are themselves a barrier to employment, including a particularly serious disability, or being a lone parent or a carer, has not changed. The fall in on-flow has been among those who do not have these particular barriers and are to this extent closer to the labour market.”^[3]

Reflecting the discussion in the introduction of the shifting nature of the health challenge facing the workforce, the most important other change in caseload composition is in terms of health condition. Echoing the shift away from the deindustrialisation narrative, there has been a shift away from ‘musculoskeletal problems’ and towards ‘mental and behavioural disorders’, with the latter now making up nearly half of Employment and Support Allowance and predecessor benefit stocks, compared to one quarter in 1997.^[4]

[3] D Gaffney, ‘Dependency’ and disability: How to misread the evidence on social security’. *Soundings* 49, November 2011

[4] Third quarter of 2015 compared to third quarter of 1997. Source: DWP, *Work and Pensions Longitudinal Study*

Viewing the UK’s disability employment challenge through the prism of deindustrialisation and rising welfare rolls is an inaccurate way of thinking about the task we face in 2016. The implication of the discussion in Box 3 is that the experience of the 1980s is no longer relevant in a description of the sickness and disability benefit caseload; that reducing this caseload is a different challenge than in the past; and that efforts to this end need to reflect the new composition of recipients, in particular the severity of impairments and the rising incidence of mental health problems.

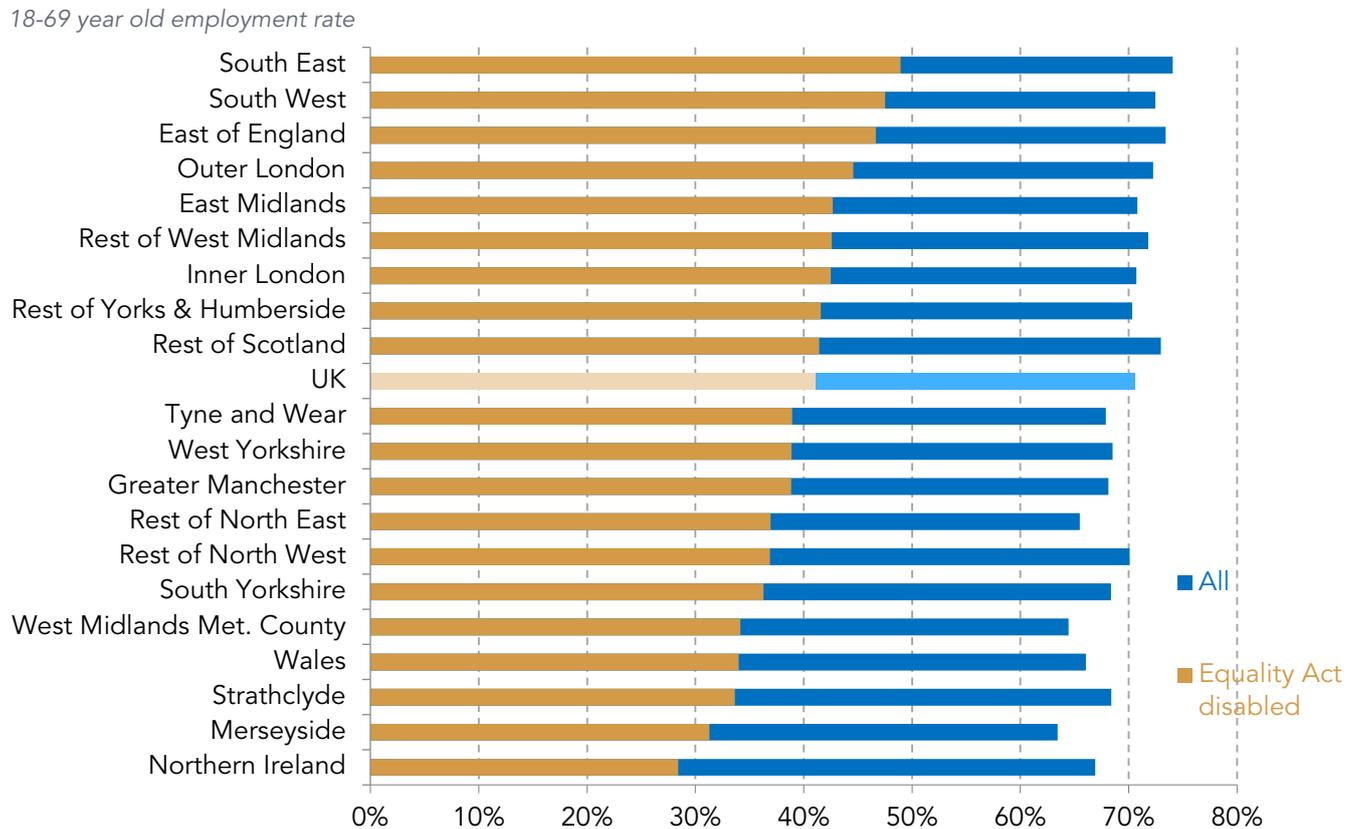
Huge variation across the UK gives grounds for optimism

It is clear that the challenge around disability, ill-health and employment is large and that whatever progress has been achieved in recent decades has been slow and confounded by shifting underlying currents. However we should not conclude that a radically different set of outcomes are not possible – an assessment of regional performance across the UK is insightful in this respect.

Our recent full employment investigation highlighted the wide variation in outcomes for disabled people by local area, even when controlling for other characteristics associated with disadvantage. Furthermore, as Figure 4 shows, outcomes are strongly correlated with the overall strength of

the labour market, with a clear pattern of higher-employment sub-regions overall corresponding with higher disability employment rates.

Figure 4: Overall and disabled employment rates across 20 UK sub-regions: 2014-15



Notes: Analysis covers the 2014-15 financial year because the variable identifying sub-regions is not present on publicly-available Labour Force Survey datasets in more recent quarters. See Box 1 for details of the definition of disability used.

Source: RF analysis of ONS, Labour Force Survey

This is why our benchmark for full employment – which was estimated largely based on closing sub-regional gaps in unemployment and participation for ‘low activity’ groups, controlling for overlapping characteristics – entailed sizeable increases in disability employment. And it follows that our analysis of the ‘sensitivity’ of low activity groups’ labour market participation to changes in job availability and wages suggested that disability participation is responsive to improvements in both. As we set out in this major investigation, the hard but important task of strengthening demand in local economies therefore has the potential to drive progress in employment for people with health problems and disabilities (and other low activity groups).^[22] We argue that this ‘demand-side’ narrative is a key omission from accounts of the disability employment problem that focus solely on benefit spending, employment support for recipients, and the conditions of benefit receipt.

More generally this regional variation, which endures even when we control for other individual characteristics, provides an indication that much better disability employment outcomes are possible in the UK.

[22] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016



How can these outcomes be achieved? Our assessment, as mentioned in the introduction, is that we need to focus our thinking on the employment relationship and particularly the prevalence of employment exits connected to ill-health. To set this in context, we need to delve beneath the 'static' picture presented in this section, and understand the transitions into and out of work that underpin changes in overall outcomes. It is to these transitions that we turn in the following section.

Section 3

Employment transitions connected to disability and ill-health

In the previous section we showed that shifting the dial in terms of disability employment outcomes is one of today's central labour market challenges, and suggested that local variation in outcomes indicates the possibility for change. In this section we turn to the dynamics underpinning the aggregate measures we have so far discussed, as it is these that are most relevant to our discussion of the current policy agenda (Section 4) and policy possibilities (Section 5). These transition measures highlight a worsening picture in terms of the rate of employment exit connected to disability and ill-health.

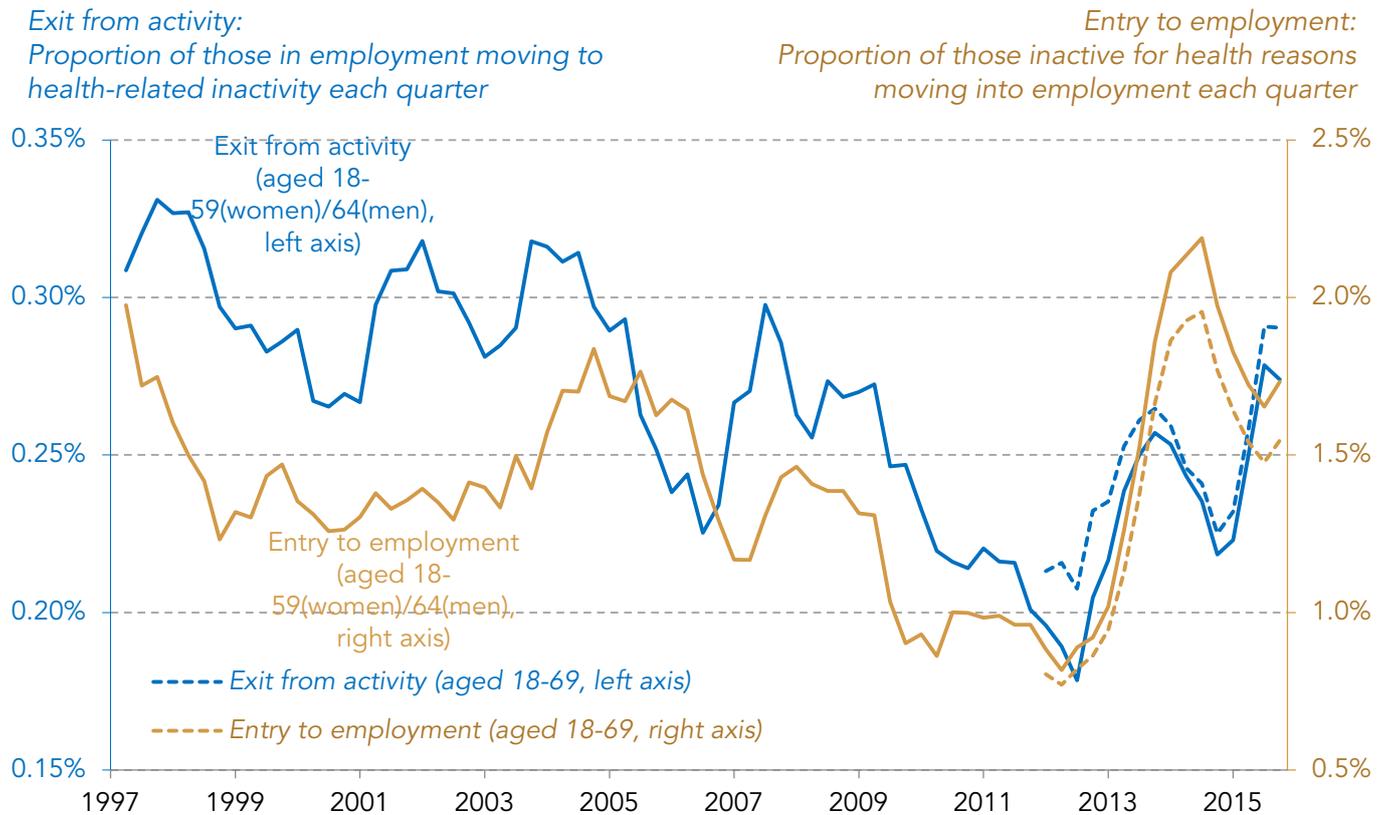
Trends in health-related transitions have recently reversed

Figure 5 makes use of the longitudinal element of the Labour Force Survey to assess transitions between health-related inactivity and employment (breaks in the disability series mean we are unable to analyse disability employment rates directly here). Longitudinal findings are quite volatile, and a degree of caution is advised in their interpretation.^[23] However, the picture corresponds with the overall trends in health-related inactivity rates seen in Figure 3. We find that the small reduction in health-related inactivity rates between the early-2000s and late-2012 was a result of: (welcome) reductions in the rate at which people transition from employment to health-related inactivity; partly but not wholly offset by (unwelcome) reductions in the rate at which people move from health-related inactivity into work (likely related to the recession in the later part of this period).

