



House of Commons
Work and Pensions Committee

**The Government's
Employment Strategy:
Government Response
to the Committee's
Third Report of Session
2006–07**

**First Special Report of Session 2006–
07**

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The Work and Pensions Committee

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First Special Report

1. The Work and Pensions Committee agreed its Third Report of Session 2006-07, The Government's Employment Strategy, on 7 February 2007. The Report was published on 21 February as House of Commons Paper No. 63.

2. We have now received the Government's Response to this report in the form of a memorandum from the Secretary of State for Work and Pensions. This memorandum is printed as an Appendix to this Special Report.

Government response

Introduction

3. The Government welcomes the Third Report of the Work and Pensions Select Committee session 2006-07 on the Government's Employment Strategy. The Department for Work and Pensions ('DWP' or 'the Department') shares the Committee's concerns, and aims to continue removing the barriers to employment that people face and extending the opportunity to work to all.

4. Employment is up by more than 2.5 million since 1997, and the UK now has one of the strongest labour markets in the world; with the best combination of employment and unemployment in the G8, and one of the best in the EU. The current suite of welfare to work policies is recognised both nationally and internationally as highly effective, and the New Deal and Pathways to Work have extended employment opportunities to groups who were previously left behind.

5. The Government recognises that there is still more to do to help the most disadvantaged individuals and families. That is why our strategy for achieving an 80% employment rate focuses on reducing the numbers of people on incapacity benefits by a million, increasing the number of lone parents in employment by 300,000 and increasing the number of older workers in employment by one million. The Department is continuing to evaluate and improve its welfare to work policies, which will be informed by the report from David Freud¹ and the refreshed Child Poverty strategy.²

6. This memorandum focuses on responding to the specific recommendations made by the Work and Pensions Select Committee in their report.

Conclusions and Recommendations

1. We welcome the setting of an employment rate aspiration and the DWP's commitment to making sure everyone has the opportunity to work. (Paragraph 17)

¹ March 2007, *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, by David Freud. <http://www.dwp.gov.uk/welfare-reform/seminars/>

² March 2007, *Working for Children*, (Cm 7067)

7. The Department welcomes the Committee's support for the setting of an employment rate aspiration. The aim to achieve an employment rate of 80% is a significant challenge – the most significant commitment ever made by government in the area of employment policy, given that this country is already at record levels of employment.

2. We recommend that the DWP produce a clear list of the groups which it thinks should not be expected to work, together with estimates for the percentage of the UK's working age population which fall into each of the groups it has identified. We recommend that it should then take the percentage of the population which remain as its long-term employment rate aspiration. (Paragraph 22)

8. A key element of the Government's strategy in increasing the overall employment rate is to raise the aspirations of those who are economically inactive so that, wherever possible, they can re-enter the labour market. The Department's view is that producing a list of groups not expected to work would be likely to limit the aspirations of those who could potentially re-enter the labour market with the right support. It would prevent the Department from delivering on its commitment to extend employment opportunities to all.

9. Any estimation of the numbers of people who would not be expected to work is likely to be very unreliable, particularly in relation to disability, ill health and fluctuating health, as different conditions will affect individuals, and their capacity for work, in very different ways.

10. The Department does not expect the employment rate of all disadvantaged groups to be the same. There will be many disabled people and carers, for example, for whom employment is not a viable option. The focus of the Department's existing Public Service Agreement (PSA)³ is therefore to narrow the gap between the employment rate of disadvantaged groups and the overall rate; that is, to build towards full employment of these disadvantaged groups, where it is appropriate to do so.

3. We therefore recommend that the DWP publish employment rate measures relating both to the ILO definition and to those who work for 16 hours a week or more. (Paragraph 23)

11. Employment is already broken down between full and part-time jobs (i.e. 30 hours plus) in the monthly Labour Market Statistics produced by the Office for National Statistics.

12. For many people, work of less than 16 hours a week is a key part of their life. Jobs of 15 hours or fewer are not necessarily of less importance than jobs of 16 hours (for example, where the individual has caring responsibilities or is working part-time as part of work related activity to help move back to full-time work). The Department's view is that jobs of less than 16 hours a week should continue to be recognised as an important element of the UK labour market. Publishing a separate employment rate that excludes those working for less than 16 hours would send out a negative message to those people – that we do not value their contribution to the labour market.

³ http://www.hm-treasury.gov.uk/media/658/F3/sr04_psa_ch15.pdf

Responsibility for publishing this information would sit with the Office for National Statistics (ONS).