Since late-2012, however, there is a clear reversal in these trends, with the rate of exits from employment rising, roughly offset by an increased rate of employment entry (a pattern that endures whichever working age definition we focus on).

[23] In particular, there are concerns that response error may drive an upward bias in flows estimates from longitudinal Labour Force Survey data. See: Office for National Statistics, *Labour Force Survey User Guide: LFS two-quarter and five-quarter longitudinal datasets*, March 2012

Figure 5: Transitions between employment and health-related inactivity: UK, 1997-2015



Notes: Annual rolling averages, year to date shown. Our use of multiple series reflects the fact that prior to 2012, longitudinal Labour Force Survey data only captured those below the State Pension Age at the time. This analysis excludes transitions to and from unemployment and non-health-related inactivity.

Source: RF analysis of ONS, Labour Force Survey two-quarter longitudinal datasets

From our perspective, particularly given the aforementioned tendency for the debate to focus on disability employment *entry*, understanding what this reversal signifies is key.

Turning first to employment entry, we might point to the rapid jobs growth that began in 2012. Given the finding from our full employment investigation that disability participation is responsive to demand-side conditions, we would expect an increase in opportunities to boost labour market inflows. This would particularly be the case if some of those self-ascribing as inactive for health reasons had lost jobs during the recession, as out-of-work disabled people are far more likely to re-enter if they have recent employment histories (an important point to which we return later in this section).^[24]

In addition, it's possible that employment support for sickness and disability benefit recipients improved somewhat as the ESA system and the Work Programme (the government's flagship welfare-to-work initiative for long-term claimants) bedded in. Indeed, the number of people leaving ESA each quarter has been rising since 2012, even as on-flows have been falling due to a slowdown in numbers migrated from IB.^[25] Understanding how real the trend is, what's caused it and how it can be maintained are key challenges for analysts and policy makers.

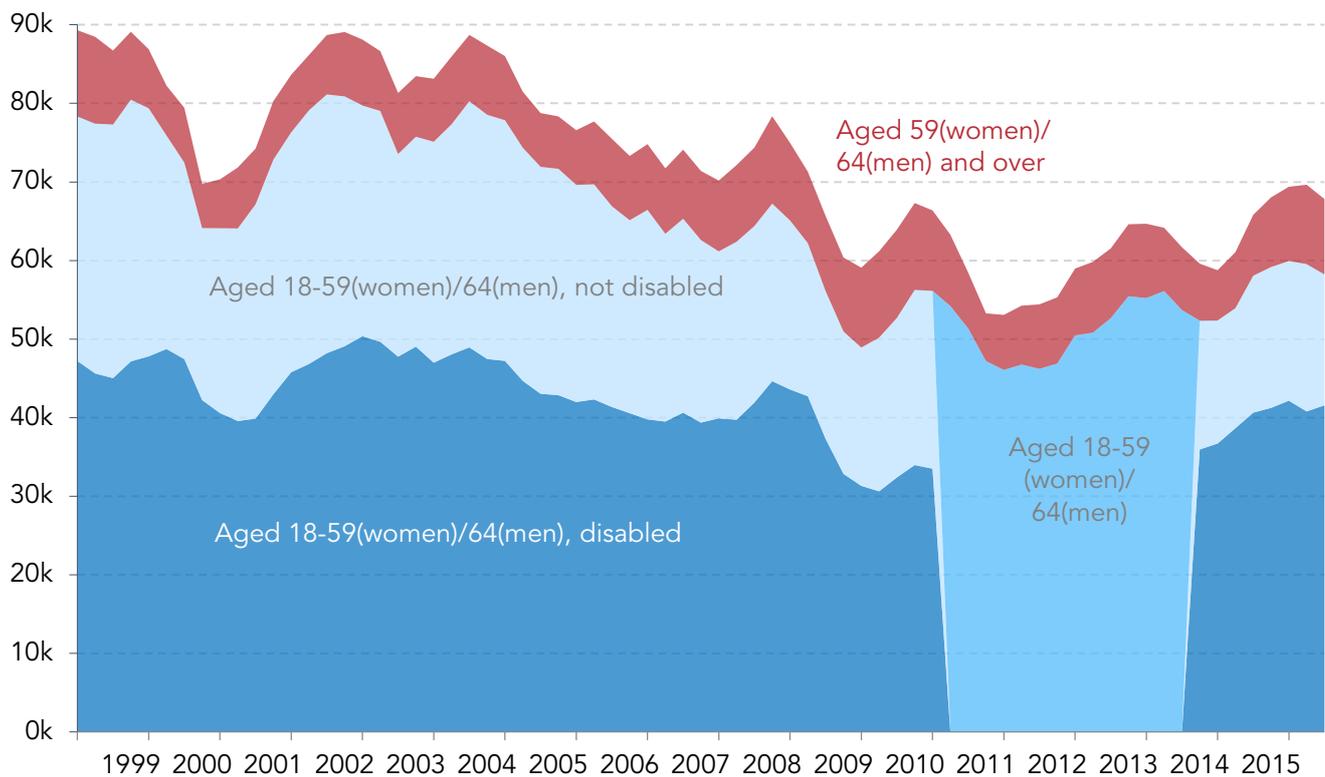
[24] M Oakley, *Closing the gap: Creating a framework for tackling the disability employment gap in the UK*, Social Market Foundation, March 2016

[25] Source: RF analysis of DWP, *Work and Pensions Longitudinal Study*

The apparent trend of rising transitions from employment to health-related inactivity since late-2012 is less clearly explicable, and a cause for concern. Without obvious explanations we might question the validity of the finding given known volatilities in the longitudinal data. However, a similar pattern emerges in the more robust quarterly data. Figure 6 shows the number of workless people who say they have given up a job in the past six months for health reasons, disaggregated by disability status. Having fallen up to 2012 this group then started to increase, albeit gently.

Figure 6: Number of people who have recently left employment for health reasons: UK, 1998-2015

Numbers giving health reasons as their main reason for leaving employment held within the past six months (aged 18 and over)



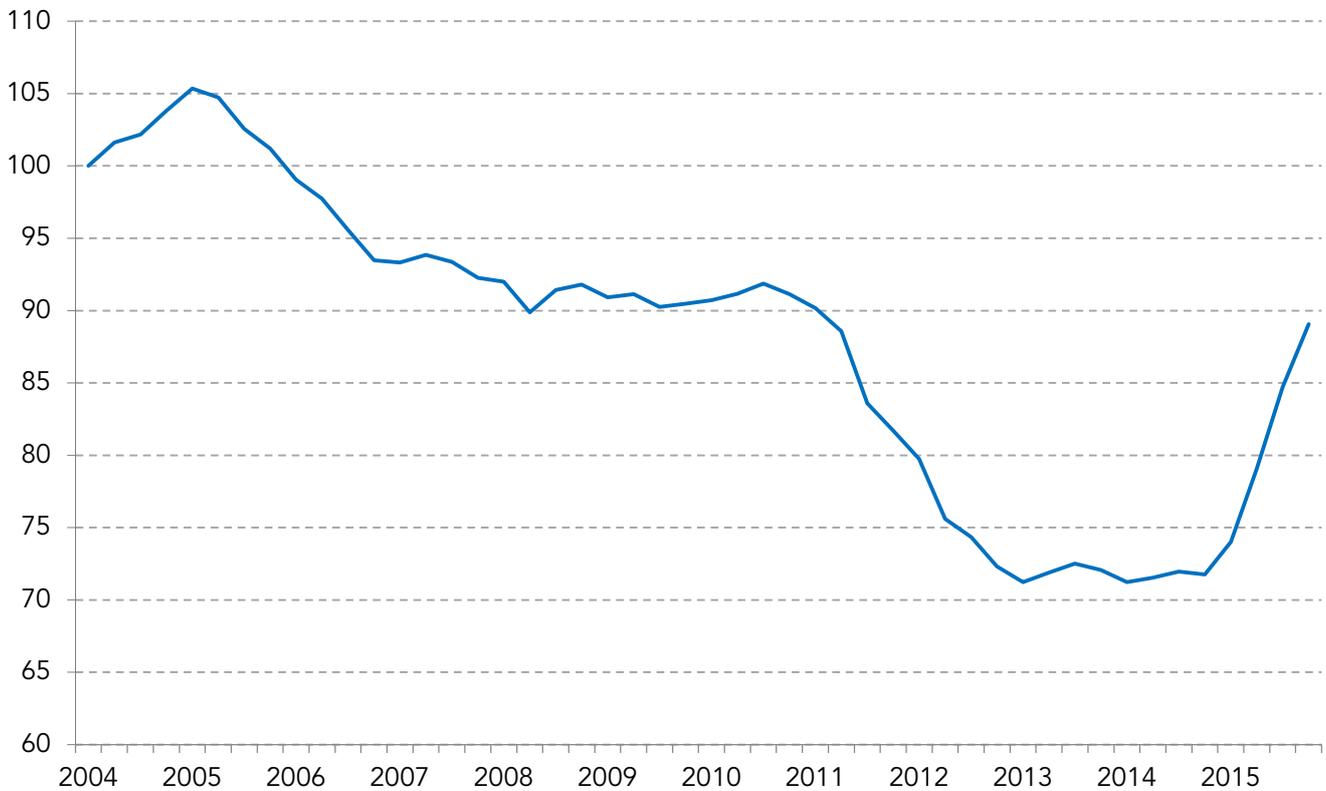
Notes: Annual rolling averages, year to date shown. To capture a long time-series, we use the Disability Discrimination Act definition of disability. The break between 2010 and 2013 reflects the two breaks in the disability series.

Source: RF analysis of ONS, Labour Force Survey

A similar pattern is evident if we confine our analysis to recipients of the main sickness and disability benefits (ESA and IB) who had been in work in the past year. Household surveys such as the one we use are known to under-capture benefit receipt, but assuming no change in their accuracy over time, the trend – which is shown in Figure 7 – is revealing. We find a plateau in the number of claimants who had been in employment within the past year from late-2012, followed by a sharp uptick from late-2014. Although we have argued that the disability employment challenge is not confined to benefit receipt, this finding is nonetheless informative. Not least because it reminds us that even when focusing on welfare recipiency rates and spend, routes onto benefits (out of work) are at least as important a consideration as routes off (into work).

Figure 7: Trends in receipt of out-of-work sickness and disability benefits among those who had recently left employment: GB, 2004-2015

Index of number in receipt of Employment and Support Allowance or Incapacity Benefit who have left employment within the past year (all ages, 2004=100)



Notes: Annual rolling averages, year to date shown. The Labour Force Survey is regarded as poorly capturing benefit receipt, but trends over time are likely to be indicative. We measure those in receipt of benefit at any time in the past year to ensure adequate sample sizes.

Source: RF analysis of ONS, Labour Force Survey

In sum, interrogating the data from a variety of angles provides evidence of an increase in employment outflows connected to disability and ill-health since late-2012. As we have said, the drivers are not immediately clear, particularly at a time of expanding job opportunities. The rising female State Pension Age is likely to be having some impact, but as Figure 5 and Figure 6 show, the patterns we identify endure when we limit our analysis to the population under the old State Pension Age. One suggestion would be that policy has become less targeted at the employment outflow challenge in this period, to the extent that it was in the first place. This is an assertion that we consider in more detail in subsequent sections of this report.

The chance of disabled people re-entering work declines rapidly over time

As well as transitions into and out of work in isolation, it's important to consider the dynamic relationship between the two. Given the attention we have drawn to employment exit connected to disability and ill-health, of particular relevance is the likelihood of this being followed by employment re-entry in the future.

It is well documented that across the population as a whole, the chance of starting work diminishes as durations of unemployment, worklessness or benefit receipt increase,^[26] and that this is also

[26] For example, see: Office for National Statistics, *Full Report: Moving between Unemployment and Employment*, November 2013

the case for people with disabilities (even when controlling for other characteristics).^[27] In Table 2 we present similar findings. We show that across the population as a whole, the chance of employment re-entry is nearly four times higher for those who have been in work within the past year than for those who have been out of work for a year or longer. Of course, as well as duration-specific factors such as loss of skills relevance and lack of employer confidence in those who have spent longer periods out of employment, this will reflect different characteristics in the composition of the two groups (given we do not control for other characteristics here).

Table 2: Employment re-entry rates by durations out of work, and ‘time out’ penalties, by disability status: UK, 2006-2015, 18-59(women)/64(men) year olds

	Employment re-entry rate (proportion of workless people moving into employment each quarter)			'Time out' penalty (ratio of rate of employment re-entry for those who left within the past year, to rate of employment re-entry for those who left more than one year ago)
	All durations	Left employment within past year	Left employment more than one year ago	
All	9.4%	24.8%	6.3%	3.9
Disabled	3.5%	15.5%	2.4%	6.5
Non-disabled	12.8%	27.0%	9.0%	3.0

Notes: 10-year averages. The age-range used reflects the fact that prior to 2012, longitudinal Labour Force Survey data only captured those below the State Pension Age at the time. This analysis captures different definitions of disability over the time series considered, disregarding discontinuities.

Source: RF analysis of ONS, *Labour Force Survey two-quarter longitudinal datasets*

Table 2 also shows the same employment re-entry rates for disabled and non-disabled people separately. Unsurprisingly, we find that the overall chances of employment entry are much lower for disabled people regardless of duration. But what’s also notable is that the ‘time out’ penalty – the reduction in the chance of employment re-entry for those out of work for more than a year – is more than twice as large for disabled people as for those who are not disabled. Again this will partly reflect the different characteristics of the two groups, such as more severe health conditions experienced by those out of work for longer, but it is nonetheless striking.

The implication is that time spent out of work is a particularly important consideration for the labour market prospects of those with health problems and disabilities. This is a theme to which we return in the following sections when we consider the ‘journey’ from employment to worklessness for this group, and the timing of policy interventions at different points on this journey.

The worsening employment outflow position is a major challenge

We have said that a deterioration in employment exit rates connected to ill-health and disability appears to be a growing problem, and a particularly damaging one when time out of work lasts for longer periods. Recalling trends including population ageing and a new understanding of how health conditions affect people over the life course, we argue that if the level of employment outflows in connection to disability and ill-health is a problem now, then it is one that is set to grow.

And in absolute terms the task we face today is already sizeable. As we have discussed, there isn’t a complete overlap between the populations identified in the figures above. Various numbers can

[27] M Oakley, *Closing the gap: Creating a framework for tackling the disability employment gap in the UK*, Social Market Foundation, March 2016

be put on the scale of the challenge:

- » From our longitudinal analysis, we estimate that **in 2015, a total of 350,000 people in the UK transitioned from employment to health-related inactivity.**^[28]
- » A recent study of those who submitted an ESA claim during December 2013-January 2014 estimated that 64 per cent of new ESA claimants had come from work.^[29] Applying this proportion to the latest figure for annual ESA on-flows suggests that **460,000 people each year transition from work to sickness and disability benefits.**^[30]
- » Government analysis covering 2010-2013 suggests that **each year 960,000 employees in Great Britain are on sick leave for a month or more** (although it should be noted that by no means all of these absences lead to an employment separation).^[31]

Such levels of employment breaks and outflows are particularly concerning given research showing that people who make this transition are more likely to be low-qualified, to work part-time and to be in lower-paying occupations at the outset.^[32] And similar analysis shows that those whose employment exit coincides with health deterioration have lower household incomes before leaving work, and are more likely to encounter housing problems, financial difficulties, and poverty afterwards.^[33]

Note, however, that these outcomes shouldn't be considered intractable: 30 per cent of people aged 50+ who leave employment for reasons of sickness or disability say that they would not have left had adjustments been made to their duties or work environment.^[34]

On this basis, and mirroring the main thrust of our concept of full employment, the health and employment *outflow* challenge is not just relevant to economic concepts of labour potential or fiscal concerns around welfare spending, but central to household living standards.

In this section we have disaggregated the overall health and disability employment landscape into its underlying drivers – transitions into and out of work – and considered the importance of durations out of work following an employment separation. In the following section we turn to the current policy environment for boosting disability employment, which we similarly view through the lenses of transitions and timing.

[28] These estimates assume that all quarterly transitions in a single year are exclusive. In other words, we assume that no individuals move from employment to health-related inactivity twice (or vice versa) in a one year period. As previously stated, there is some concern that flows estimates from the longitudinal Labour Force Survey suffer from an upward bias, so they should be treated with some caution. However, analysis of a different longitudinal dataset before the recession (1991-2008), similarly suggests that around 1 per cent of people in employment (around 300,000 people) find themselves out of work in the following year having experienced a deterioration in health. Source: S Pudney, A Skew & M Taylor, *The economic impacts of leaving employment for health-related reasons*, Institute for Social and Economic Research, University of Essex, October 2011

[29] L Adams, K Oldfield, C Riley, B Duncan & C Downing, *Understanding the journeys from work to Employment and Support Allowance (ESA)*, Department for Work and Pensions 902, June 2015

[30] Assuming no repeat claims from one quarter to another, and excluding those migrated from IB, 720,000 people made a claim for ESA during October 2014-September 2015. Source: RF analysis of DWP, *Work and Pensions Longitudinal Study*. For comparison, a 2010 study of routes onto ESA estimated a lower figure of 330,000 people per year in Great Britain moving from work onto out-of-work sickness and disability benefits, half (51 per cent) of new ESA claims. Source: P Sissons, H Barnes & H Stevens, *Routes onto Employment and Support Allowance*, Department for Work and Pensions 774, September 2011

[31] Department for Work and Pensions, *Long term sickness absence ad hoc statistical analysis*, February 2014

[32] Association of British Insurers, *Welfare reform for the 21st century: The role of income protection insurance*, September 2014

[33] S Pudney, A Skew & M Taylor, *The economic impacts of leaving employment for health-related reasons*, Institute for Social and Economic Research, University of Essex, October 2011

[34] T MacInnes et al., *Disability, long-term conditions and poverty*, New Policy Institute, July 2014

Section 4

The current approach to boosting disability employment

In the introduction we argued that the main focus of disability employment policy tends to be on getting people into work and cutting benefits. However, our consideration of data in the previous section showed that keeping people in work is at least as important. To understand the current policy system in this light, in this section we present it as a 'journey', and describe the key transition points on a stylised path from employment to worklessness or benefit receipt. We also highlight local approaches and approaches in other countries relevant to various points on this journey, in order to provide food for thought on how things could be done differently.

The system as a journey

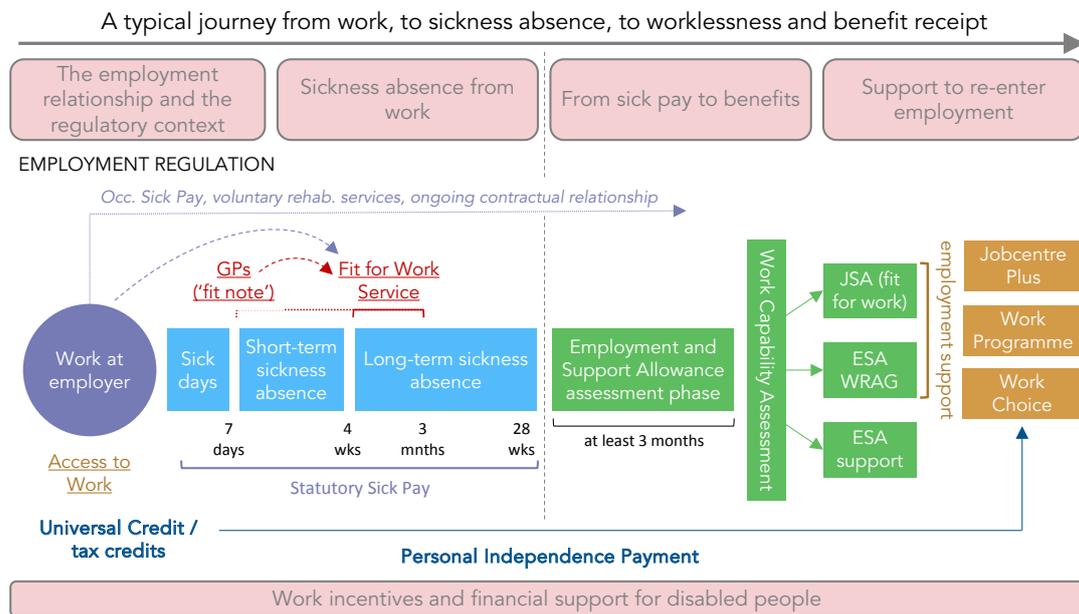
Our contention is that too often the political and policy focus around disability employment starts at the point that eligibility for sickness and disability benefits is assessed. While some attention has been paid to what happens before this point, particularly as a result of the Black/Frost sickness absence review,^[35] there have only been limited policy developments as a result, and little apparent shift in emphasis. By contrast, there has been a lively agenda around the rate of payment and the level of conditionality applied to those placed in different benefit categories. Examples include the extension of mandatory referral to the Work Programme to a larger group of ESA claimants, and the 2015 Summer Budget announcement of reduced ESA generosity for some recipients.^[36]

These are of course important considerations, but the shifting nature of the health challenge and the high and rising level of employment exits connected to ill-health prompt us to take a broader view. We have said that ill-health is increasingly something that affects people inconsistently throughout lives (and very often when in work). And we've highlighted the diminishing chance of a disabled person successfully re-entering employment as time out of the labour market increases. On this basis, we should start our thinking at the employment relationship, from which point we can consider the different agencies, processes and incentives that affect those on the 'journey' from employment, to health-related absence, to worklessness and possible benefit receipt.

[35] C Black & D Frost, *Health at work – an independent review of sickness absence*, Department for Work and Pensions, November 2011

[36] HM Treasury, *Summer Budget 2015*, July 2015

Figure 8: A stylised ‘journey’ of health-related employment exit



There is by no means a policy vacuum at any point in this journey: Figure 8 summarises the national architecture, agencies and incentives that are relevant at different stages in a stylised timeline. But we suggest that the system is not set up to function well at key points, and processes and supports that are in place are not being maximised. In the following parts of this section we describe this system and highlight alternative approaches from other jurisdictions or piloted projects for comparison and consideration.