4. The measure of the working age population should continue to start from the school leaving age, whatever that may be. The issue of NEETs aged 16-18 will remain a crucial one, and we note that DfES publishes a measure of the numbers of people aged 16 to 18 in employment or training. (Paragraph 35)

5. However, for the sake of clarity, we recommend that the DWP retain the link between the employment rate and the SPA. The measure should, of course, change in future in line with planned increases in SPA. (Paragraph 37)

6. We conclude that an employment statistic expressed in terms of a percentage, but which does not actually represent the proportion of any single group which is in employment, would be misleading. The measure used by the DWP to track progress towards the employment rate aspiration should be a rate and not a ratio. (Paragraph 42)

7. As we have explained above, we think that the figure of 80% needs to be more firmly grounded by an explanation of who is expected to be within the remaining 20%. If the DWP is going to take the employment aspiration seriously, then it ought to include it within its PSA targets arising from the next Comprehensive Spending Review. This could be done by agreeing more ambitious targets for raising the employment rate than the current PSA target (Paragraph 43)

13. Currently, the UK employment rate is measured in terms of a 16-59 age bracket for women and a 16-64 age bracket for men. This differs from the Organisation for Economic Co-operation and Development (OECD) measure of employment, which is based on a 15-64 age bracket for both men and women.

14. As State Pension age is gradually equalised, a decision needs to be taken on when the UK should begin to measure employment on the basis of a 16-64 age bracket for both men and women. One option is to raise the upper age limit gradually, alongside the changes in State Pension age. This would entail a series of changes to the employment measure between 2010 and 2020. The Department will discuss with the Committee when considering which measure to use in the future.

15. The Committee's suggestion of raising the lower age limit of the UK employment measure alongside any changes to the school leaving age would make meaningful international comparison more difficult.

16. In order to track progress towards the 80% employment aim and to take into account the changes arising from State Pension age equalisation, the Department proposed the addition of the ratio of all people over the age of 16 who are in employment as a proportion of those aged between 16 and 64 to the existing suite of measures of employment. The ratio would not replace any of the existing measures. The OECD uses just such a ratio as one of their suite of measures of employment for the purposes of international comparison.

17. However, in light of the Committee's views, we will need to reflect upon the approach to measuring progress towards 80% and how the Department describes its ambitions to

extend working lives to people above State Pension age. Already over a million people are working beyond State Pension age and the current measure does not take account of this.

18. Any changes in the approach to tracking progress towards 80% employment will entail a re-examination of the appropriateness of the 80% aim itself and of the aspirations or lower level aims that will be the building blocks for achieving the 80% aim.

8. We recommend that the DWP agree a PSA target of increasing the proportion of people over State Pension age who work. (Paragraph 39)

19. The Department already recognises the importance of increasing opportunities for workers above State Pension age (SPA) in the current PSA targets for over 50s (which considers 50 to 69 year olds). As part of the 2007 Comprehensive Spending Review (CSR2007) process, the Department is working closely with the Treasury and other government departments to develop its new PSAs. These will form part of a revised performance framework which will reduce the number of PSAs to 30-40 high-level cross-government ambitions. The PSAs will be published when CSR2007 is finalised in the autumn.

20. However, as working over State Pension age is a matter for individual choice and the Government has no policies to require people over SPA to work, whilst it is important to open up opportunities for them should they choose to do so, it would not be appropriate to measure this in the form of a target. Information on the numbers of people in work of SPA is already published by the ONS and in the Department's Older Worker's Statistical Information Booklet.⁴

9. We have recommended above the way in which we think the employment rate aspiration should be calculated. In setting a new PSA target for the employment of disadvantaged groups, we recommend the DWP make clear how far achieving the sub-targets will take it towards its employment rate aspiration. The DWP should specify the timeframe within which it wants to achieve the targets which it has set for the employment rates of disadvantaged groups, and, based on this, the timeframe within which it hopes to achieve the employment rate aspiration. (Paragraph 46)

21. The Department has already announced that it aims to increase the employment rate of lone parents to 70% by 2010 and that the aim to reduce the number of people dependent on incapacity benefits by one million will be within a decade (i.e. 2016).

22. The aim to increase the number of older workers by one million net of demographics is a longer-term aim and it becomes very difficult to forecast employment rates with any accuracy as you move further into the future. Therefore, it is also very difficult to set a meaningful long-term timeframe for achieving this aim.

23. Similarly, the timeframe for achieving the 80% employment rate (as set out by the Department) is difficult to estimate. The number of people in work has increased by over 2.5 million since 1997. However, this equates to only a 2 percentage point increase in the employment rate. Reaching 80% employment would require a further rise of between 5.4 and 7.6 percentage points and so it is clearly a long-term aim. Given the previously

⁴ <http://www.agepositive.gov.uk/publications/index.asp>

mentioned changes in State Pension age and the notoriously difficult task of predicting demographics over such a long time scale it would be unrealistic and unhelpful to set a fixed target date so far in the future for the achievement of an 80% employment rate.