The employment relationship and the regulatory context

UK employers’ obligations with regard to the incidence of sickness and disability within the workforce have been described by the OECD as relatively ‘light’. However it’s certainly not the case that most other developed nations perform significantly better. The enduring challenges across countries are effective enforcement; and achieving a balance in the inevitable tension between obligations to support existing staff and the risk of health-selectivity at recruitment as a result of these.^[37]

Legal requirements on employers

Employment protection in the UK is largely a function of anti-discrimination and equalities legislation, which is only relevant if sickness or impairments meet legal definitions of disability. Apart from the general duty to avoid direct and indirect discrimination (for example around recruitment and dismissal decisions), employers are obliged to make ‘reasonable adjustments’ for disabled job applicants and employees. These can include workplace adaptations, special equipment or adjustments to duties.^[38] This approach – founded on equalisation of opportunities and access – stands in stark contrast to countries that have quota systems, examples of which are described in Case study 1. While quotas represent less subjective and more stringent obligations for businesses around disability employment, it’s not clear that they always achieve desired ends, and can be difficult to implement effectively.^[39]

[37] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[38] Equality and Human Rights Commission, *Equality Act 2010 Employment Statutory Code of Practice*, 2011

[39] B Greve, *The labour market situation of disabled people in European countries and implementation of employment policies: A summary of evidence from country reports and research studies*, Academic Network of European Disability experts, April 2009

i Case study 1: Quota systems in Europe

Quota systems operate in the majority of European Union countries. They involve the requirement on larger employers that at least a given percentage of their workforce is disabled, with the threat of fines for failing to comply. There is substantial variation across countries in the level the quota is set at (ranging between 2 and 7 per cent of employees), the criteria a disabled person must meet to count towards it, the range of employers subject to it, the level of the fine imposed, and enforcement mechanisms.^[1]

Across countries, there is only limited evidence on levels of compliance with quotas and their impact on disability employment outcomes. A cross-country study suggested mixed results, and raised concerns about 'cream skinning', where employers fulfilled the requirements by offering jobs to disabled people with only the least severe impairments and fewest barriers to employment.^[2]

[1] R Prince & D Van Vuuren, 'Quotum voor gehandicapten heeft beperkt werkgelegenheidseffect', *ESB Arbeidsmarkt* 100, August 2015

[2] B Greve, *The Labour Market Situation of Disabled People in European Countries and Implementation of Employment Policies: a summary of evidence from country reports and research studies*, Academic Network of European Disability experts, April 2009

In Austria, this appears to have been achieved partly by employers subject to the quota poaching disabled people who are in work from firms not subject to it, therefore having little impact on the out-of-work disabled group. And in France, despite the high fines, non-compliance is relatively normalised, with many employers opting to pay the fine rather than attempting to meet their targets.^[3] Finally, there is the risk that quotas lead to stigmatisation of disabled people in the workplace.

On the other hand, in Austria there is evidence that quotas did improve the retention of disabled staff within firms via greater employment protection, and that an increase in the fine did drive a noticeable jump upwards in the disability employment rate.

Overall, while there are some examples of quotas having some positive impacts, it is not clear that they always achieve desired ends, and appear difficult to implement effectively.

[3] 'The World And Disability : Quotas Or No Quotas?', *iGlobal Law news*, 11 December 2013

Tribunals and disputes

With discrimination legislation carrying so much weight, the quality of the employment environment for disabled workers is partly dependent on the willingness and ability of individuals taking cases to tribunal, because this encourages compliance and exposes and publicises illegal conduct. A notable recent change in this area has therefore been the fact that from July 2013 employment tribunal claims have carried a fee (£250 per claim and £950 per hearing). Since the introduction of fees the number of disability discrimination claims has plummeted, from 1,745 in the first quarter of 2012-13 to 704 in the first quarter of 2015-16 (with little apparent shift in the outcome of claims).^[40] In this context, enforcement of disability rights in the workplace may be seen as a growing challenge. In addition, there is no rights and enforcement regime to speak of covering disputes around ill-health that fall outside of legal definitions of disability (which are broad but not well understood, meaning individuals often don't consider themselves as fitting the definition^[41]).

Access to Work

Beyond adjustments for disabled people deemed to be 'reasonable', since 1994 the Access to Work scheme has provided grants for practical support for people with disabilities and health conditions to enter or remain in employee jobs or self-employment. Access to Work helps over 30,000 individuals each year,^[42] and has been shown to reduce absenteeism, increase productivity and improve staff retention.^[43] However, there are concerns that take-up remains below its

[40] Ministry of Justice, *Tribunals and gender recognition certificate statistics quarterly: April to June 2015*

[41] Trades Union Congress, *Sickness absence and disability discrimination: TUC negotiator's guide*, 2016

[42] Department for Work and Pensions, *Access to Work: Official Statistics*, June 2015

[43] S Dewson, D Hill, N Meager & R Willison, *Evaluation of Access to Work: Core Evaluation*, Department for Work and Pensions 619, 2009

potential, with a recent review of disability employment support describing the programme as the “government’s best kept secret.”^[44] And over the course of this project some have raised concerns that Access to Work is becoming too exclusively focused on employment entry rather than job retention, particularly given evidence of insufficient engagement of employers in publicity or referrals.^[45]

Sickness absence from work

Given the discussion in the previous section, the processes and mechanisms around the onset or advancement of disabilities and health problems when in work are a crucial consideration. Here we first outline the ‘typical’ route reflecting minimum requirements on employers and workers, before discussing non-standard experiences and the extra lengths that many businesses go to.

Sick leave and Statutory Sick Pay

Broadly speaking, the statutory relationship with employers around the onset or escalation of health problems and disabilities is quite limited when compared internationally.^[46]

The main requirement on employers is the payment of Statutory Sick Pay (SSP) for up to 28 weeks from the onset of sickness absence to all employees other than those falling below a lower earnings limit. SSP is paid at a flat rate of £88.45 per week, and was recently estimated to cost employers around £1.5 billion per year.^[47] The weekly payment is low compared to many other European nations, where wages during sickness absence are linked to prior earnings.^[48] And the UK is unusual (with the exception of the Netherlands, see Case study 3) in that the employer bears the costs in full.^[49]

There are few requirements in terms of what employers and employees must do during periods of sickness absence, beyond the legal requirement to make reasonable adjustments for those with disabilities outlined above. Within this requirement there is no specific guidance around disability leave as an example of a reasonable adjustment, and there is no distinction between sickness absence in general (which can constitute grounds for dismissal) and absence related to disability in dismissal procedures. The TUC has highlighted these issues as a key challenge in maintaining the employment relationship for disabled people.^[50]

Beyond this specific issue, there are no rules around dismissal other than those governed by anti-discrimination and equalities legislation mentioned above, and there is no obligation to maintain the employment relationship or keep a job open once SSP is exhausted. This is in stark contrast to Spain, for example, where posts must be kept open for two years (see Case study 2).

[44] L Sayce, *Getting in, staying in and getting on: Disability employment support fit for the future*, Department for Work and Pensions, June 2011

[45] House of Commons Work and Pensions Committee, *Improving Access to Work for disabled people*, December 2014

[46] C Black & D Frost, *Health at work – an independent review of sickness absence*, Department for Work and Pensions, November 2011

[47] C Black & D Frost, *Health at work – an independent review of sickness absence*, Department for Work and Pensions, November 2011

[48] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[49] Forthcoming D Gaffney paper for the TUC.

[50] Trades Union Congress, *Sickness absence and disability discrimination: TUC negotiator’s guide*, 2016

i Case study 2: Spain's two year 'right to return'

A comprehensive OECD study of sickness, disability and work singled out Spain as one of the few countries with requirements on employers regarding rehabilitation and support for employees to re-join the workforce in periods of sickness absence. In Spain employers must keep a job open for a former employee for two years while a promising rehabilitation process is in progress. In addition, former employees on disability benefit who recover have priority for filling posts at their former firms.^[1]

[1] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

Very little information is available on the introduction, operation or impacts of this right to return, but the suggestion from one study is that it has driven a concentration of benefit assessment and support activities within the two-year period (albeit with a consequent lack of focus on people more than two years out of a job).^[2]

Similar duties are present in Canada, but only for employees with directly work-related injuries and illnesses.

[2] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers. Vol. 2: Australia, Luxembourg, Spain and the United Kingdom*, 2007

Furthermore, the structure of the SSP payment creates little incentive for either businesses or employees to engage with rehabilitation or return to work plans. By contrast, many countries place a greater emphasis on rehabilitation during the sick pay period.^[51] The most radical example is the Netherlands (described in Case study 3), where employers face up to two years of sick pay costs and further financial incentives to prevent their staff flowing into long-term health-related inactivity.

i Case study 3: Sick pay requirements in the Netherlands

While similar systems are in operation in other countries, the Netherlands is frequently cited as the most extreme example of employer obligations regarding sick pay and rehabilitation support. The system introduced between 1999 and 2006 makes employers liable for sick pay for up to two years, paid at 70 per cent of previous salary. Alongside this there is a strict set of requirements on employers to conduct an occupational health assessment, prepare a reintegration plan and report to the government on progress.

Importantly, as well as the high level of sick pay costs borne by employers, the long-term disability benefit for those who cease to be eligible for sick pay is funded by employer contributions. And these are 'experience rated', meaning that if the number of staff flowing onto the benefit rises above a threshold, the firm's payment is

increased.^[1]

These large risks for employers have mobilised an insurance market to protect against paying sick pay, which has in turn led to substantial preventative measures within firms, and early intervention when staff enter periods of sickness absence. And the Dutch system does seem to have had a positive impact on job retention chances. However as a note of caution, there is evidence that it has driven employers to be highly health-selective in who they take on, meaning a strong negative impact on the chance of finding a new job from the long-term disability benefit.^[2]

[1] C Black & D Frost, *Health at work – an independent review of sickness absence*, Department for Work and Pensions, November 2011

[2] J Høgelund & A Holm, *Case Management and Returns to Work of Disabled Employees*, Centre for Applied Microeconometrics, University of Copenhagen, 2004

[51] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

The health profession

With little statutory or state-supported focus on vocational rehabilitation, the principal role of the healthcare profession and healthcare services in this process has been the certification of sickness (and therefore eligibility for SSP) via the ‘fit note’ system that medically certifies sickness.

This system replaced ‘sick notes’ in 2010 with the aim of improving back-to-work advice and communications between doctors, employees and employers, alongside new guidance and optional training for GPs. However, evaluation evidence suggests that the fit note is used inconsistently,^[52] and that there remains a tendency to ‘sign people off’ to avoid conflict.^[53] Lack of engagement with occupational health training in the GP profession has also received criticism, with a recent study highlighting that GPs with occupational health training were better able to assess fitness to work and less likely to sign people off. However, only around 5 per cent of GPs have undertaken any postgraduate occupational health training.^[54]

The Fit for Work Service

In response to the perceived vacuum of activity during the SSP period and the high numbers moving into long-term sickness absence, the government launched the new Fit for Work Service last year on the recommendation of the Black/Frost sickness absence review. Fit for Work is a voluntary, independent assessment service to which GPs or employers can refer employees on sickness absence (only after four weeks in the case of employers). Fit for Work works with businesses and employees to conduct a telephone-based occupational health assessment and develop a return-to-work plan. Pilots of versions of the service suggested a positive impact on the likelihood of returning to work (see Case study 4).

i Case study 4: The Fit for Work pilots

Pilot approaches to the Fit for Work Service were tested across 11 locations in Great Britain between 2010 and 2013. The model being tested was an occupational health service for employees on sickness absence aimed at improving their health and helping them to return to work. The pilots differed in a number of respects, but each included a biopsychosocial assessment that resulted in a return to work plan; case management to co-ordinate the support identified in the return to work plan; and access to additional clinical or non-clinical services.

Clients of the pilots were generally satisfied with the services they received, and believed that their health had improved over the course of engagement. Impact assessments suggested that the pilots had a positive

impact on the chance of returning to work, particularly for those with musculoskeletal conditions. The impact was much lower for those who had spent longer out of work before the initial assessment, highlighting the importance of early intervention.

One aspect of support that varied across the pilots was whether assessments were conducted over the telephone or face to face. On balance, the evaluation concluded that telephone-based services were more resource-efficient and cost-effective, with no evidence of lower impacts or satisfaction.^[1]

[1] J Hillage et al., *Evaluation of the 2010–13 Fit for Work Service pilots: final report*, Department for Work and Pensions, June 2015

[52] C Shiels, J Hillage, E Pollard & M Gabbay, *Evaluation of the Statement of Fitness for Work (fit note): Quantitative survey of fit notes*, Department for Work and Pensions 841, June 2013

[53] M Hann & B Sibbald, *General Practitioners’ attitudes towards patients’ health and work*, Department for Work and Pensions 733, July 2011

[54] A Money et al., ‘Work-related sickness absence negotiations: GPs’ qualitative perspectives’, *The British Journal of General Practice* 60:579, October 2010

It is too early to judge the performance of the Fit for Work Service, but anecdotal evidence shared with us over the course of this project suggests that very low referral numbers have been a feature of its first months. The suggestion is that this is partly due to reticence among employers and employees to defer to anyone other than doctors for health guidance, and low knowledge of the service or willingness to refer in the GP profession.

Of course, what individuals have access to during sickness absence can vary from the typical trajectory described above, in either direction. For example, some employers go above and beyond, but the self-employed and agency workers are often less well-served. We consider a selection of examples below.

Occupational Sick Pay and voluntary rehabilitation support

Nearly half of employers offer voluntary Occupational Sick Pay (OSP) to all employees, with an estimated £6.9 billion spent (on top of SSP expenditure) annually.^[55] Alongside this, many firms offer occupational health services, rehabilitation support and formal arrangements to return to work during and beyond the SSP period (including when out-of-work sickness and disability benefits are in payment).

Recent research has shown that these kinds of health and wellbeing policies are more common in public and voluntary sector organisations, high-paying sectors and large firms.^[56] An important factor in this for some firms is group Income Protection insurance, which underwrites SSP and OSP commitments, and can be an effective means for providing prevention and rehabilitation services that minimise the costs of absence and improve return-to-work rates.^[57]

Clearly, then, when the incentives are strong enough (for example due to specialised skill-sets, the use of good benefits packages to attract staff, or due to the ability to pool risk in large organisations), firms will play a much more active role in the sickness absence process.

Support for the self-employed

For others, even the basic payments and support described above aren't in place. Most obviously, this is the case for the self-employed, who aren't eligible for SSP and can't access the Fit for Work Service. There is no equivalent to SSP specifically for the self-employed, meaning their main option for financial support is to make a claim for ESA directly. Evidence from 2010 suggests that they are over-represented in ESA on-flows, with nearly one quarter (24 per cent) of on-flows from work coming from self-employment.^[58] This may be partly driven by the fact that people with health problems are over-represented among the self-employed, for example as a result of the group's older age profile compared to employees.

This lack of financial support beyond the ESA system might warrant the self-employed to protect themselves. Indeed, some do via individual Income Protection insurance policies, which also provide access to early intervention and rehabilitation services. However, these tend to be more expensive than group policies that employers can access, and are essentially being made less generous in the transition to Universal Credit compared to their treatment in the tax credit

[55] C Black & D Frost, *Health at work – an independent review of sickness absence*, Department for Work and Pensions, November 2011

[56] L Adams, K Oldfield, C Riley, B Duncan & C Downing, *Understanding the journeys from work to Employment and Support Allowance (ESA)*, Department for Work and Pensions 902, June 2015

[57] 'Long-term sickness absence costs UK businesses £4.17bn a year', *Centre for Economics and Business Research press releases*, 30 October 2015

[58] L Adams, K Oldfield, C Riley, B Duncan & C Downing, *Understanding the journeys from work to Employment and Support Allowance (ESA)*, Department for Work and Pensions 902, June 2015

system and the treatment of group policies in Universal Credit.^[59]

Atypical employment and incomplete coverage

Finally, it's important to note that although all employees (apart from those earning less than £112 per week) are entitled to SSP, recent research has suggested that a significant proportion (29 per cent) who present to the ESA system immediately from employment have not received any. Agency workers were particularly likely to make a claim for ESA with no sick pay period, with those coming from smaller firms also disproportionately affected.^[60]

The particular challenges and alternate routes for those in non-standard employment, such as the self-employed and agency workers, and the wide variation in what is available according to employer and employee characteristics should be considered in any programme of reform.

From sick pay to benefits

Turning back to the stylised journey in Figure 8, after an SSP claim has been exhausted (or OSP has ceased) the main source of financial support shifts to the state. This would typically be via a claim for Employment and Support Allowance. However, many claim Jobseeker's Allowance (JSA) if they feel capable of returning to work or are found fit for work in the ESA assessment process: around one quarter of JSA claimants in late 2012 considered themselves disabled.^[61] And some will not claim benefits at all, for example if they have exhausted contributory entitlements and are not eligible for means-tested support due to their partner's income. In addition, it's important to remember that not all new ESA claims are made by those who are on a journey out of employment. A recent study found that around one-third come from other benefits or elsewhere.^[62]

Recent reforms: Employment and Support Allowance and the Work Capability Assessment

ESA replaced its predecessor, Incapacity Benefit, in 2008, with the intention of creating a more 'active' system. The large stock of IB recipients has gradually been re-assessed for eligibility for the new sickness and disability benefit. For the first time, this new benefit introduced a distinction within the caseload between those expected to return to the labour market at some point, and those whose illness or disability meant they were unlikely to do so. The former, the work-related activity group (WRAG), are not expected to look for work but, depending on their 'prognosis', can be required to engage in activities related to preparing for future employment. These range from simply maintaining contact with Jobcentre Plus advisers to participation in employment programmes. The latter, the support group, receive unconditional support and a higher benefit rate.

The assessment system making this distinction – the Work Capability Assessment – has been plagued by implementation problems including a huge backlog in claims, a high rate of appeals,

[59] Under current Universal Credit (UC) plans, payments from 'individual' Income Protection insurance policies – which people can take out to protect themselves against the risk that they are unable to work for health reasons – are treated as 'unearned' income. This means that UC is withdrawn pound-for-pound against this amount. By contrast UC is withdrawn against 'earned' income at the UC taper rate of 65p for any amount above the work allowance. Payments from 'group' (employer-provided) policies that the self-employed can't access are treated as 'earned' income in UC. In the tax credit system, 'individual' Income Protection income does not affect entitlements.

[60] L Adams, K Oldfield, C Riley, B Duncan & C Downing, *Understanding the journeys from work to Employment and Support Allowance (ESA)*, Department for Work and Pensions 902, June 2015

[61] *Freedom of Information request 2013-2901*

[62] L Adams, K Oldfield, C Riley, B Duncan & C Downing, *Understanding the journeys from work to Employment and Support Allowance (ESA)*, Department for Work and Pensions 902, June 2015

and criticisms of the level of activity expected of quite seriously disabled people nonetheless placed in the WRAG. These are discussed in detail in Box 4, alongside other ESA changes affecting the WRAG in particular. What is clear is that, eight years in, the system is still bedding in (and the subject of continual review and scrutiny on this basis), and what we see today is unlikely to provide a clear picture of its operation in steady state. However, there is mounting evidence against and opposition to the widespread application of conditionality to disabled benefit claimants that has emerged within this process.

i Box 4: ESA reform and the Work Capability Assessment – redefining disability?

The history of ESA since 2008 has been dominated by problems with the assessment system. Since its introduction, the Work Capability Assessment (WCA) has been controversial,^[1] and changes in policy and practice intended to address some of the criticisms have contributed to startling changes in assessment outcomes. Most dramatically, the proportion of claims rejected as 'fit for work' fell from 40 per cent when the WCA was introduced to 13 per cent in 2014-15. At the same time the proportion placed in the work-related activity group fell from 17 per cent to 5 per cent and the share in the support group rose from 7 per cent to 24 per cent. All of these figures are influenced by the build-up of a large backlog of assessments between 2011 and 2014, meaning the numbers leaving before assessment have risen, from 36 per cent of the caseload to 41 per cent.^[2]

There have also been substantial changes to the structure of the benefit which have tended to erode the difference between the WRAG and unemployment benefits. These have included limiting payment to one year for contributory recipients in the WRAG (previously it was two years). And plans are progressing through parliament to reduce the rate of payment in the WRAG to the same level as Jobseeker's Allowance. The argument for this change was to ensure that the system sufficiently incentivises entry into employment.^[3]

It is worth dwelling on these changes to the WRAG, which have been justified by the Department for Work and Pensions on the basis that, "ESA was never intended to be a benefit for the long term, except for the most severely ill or disabled for whom work is not a viable option. Those people are being protected as they are placed in the

support group."^[4] This statement is consistent with other aspects of recent policy which treat WRAG claimants as, in Ben Baumberg's words, "not really disabled." The implication is that ESA for WRAG claimants should be a short-term benefit for those recovering from temporary sickness. Baumberg argues that this apparent confusion turns on a slippage from the idea of someone being capable of some 'work-related activity' to the idea that they are capable of work:

"It is sometimes assumed that the WRAG is for people who are expected to be capable of work in the near future, but this simply isn't true, and some people with incurable progressive diseases are in the WRAG. In other words, not only have all of the people in the WRAG been found to have limited capability for work, but the flaws of the WCA make it difficult to claim that all 'seriously' or 'genuinely' disabled people (whatever those might mean) are in the support group."^[5]

Mounting evidence suggests that conditionality for disabled people is often difficult to apply appropriately and fairly, and shows limited evidence of success in terms of employment outcomes.^[6] But what is at risk of being lost in the developments described here is the idea that some people with disabilities entailing serious limitations to work may benefit from interventions to maintain contact with the labour market. These are quite distinct from the sort of conditionality imposed on unemployed claimants. Almost by accident, driven by fiscal pressures, a subtle redefinition of disability as a state of permanent, complete incapacity for work has emerged.

[1] P Litchfield, *An Independent Review of the Work Capability Assessment – year five*, Department for Work and Pensions, November 2014

[2] Department for Work and Pensions, *Employment and Support Allowance: Outcomes of Work Capability Assessments*, Great Britain, December 2015

[3] HM Treasury, *Summer Budget 2015*, July 2015

[4] Department for Work and Pensions, *Time limiting contributory Employment and Support Allowance to one year for those in the work-related activity group: Equality impact assessment*, October 2011

[5] B Baumberg, 'Why the budget's cut to ESA may backfire', *Rethinking Incapacity blog*, 8 July 2015

[6] For a fuller discussion, see: R Patrick, 'The wrong prescription: disabled people and welfare conditionality', *Policy & Politics* 39:2, April 2011

In any consideration of the ESA trajectory we must bear the high degree of system change that has taken place in recent years, and is ongoing, in mind. Nonetheless we can see that the trajectory typically involves a period of time before the Work Capability Assessment (the ‘assessment phase’), usually up to three months but longer if the assessment decision is appealed, and due to the ongoing backlog of assessments.^[63] This is followed by placement in either of the two ESA groups and possible referral to employment programmes or Jobcentre Plus services, or referral to JSA if found fit for work at assessment. What’s notable is that given that the assessment phase is something of a holding period, unless contact is being maintained with the previous employer it’s a period in which very little happens in the way of rehabilitation or support.

ESA: A benefit for many circumstances

Stepping back and comparing the UK system with those of other welfare states, a clear distinction is that the UK operates a single sickness and disability benefit, whereas other jurisdictions typically have a distinction between short-term sickness and longer-term incapacity welfare support. Coupled with the short (by international standards) period of SSP, and the fact that not all workers get SSP, this means that ESA has to deal with a very wide range of situations of work incapacity, ranging from relatively short-term illness to lifetime severe disability.^[64] These factors lead to a relatively high degree of churn onto and off the benefit in the early stages of claims, but also a large stock of claimants who have been on the benefit for a very long period. On this basis, the diversity of routes onto and off ESA and the different phases of claim duration (particularly pre- and post-assessment) should be given careful consideration in any programme for change.

Support to re-enter employment

National back-to-work support programmes for people with health problems or a disability are generally only available to out-of-work benefit recipients. For this group, the current landscape of provision can be described as disjointed.

The Work Programme

Some ESA claimants, and shorter-term JSA claimants with health problems, have access to support from Jobcentre Plus advisers. However, such engagements often don’t extend much beyond ensuring job search conditions are being met and signposting to other services. Since 2011, the other main vehicle for support has been the Work Programme, in which contractors provide back-to-work and in-work support to longer-term JSA claimants and certain ESA claimants. The Work Programme marks a departure from separate programmes for those on health-related benefits and the long-term unemployed, and gives contractors relative freedom to decide on the services and support they offer (a ‘black box’ approach). Some claimants are required to engage on a mandatory basis, while others can volunteer to take part. Contractors are paid largely based on the achievement of sustained employment outcomes for participants, with higher payments on offer for harder-to-help groups including ESA claimants.

Originally only ESA WRAG claimants who had a prognosis of being ready to work within three months were to be mandated to the programme. However, low referral numbers meant that those with a prognosis of six and then 12 months were subsequently required to join. As others have pointed out, this has meant that contractors have been supporting participants who are often significantly more disadvantaged than had been envisaged when contracts (and payments) were agreed.^[65] More generally there is limited evidence of positive effects from mandation to

[63] National Audit Office, *Contracted-out health and disability assessments*, January 2016

[64] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[65] T Riley, P Bivand & T Wilson, *Making the Work Programme work for ESA claimants*, Centre for Economic & Social Inclusion, April 2014

employment programmes for sick and disabled people,^[66] and the view of many employment programme providers is that such practices are inappropriate for ESA claimants.^[67]

The Work Programme has been widely criticised as achieving poor outcomes for disabled participants, 58 per cent of whom are in one of the JSA groups (and therefore attract lower job outcome payments than participants receiving ESA). These poor outcomes have been attributed to low per-participant funding and an overemphasis on price competition within the commissioning process, leading to insufficient resources to use the black box to tailor support to those with health problems.^[68] As the official programme evaluation concluded, contractors have tended to, “provide more intensive support...to those who are the most ‘job ready’. Those assessed as hardest-to-help are in many cases left with infrequent routine contact with advisers, and often with little or no likelihood of referral to specialist (and possibly costly) support, which might help address their specific barriers to work.”^[69]

Work Choice

Alongside the Work Programme has sat Work Choice, the government’s specialist disability employment programme, available to ESA claimants not on the Work Programme, JSA claimants with health conditions and some non-claimants. Work Choice is entirely voluntary, with higher per-participant funding than the Work Programme and a more prescribed, ‘modular’ approach including a role for supported employment (which involves highly-personalised support, employer engagement, job reshaping and in-work support over a period of time).

Work Choice has performed much more favourably than the Work Programme in terms of job outcome rates. However it’s worth noting that the majority of participants are not in receipt of ESA, with most coming from the JSA caseload and therefore likely to have a lower level of impairment than ESA recipients. This may be because a broadening group of ESA claimants have been mandated to participate in the Work Programme, with the perverse outcome that more intensive disability employment support is off limits to many of those with the greatest need.^[70]

Local approaches

Alongside this national provision landscape, some local areas have developed their own approach to provide employment support to people with health conditions. For example, using European Social Fund money, both London and Manchester have developed programmes to support ESA claimants who have not entered work in their two years on the Work Programme. As Case study 5 outlines, these approaches involve higher funding, more personalised support and lower adviser caseloads than the Work Programme. They appear to be achieving success, but come late in the day and are not available everywhere in the country. This adds to the impression of a disjointed and inappropriately targeted provision landscape, with some claimants spending years drifting further away from the labour market with very little support, before accessing better-funded services.

Nevertheless, these local examples are likely to provide clear lessons that may be worth applying more generally.

[66] B Watts, S Fitzpatrick, G Bramley & D Watkins, *Welfare sanctions and conditionality in the UK*, Joseph Rowntree Foundation, September 2014

[67] Employment Related Services Association, *Response from the Employment Related Services Association (ERSA) to the Work and Pensions Select Committee inquiry into benefit sanctions policy beyond the Oakley review*, December 2014

[68] A Purvis, S Foster, L Lanceley & T Wilson, *Fit for Purpose: Transforming employment support for disabled people and those with health conditions*, Centre for Economic & Social Inclusion, July 2014

[69] B Newton et al., *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, Department for Work and Pensions 821, December 2012

[70] A Purvis, S Foster, L Lanceley & T Wilson, *Fit for Purpose: Transforming employment support for disabled people and those with health conditions*, Centre for Economic & Social Inclusion, July 2014

i Case study 5: Working Well in Greater Manchester

Working Well in Greater Manchester provides welfare-to-work services to Employment and Support Allowance claimants who did not enter work during two years on the Work Programme. It began in 2014 and will run until 2019. It was commissioned by the 10 Greater Manchester local authorities on a payment-by-results basis, with sponsorship from the Department for Work and Pensions.

The programme is entirely voluntary, and based on a fully-integrated key worker model designed to address clients' needs in a holistic way, work with them to identify their priorities (which may not be initially connected to work), and join up support with other public services.

It is too early to judge Working Well's impacts, but an interim evaluation suggested a high degree of support for

the approach among both clients and staff. And there are early suggestions of impact on employment outcomes, with clients' expectations of finding work 7.5 percentage points higher in their most recent reviews compared to initial assessments. This interim evaluation also highlighted the use of motivational interviewing, where personal goals on the journey to employment are set by the client, and intensive one-to-one support from key workers with enough time to understand clients' concerns, as key aspects of the programme's perceived success to date.^[1]

[1] S Dickinson, *Interim Evaluation of Working Well: Report to Big Life Enterprises*, July 2015

The Work and Health Programme

This provision landscape will change in the coming years. At the 2015 Spending Review it was announced that both the Work Programme and Work Choice will be replaced by a new Work and Health Programme. This will be for ESA claimants and those in receipt of JSA for two years or more (many of whom have health problems). The potential involvement of local areas in the commissioning of this programme; the primacy of employment support in many devolution deals; and a new health and work innovation fund, offer an opportunity to join up approaches to disability employment support. However, the current funding envelope suggests a programme one fifth the size of the Work Programme. As Box 5 details, this entails relatively low numbers of participants and outcomes, and our rough estimate is that **a high-performing Work and Health Programme might be expected to deliver around 20,000 job outcomes per year.**

i Box 5: Projected participants and outcomes on the Work and Health Programme

We don't currently have information on exactly how the new Work and Health Programme will operate, such as customer volumes, the nature of the outcome-based funding model or activity requirements on providers. However, late last year the Employment Minister announced that funding for the Work and Health Programme will be around £130 million per year (an 80 per cent reduction on the Work Programme),^[1] and there has since been confirmation that total funding over the lifetime of the programme will be capped at £500 million (effectively putting a ceiling on programme outcomes given the performance-based payment model).^[2]

With this information, it is possible to very roughly estimate the number of participants the Work and Health Programme could support and the outcomes it could achieve. To do this, we assume that per-participant funding is equal to what was originally intended for the main group of ESA participants in the Work Programme – £1,200 – implying around 100,000 participants each

[1] 'DWP employment programme funding set for 80% cut', *Learning and Work Institute news*, 12 December 2015

[2] Learning and Work Institute, *Halving the disability employment gap: Written evidence to the Work and Pensions Committee from Learning and Work Institute*, May 2016

year.^[3] And in the same vein, we assume that the rate of sustained (three months plus) job outcomes achieved is at the level originally targeted by the Department for Work and Pensions for this group on the Work Programme: 20 per cent.^[4] This is a stretching assumption at this level of per-participant funding and with the overall programme funding cap in place, especially given that the Work Programme has in actual fact achieved a lower rate of outcomes for this group.^[5]

This implies that a high-performing Work and Health Programme might be expected to deliver around 20,000 job outcomes per year. Of course, not all of these jobs would be sustained long-term, and some participants might have entered work in the absence of the programme, so the potential additional contribution to reducing the disability employment gap would be much smaller than this.

[3] T Riley, P Bivand & T Wilson, *Making the Work Programme work for ESA claimants*, Centre for Economic & Social Inclusion, April 2014

[4] T Riley, P Bivand & T Wilson, *Making the Work Programme work for ESA claimants*, Centre for Economic & Social Inclusion, April 2014

[5] Centre for Economic & Social Inclusion, *Work Programme statistics: Inclusion analysis*, September 2015

Stepping back and looking across former and forthcoming employment support programmes, there is again relatively little role for health services. This stands in contrast to the use of Individual Placement and Support models in countries like Norway, which are situated within mental health services (see Case study 6). The newly-created cross-government Work and Health Joint Unit has been tasked with better-aligning health and employment provision.

i Case study 6: Individual Placement and Support in Europe

Individual Placement and Support (IPS) is a well-evidenced form of personalised and ongoing intervention supporting people with often-severe mental health problems to progress into employment.

While models of implementation vary, the principles underpinning IPS are the integration of employment services with mental health treatment services; the primacy of client preferences and the need for clients to decide when they are ready to start looking for a job; ongoing support including a relationship between employers and advisers once clients have started work; and the space for clients to try things out without fear of failure or threat of conditionality.

Evidence suggests that IPS can have a strong positive impact on employment. For example, a randomised

controlled trial conducted across six European Countries (including the UK) concluded that clients were twice as likely to gain employment as those engaging with vocational services, although the scale of impacts was partially contingent on the strength of local labour markets.^[1]

Many elements of the IPS approach have been integrated into wider service provision in some European countries. For example, the integration of mental health and employment services and the need to put customer preferences first were at the heart of the creation of local 'one-stop shops' in Norway in 2006.^[2]

[1] T Burns, S White & J Catty, 'Individual placement and support in Europe: the EQOLISE trial', *International Review of Psychiatry* 20:6, January 2009

[2] P Læg Reid & L Rykkja, *Coordinating Norwegian welfare: The Nav reform*, COCOPS, 2013

Work incentives and financial support for disabled people

Having reflected on the health and employment 'journey', mainly from a processes and programmes perspective, it's worth considering the financial side of things. Both the out-of-work and in-work benefit systems pay higher awards to those meeting disability criteria. This is to reflect the fact that for many claimants with health problems (particularly those in the ESA support group), worklessness is likely to be a longer-term rather than temporary position. In addition, job search and job preparation may involve additional costs, and higher rates of in-work support may be necessary to incentivise people with significant barriers to employment to take the leap.

The transition to Universal Credit

There are some promising signs for such work incentives in the transition to UC, which brings the means-tested JSA, means-tested ESA, Income Support, Working and Child Tax Credits and Housing Benefit systems together into a single working age benefit. Universal Credit (UC) removes the 'hours rules' in the current tax credit system and introduces a 'work allowance' – a level of earnings below which benefits are not withdrawn. This creates a stronger incentive to enter work at low numbers of hours, which may be particularly beneficial to those whose health problems are a barrier to working more.^[71]

However the UC system currently being introduced is different to what was originally intended. Successive cuts to its generosity, including to work allowances for disabled claimants, mean that many of those in work will find themselves worse off compared to the tax credit system. In addition, the number of hours of work where the incentives are strongest is much lower, creating the risk that some people with and without health problems will reduce working hours to this new 'sweet spot'.^[72]

Nonetheless, incentives to enter or remain in worker for people with health problems have been and will continue to be stronger in the UK than many other developed nations. In a number of countries, very high 'replacement rates' make benefit receipt a more financially viable alternative

[71] For the first year of employment, 'permitted work' rules in the current ESA system serve a similar function to the UC work allowance.

[72] D Finch, *Universal Challenge: Making a success of Universal Credit*, Resolution Foundation, May 2016

to employment for employees facing problems.^[73] Whether the UK approach is fairest, or best for the overall wellbeing of those with health problems or a disability, is a separate question of course.

Personal Independence Payment

A final point to highlight is the role of the main non-means-tested benefit for those with health problems, Personal Independence Payment (formerly Disability Living Allowance). PIP provides working age people with long-term health conditions or a disability with funds to support 'extra costs' connected to daily living and mobility. Such an additional costs benefit is much less common in other countries, and the fact that it is not subject to means-testing in theory strengthens financial incentives to work further when compared internationally.

Stepping back from each individual benefit and considering the financial support system as a whole, it must be emphasised that even strong financial incentives can only have a limited impact on this group. Many disabled people are too severely impaired to work, and for others ongoing employment support, or perceived or actual employer attitudes, are bigger determinants of employment chances than incentives themselves. While it's important that financial incentives work as well as they can (given that disabled people have proven responsive in some circumstances^[74]), they shouldn't be over-sold in terms of their ability to reduce the disability employment gap, as for a large group they aren't the most relevant concern.

In this section we have described the UK policy environment around employment for people with health problems or a disability. We have reviewed the key transition points on a journey that starts with the employment relationship, highlighting promising approaches, areas for improvement, and local and international examples that warrant consideration. Reflecting on these findings and the statistical analysis presented in the previous two sections, in the following section we set out our vision for a cultural and policy shift. We focus on strengthening the employment relationship; improving incentives to act at key transition points; and speeding up returns.

[73] Organisation for Economic Co-operation and Development, *Sickness, Disability and Work: Breaking the Barriers*, 2010

[74] E Favang, I Hardoy & K Røed, *Getting Disabled Workers Back to Work: How Important Are Economic Incentives?*, IZA Discussion Paper 7137, January 2013

Section 5

A new approach

Starting from the basis that overcoming the employment challenge for people with health problems and disabilities is central to achieving the government's full employment ambitions, our investigation highlights a number of areas of inadequacy in the UK policy approach. While we accept that there is no silver bullet, in this section we set out a number of recommendations designed to move us towards a more holistic approach that puts maintaining contact with the labour market at its heart.

We consider issues around incentives, and transitions out of (and back into) work. Our primary focus, correcting for what we believe to be an oversight in the current system, is on improving the employment relationship for those already in work, and strengthening incentives and support at key points on the journey out of work.

Principles underpinning the reform agenda

As has been repeatedly highlighted, our central perspective on the UK system and current employment outcomes connected to disability and ill-health is that there is an insufficient focus on the employment relationship and health-related journeys out of work. There is no single way to comprehensively improve employment outcomes for disabled people, and efforts in this area absolutely should not shift resources or focus away from intensive support for people who have been out of the labour market for some time. However we believe that a parallel emphasis on employment outflows can deliver measurable returns.

While we have focused on the UK, this is a perspective that has been echoed internationally. For example, a recent OECD review of evidence around mental health and employment concluded that:

“The timing of intervention is critical. Interventions often come too late, once people have been out of the labour market for years. Even comprehensive measures have limited impact if delayed. Any action taken in school or in the workplace will have a better, more lasting impact than waiting until people have dropped out of education or the labour market.”^[75]

The focus of our ideas for a new approach is therefore on improving the employment relationship and intervening to reduce health-related employment exits. Within this context we take the following principles as grounding:

- » That maximum impact can be achieved via **a cultural change in workplace relationships and expectations among employers and employees**. Changing perspectives in this way is not something that government alone can do, and neither can one policy or programme do the job. However a range of policies in combination, coupled with measures to focus the minds of policymakers, employers and other actors offer the greatest potential for success.
- » Reflecting the quotation above, that **timing is critical**. The discussion of the ‘journey’ in the previous section, and evidence that the chances of employment re-entry diminish rapidly as durations out of work increase, highlight the importance of programmes and support being there at the right moment.

[75] Organisation for Economic Co-operation and Development, *Fit Mind, Fit Job: From evidence to practice in mental health and work*, 2015

- » That **the structure of financial incentives matters**, particularly for employers, but also for *some* disabled people. This is reflected in the OSP and rehabilitation support offered by employers in certain circumstances, and the role of the benefit system in encouraging individuals to enter or remain in work when their level of impairment is not too significant a barrier to them doing so.
- » That **piloting and testing approaches and interventions will be necessary**. This is particularly the case when we have a poor understanding of what works, or when the data currently available gives insufficient evidence to estimate the impact of a proposal (and therefore its costs and benefits).
- » That **funding must be sufficient for the scale of the challenge**, in particular reflecting the potential beneficial impacts of policies over a longer time-frame than usually considered. On this basis, not all of our proposals are cost-neutral in the longer term.

Guided by these principles, we do not place a great deal of emphasis on the structure and generosity of benefits, or assessment for benefit receipt via the Work Capability Assessment, in the recommendations that follow. This is not to downplay the importance of getting these things right, but it reflects both an acknowledgement of the fact that much attention has been directed to this part of the system recently (with a high degree of change already in progress), and our contention that the disability employment challenge is much larger than that captured by a welfare focus.

Finally, we do not offer these recommendations fully formed, but rather suggest key elements and options for consideration by the government and others, in the first instance in the Green Paper due later this year.

Creating an overarching framework for a focus on employment exits

Before turning to our recommendations at different stages of the journey discussed in the previous section, our first recommendation considers the renewed political agenda around disability employment. We see an opportunity to make explicit a focus on the employment relationship and the need to reduce the rate of employment exit.

i Recommendation 1: Alongside its ambition to halve the disability employment gap, the government should establish a disability employment outflow reduction target, as a framework to underpin efforts to reduce the rate at which people become detached from the labour market due to disability and ill-health.

We suggest that both the forthcoming Green Paper and the current Work and Pensions Committee inquiry into halving the gap explore how an explicit exit reduction target should be measured and monitored, and the scale

of improvement that should be targeted. We suggest this should be set with clear reference to the potential contribution to the overall ambition to halve the disability employment gap.

One option for an outflow reduction target would be to use measures captured in the Labour Force Survey, such as those we presented in Section 3. Reflecting on some of the uncertainties in the headline disability employment measures in discussed in Box 1, such a target could sit alongside the overall disability employment gap ambition and measures from other sources as one of a basket of indicators for accurately and comprehensively capturing disability employment performance.

Improving support when in work

We now turn to the regulatory aspects of the employer-employee relationship. In the previous section, we discussed the relatively light requirements on employers with regard to the incidence of sickness and disability within the workforce, in contrast, for example, to countries where quotas are in operation. We note that such approaches can have impact, though success has been mixed. Ultimately, these approaches don't seem appropriate for the UK's flexible labour market model.

On the other hand, the Access to Work Programme is frequently cited as a key tool in supporting disability employment in the UK, although lacking the public awareness and reach to maximise its impact. We see a need to address this as part of an employment retention agenda.

i Recommendation 2: The government should make more of the apparent success of the Access to Work Programme by opening it up and expanding it. In the longer term, the government should consider integrating it with the Fit for Work Service as part of a unified occupational health architecture.

Building on the commitment in the 2015 Spending Review to a real-terms increase in Access to Work funding, we suggest that the government explores ways to enhance this programme's role in supporting people with health problems or disabilities to remain in work. This should include opening up referral routes so that GPs and employers can initiate applications for support, with a corresponding awareness campaign including prominent reference to Access to Work within the fit note process for GPs. Concerns raised by disability charities and others around implementation issues and cuts to funding for

certain kinds of support should also be addressed.

In the longer term, we suggest that more substantial funding increases will be required, coupled with a renewed awareness and publicity drive so that the programme reaches all those in work that it has the potential to help. This may be best addressed within an integrated and expanded occupational health 'architecture', bringing together Access to Work and the Fit for Work Service into a comprehensive system for workplace-based, health-related retention and rehabilitation support.

Reforming sickness absence

We have highlighted the relatively limited expectations on employers and employees during periods of sickness absence in contrast to other countries; the flexibility around dismissal; and the lack of formal obligations beyond the SSP period. This is in contrast to the other key area of statutory pay – maternity – where there is a clearly defined one-year period during which dismissal on grounds of pregnancy or motherhood is not allowed, and a separation between the period of statutory pay and the employment relationship. As we noted in our full employment investigation, this and other changes to the policy environment around maternal employment have led to a step-change in outcomes over the past two decades, and should be regarded as a key

success in UK labour market policy.^[76]

To further set expectations for reducing employment outflows in relation to health and disability, and following the approach in other countries including Spain, Canada and the Netherlands, we see an opportunity to borrow from this successful policy agenda.

i Recommendation 3: The government should learn from the success of maternity policy by introducing a statutory ‘right to return’ period of one year from the start of sickness absence.

This would introduce a clearly demarcated period of time, extending beyond the current Statutory Sick Pay period, during which employers would keep the same job available to return to (or an equivalent one as in the second six months of maternity leave). Conventions around contact between employers and employees, and notices of return to work, could also operate in a similar fashion to maternity leave.

During this right to return period, dismissals on sickness grounds would not be permitted, except in instances

where the employee actively disengages from support and rehabilitation. As with maternity leave, dismissals and redundancies would still be possible on other grounds.

A one-year right to return would not affect SSP rules or entitlements, or impose any additional *direct* costs on employers.

Of course sickness absence is not the same as maternity leave in many respects. A key difference is the fact that many people with health problems or disabilities experience a number of distinct periods of absence over time, rather than one continuous period. How this is dealt with would need to be considered carefully. One option would be that separate absences would count cumulatively as part of the right to return period using the same rules surrounding linked periods of sickness for the purposes of SSP (intervals of fewer than eight weeks, up to a maximum total period of three years).

A further option that ought to be considered alongside the introduction of a right to return is how the adoption of ‘disability leave’ can be further encouraged, a policy championed by organisations including the TUC. Disability leave covers things including (but not limited to) appointments, therapy, treatment, recuperation, or time when the employer is completing adjustments. It is designed to be treated separately from sickness absence in terms of its consideration in capability procedures (and could also be ignored when measuring the right to return period), and often operates in a similar way to compassionate and other leave categories that many employers offer. To further encourage adoption, the government could make specific reference to disability leave as an example of a reasonable adjustment, or explore options for incentivising employers to introduce it on a voluntary basis.

In the first instance, we suggest that the government consults on the finer details of how a right to return policy and the other changes mentioned here might function.

A prerequisite of a right to return that prevents dismissal on sickness grounds would be to ensure that it does not encourage employees to prolong absence unnecessarily or delay return when it is appropriate. In addressing this challenge, we also see an opportunity to encourage more engagement with occupational health services than is currently the norm.

[76] P Gregg & L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016

i Recommendation 4: To encourage progress towards returning to work and protect firms against the risks of abuse, an employee's right to return should be conditional on engagement with the Fit for Work Service when an assessment has been recommended.

The Fit for Work Service is a voluntary programme, and under this recommendation it would remain so. However in instances where employers suggest an occupational health assessment would be beneficial in clarifying the capability of the individual or supporting a return to work, employees would need to engage in such an assessment in order to retain their right. While not engaging with Fit for Work would not in itself provide grounds for dismissal, it would

open up the possibility of dismissal on capability grounds connected to sickness absence (as is the case currently).

We suggest that the government considers the precise changes to the legal framework surrounding dismissals that would support such a condition, and any changes to the Fit for Work Service (beyond those considered in subsequent recommendations) that might be necessary.

We have highlighted the relative lack of incentives for employers to engage with supporting a return to work for employees during extended periods of sickness absence (beyond the cost of SSP itself), in particular compared to countries like the Netherlands. Within the broad legal and cultural framework of a statutory right to return, we see an opportunity to sharpen these incentives.

i Recommendation 5: By way of sharpening incentives for employers to engage with supporting a return to work, the government should offer a rebate on Statutory Sick Pay costs to firms whose employees make a successful return to work from long-term sickness absence within one year.

We suggest that the government explores options for rewarding those employers who support their employees who are on sickness absence to return to employment within the statutory right to return period (including when a benefit claim is in progress), in certain circumstances. This would be via a rebate of some or all of SSP costs (amounting to up to £2,500 per employee).

The objective would be to encourage a change in behaviour around supporting and accommodating returns. Therefore we suggest the government considers the merits of targeting the scheme to maximise behavioural change, and to minimise deadweight and cost. For example, the incentive could be available only to smaller firms where

retention is known to be worse, and where OSP and absence management policies are less common. Or it could only be limited to certain phases of the right to return period, such as after SSP has been exhausted (which would reduce costs and deadweight risks, but could create incentives to delay return if poorly structured).

What constitutes a successful return should also be specified, including minimum length of continued service. Our view is that changes in working hours or job role should be allowed within this definition, in order to accommodate appropriate adjustments and redeployment within the firm to a more suitable role.

Practically, this SSP rebate could operate via a similar system to the old 'Percentage Threshold Scheme' that previously allowed some employers to recover high SSP costs via the National Insurance contribution system.

Should this scheme achieve its objectives and support a higher level of retention and return, it would reduce benefit spending to some extent via averting claims or speeding up off-flows. Such savings could form part or all of the funding envelope for the scheme. As a first step, we therefore suggest that the government pilots approaches to a Statutory Sick Pay rebate in order to quantify

impacts, benefits, and costs.

Looking more broadly than just the employer-employee relationship, we have noted the crucial role of GPs as gatekeepers at certain points in the sickness absence period, in terms of certifying sickness absence and in referrals to the new Fit for Work Service. Given the role of GPs was substantially reformed in 2010 with the introduction of the fit note system and appropriate guidance and training, it appears too early to make specific recommendations for a change of approach. However, it will be essential that this process continues to evolve and embed via further guidance, publicity and awareness-raising.

Similarly, the Fit for Work Service has only been in place for a period of months, so it is too early to draw firm conclusions on its success. However, given its centrality to our primary focus on reducing health-related employment outflows, we do see opportunities to maximise its potential in the short and longer term, and treat the self-employed more equitably.

i Recommendation 6: The government should open up access to and expand the Fit for Work Service to become a bigger instrument for vocational rehabilitation.

In the short term, given anecdotal evidence of low referral numbers, the key changes we suggest are:

- » Opening up eligibility so that the self-employed can access the service (including the tax exemptions for a portion of adjustment costs that employers can currently access)
- » Allowing employees and self-employed people to self-refer to the service, rather than it being contingent on GP or employer initiation
- » A new push on publicity and awareness, focused on employers, employees, self-employed people and GPs
- » The flexibility to begin an assessment earlier or later than four weeks of sickness absence; to extend support beyond three months of absence (the current cut-off point); and to conduct more than one assessment within a 12-month period.

In the longer term, reiterating what we said in Recommendation 2, we suggest the government considers integrating the Fit for Work Service with Access to Work as part of a unified and expanded occupational health and rehabilitation architecture.

Finally, we have raised concerns around those eligible for Statutory Sick Pay but not accessing it, particularly agency workers. This has both a personal cost to the individuals involved, and implications for the public purse in terms of benefit expenditure. While we don't make specific recommendations on this basis, we reiterate the call we made in our full employment investigation for renewed enforcement efforts. In addition, access to SSP for those eligible should be addressed in an information and publicity campaign also covering all of the wider changes we have proposed here.

Expanding support to re-enter employment

In the discussion so far in this section, we have focused on measures to maintain the relationship with and encourage return to the previous employer. This is very often the best opportunity for a positive outcome, however in some cases the particulars of the job or attitudes of the individual towards the employer can be a significant barrier to successful return. In these situations, we see a need for the system we have so far set out to offer alternative routes.

i Recommendation 7: The Fit for Work Service should be empowered to offer early referral to the Work and Health Programme to support progress to alternative employment when this represents the best chance of a positive outcome.

We suggest that such a referral should be at the discretion of the service as an alternative to a return to work plan, to be made at any point during the sickness absence period, including when SSP is in payment. Participation in the

Work and Health Programme for those referred should be on a voluntary basis, and by implication not contingent on out-of-work benefit receipt.

And reflecting on the current disjointed and inappropriately-targeted approach to employment support for those with health problems and disabilities, we see a clear need for a more coherent offer.

i Recommendation 8: The Work and Health Programme should adopt the best elements of Work Choice and the Working Well initiatives and offer a single, comprehensive, local employment support service for those with disabilities and health problems, regardless of benefit receipt.

We suggest that such a programme should include the following elements:

- » A substantial increase in funding (removing the current cap) to reflect longer-term invest-to-save benefits and the size of the potential caseload
- » Voluntary participation and engagement as the default approach
- » Local commissioning via devolution deals and other frameworks, incorporating local authority and European Social Fund money for a single local offer
- » Access to the programme for non-claimants (as was possible in Work Choice) via Jobcentre Plus, the Fit for Work Service and the local public employment services that we called for in our full employment investigation
- » Much less emphasis on price competition in the award of contracts than was the case in the Work Programme commissioning process
- » A lesser emphasis on the payment-by-results funding model, with payments increasing with successive outcomes for each cohort of participants (so-called 'accelerator' models) rather than being solely determined by benefit claimant group
- » To further mitigate against participants being 'parked', clearer specifications of minimum service levels than was the case in the Work Programme, with provisions for supported employment, and effective engagement with health services
- » The availability of an 'innovation fund' – additional to standard programme funding – that providers can bid into for rigorous testing of genuinely new approaches.

Enhancing work incentives

We have noted the role of a strong financial incentive to remain in or re-enter work for some people with health problems, while acknowledging that for many impairment levels and other barriers mean these will not prove effective. For the group for whom incentives can influence behaviour, we reiterate the recommendations of our in-depth investigation into Universal Credit, which were designed to reinstate its potential impact on work incentives.^[77]

i Recommendation 9: In order to make the most of the key advantage of Universal Credit – namely to ensure that everyone is better off in work – ‘work allowances’ for disabled recipients should be significantly boosted. As a minimum, they should be restored to the value originally intended, and in the longer term increased.

We also suggest that the worse treatment within the Universal Credit system of individual Income Protection insurance policies (available to self-employed people)

compared to group Income Protection policies (available only to employees) is changed.

A new approach to boosting employment for people with health problems and disabilities

In this section we have set out a number of ideas for improving employment outcomes for people with health problems and disabilities. We have particularly focused on reducing employment exits by improving support and incentives at earlier stages of the journey from employment, to sickness absence, to worklessness and possible benefit receipt. Our nine recommendations are by no means exhaustive, but as a package we think they provide a good starting point. They are summarised in Table 3.

[77] D Finch, *Universal Challenge – making a success of Universal Credit*, Resolution Foundation, May 2016

Table 3: Summary of recommendations

Creating an overarching framework for a focus on employment exits
<p>Recommendation 1: Alongside its ambition to halve the disability employment gap, the government should establish a disability employment outflow reduction target, as a framework to underpin efforts to reduce the rate at which people become detached from the labour market due to disability and ill-health.</p>
Improving support when in work
<p>Recommendation 2: The government should make more of the apparent success of the Access to Work Programme by opening it up and expanding it. In the longer term, the government should consider integrating it with the Fit for Work Service as part of a unified occupational health architecture.</p>
Reforming sickness absence
<p>Recommendation 3: The government should learn from the success of maternity policy by introducing a statutory 'right to return' period of one year from the start of sickness absence.</p>
<p>Recommendation 4: To encourage progress towards returning to work and protect firms against the risks of abuse, an employee's right to return should be conditional on engagement with the Fit for Work Service when an assessment has been recommended.</p>
<p>Recommendation 5: By way of sharpening incentives for employers to engage with supporting a return to work, the government should offer a rebate on Statutory Sick Pay costs to firms whose employees make a successful return to work from long-term sickness absence within one year.</p>
<p>Recommendation 6: The government should open up access to and expand the Fit for Work Service to become a bigger instrument for vocational rehabilitation.</p>
Expanding support to re-enter employment
<p>Recommendation 7: The Fit for Work Service should be empowered to offer early referral to the Work and Health Programme to support progress to alternative employment when this represents the best chance of a positive outcome.</p>
<p>Recommendation 8: The Work and Health Programme should adopt the best elements of Work Choice and the Working Well initiatives and offer a single, comprehensive, local employment support service for those with disabilities and health problems, regardless of benefit receipt.</p>
Enhancing work incentives
<p>Recommendation 9: In order to make the most of the key advantage of Universal Credit – namely to ensure that everyone is better off in work – 'work allowances' for disabled recipients should be significantly boosted. As a minimum, they should be restored to the value originally intended, and in the longer term increased.</p>

There is no silver bullet for improving disability employment outcomes, and a focus on the policy areas we have highlighted should not detract attention from the role of the benefit system, or the need to provide intensive employment support to those who have been out of work for long periods. However, we think that many aspects of the approach we suggest are generally missing from policy thinking in this area. The government's laudable but hugely stretching ambition to halve the disability employment gap necessitates a new and much more comprehensive approach, and we suggest that this should have reducing exits from employment connected to disability and ill-health at its heart.

Section 6

Conclusion

The recent slowdown in employment growth following the remarkable gains of the past four years signals a new phase in the development of our labour market. In this post-crisis phase significant further employment gains, if they are to be made, will require big employment increases within disadvantaged groups, most prominently people with disabilities who have consistently registered the lowest employment rates. That was the conclusion of our recent investigation into full employment, and this report builds on that one by setting out a fuller description of the disability employment challenge and a more comprehensive set of recommendations for reform.

As well as the economic imperative of progressing to full employment, an ageing workforce and the greater prevalence of mental health and fluctuating conditions within it suggest the health and disability challenge within the non-retired population is growing and changing. This underscores the need to focus on labour market outcomes for people with health problems and disabilities.

Therefore it is very welcome that this government has adopted the ambition of halving the UK's disability employment gap. This gap is a far-too-large 34 percentage points, and a 1.5 million increase in the number of disabled people in work would be needed to halve its size within this parliament. While progress in recent decades has been modest at best, large geographic variations in disability employment performance provide grounds for hope that substantial improvements are possible.

In identifying where disability employment policy ought to focus, we highlight a particular challenge around employment retention, where the evidence suggests performance has deteriorated in recent years. This is perhaps a reflection of a policy environment very often focused on the related-but-distinct issue of sickness and disability benefit caseloads and spend, and the challenge of supporting employment entry for those out of work. These are very important issues and we do not want to see resources taken away from them. But we suggest that a parallel emphasis on the employment relationship and health-related 'journeys' from employment, to sickness absence, to worklessness and possible benefit receipt is needed.

Our review of the current policy offer suggests a lack of support and incentives for either firms or workers to take action during the earlier stages of this journey, and in particular during periods of sickness absence. This is particularly concerning as it means support is often effectively delayed until at least nine months out of work, after Statutory Sick Pay has been exhausted and a benefit assessment conducted, when the chances of re-entering employment have reduced dramatically.

There is no single way to improve the system, and we emphasise that what is needed perhaps above all is a cultural shift among employers and employees around retention and rehabilitation. However we do see opportunities for policy to improve the current landscape, and on this basis we offer nine recommendations for reform. These recommendations are not always fully specified, but rather suggest key elements and options for consideration by the government and others. In the first instance, we hope that they will be incorporated and developed in the Green Paper on employment for those with health problems and disabilities that is due to be published later this year.



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