10. The Committee is concerned that, apparently, no progress has been made in piloting BoND and concludes that there is a lack of clarity in the information the DWP has provided on what has happened to the programme and the extent to which delays were the result of resource constraints. We ask for an explanation in response to this report. (Paragraph 73)

11. Evidence to this inquiry has led us to conclude that there would be clear advantages in allowing greater flexibility in employment programmes to respond to individual needs and local labour market conditions. We recommend that the DWP pilot BoND, or a programme based on the same principles, as soon as possible, and also incorporate those principles into the Cities Strategy. (Paragraph 77)

24. In the pilot areas, Building on New Deal (BoND) was designed to be cost neutral – to spend the same on back to work programmes as was spent through the New Deals and Work Based Learning for Adults. But we decided to prioritise support for incapacity benefits customers through the roll-out of Pathways to Work.

25. The Department is still committed to the BoND principles of customisation, localisation, and flexibility. These are now being taken forward as part of the city strategy, with the pathfinder areas having been asked to develop plans which set out how they would use greater responsibility for delivery to improve the effectiveness of local provision, and what support they need from government to achieve this. The Department is considering how to develop these principles, get the best value for money, and fulfil the Government's child poverty ambitions within the CSR 2007 settlement resources. Decisions on the shape of employment programmes and back-to-work support in the future will also be taken in the light of the report from David Freud, which the Government will be responding to in the summer.

12. We welcome the agreement to pilot re-using benefit savings as part of Pathways, and recommend that the DWP continue to press the Treasury to allow further pilots of this in the Cities Strategy. We consider that the ability to re-use benefit savings will encourage the DWP to innovate, and consider that, if successful, it should be introduced across the DWP's employment programmes in future. (Paragraph 74)

26. The Department notes the Committee's comments on the potential re-using of benefit savings from Pathways, and will bear these comments in mind in its continuing discussions with the Treasury.

13. The demand-led approach exemplified by Ambition and Fair Cities is promising, but resource-intensive. We welcome the news that Ambition is to be relaunched, and recommend that the DWP consider extending the Fair Cities programme to more areas. We recommend that the DWP explain in detail how it will incorporate lessons learned from these two programmes into other initiatives, such as the Cities Strategy. (Paragraph 101)

27. The Department agrees with the Committee's view that there is merit in extending the Fair Cities approach to other areas, but believes the best way to do this will be through informing the delivery of the city strategy rather than through additional stand-alone initiatives. This is also in line with the views of the National Employment Panel (NEP).

28. City strategy pathfinders were required to set out in their business plans how they will improve engagement with local employers, building on what is working well within existing provision. The Fair Cities model has been influential for a number of the city strategy pathfinders, who have incorporated elements of the model into their proposals.

29. The Department proposes to disseminate to city strategy pathfinders the results of the interim evaluation of Fair Cities so they can take this evidence into account as they continue to develop their approach to employer engagement. The Department is also planning to develop a 'learning network' later in 2007 to support the sharing of innovation and evidence of good practice more widely, both between city strategy pathfinder areas and with non-pathfinders.

30. The Ambition pilots demonstrated the Department's ability to work closely with employers in a demand-led environment. Although Ambitions were successful in their stated aims, the cost of each additional job entry was more than three times that achieved through the New Deal for Young People. The decision was therefore taken not to continue with the Ambition programme, and there is no current plan to re-launch it.

31. However, in response to the gap created by the withdrawal of the Ambition programme the Learning and Skills Council (LSC), Jobcentre Plus and the Sector Skills Development Agency (SSDA) are working together to develop a national sector routeway framework. The final routeway is not yet agreed but it is anticipated that this will be driven by the demands of employers who are willing to invest and support individuals with ongoing skills development. Through the routeway individuals who are excluded from the labour market will gather the initial employability skills required by employers. Individuals and employers will be supported throughout the journey and into progression through apprenticeships and Train to Gain.

14. We recommend that the DWP should use a new definition of sustainable employment of 26 weeks, both in its targets for Jobcentre Plus and contracted-out provision. We also recommend that the Government liaise with employers organisations to promote sustainable employment. (Paragraph 109)

32. The Department will be considering the Committee's recommendation of a new definition of sustainable employment of 26 weeks alongside the recommendation in the Leitch Review of Skills of rewarding "retention in work for at least a year".⁵ The Department will be analysing data from the Employment Retention and Advancement demonstration⁶ alongside data from other pilots that have a retention element built-in to them, to determine at which point customers should be considered to be in sustained work.

⁵ December 2006, *Prosperity for all in the global economy – world class skills*, Final report of the Leitch review of skills. Page 133. http://www.hm-treasury.gov.uk/media/523/43/leitch_finalreport051206.pdf

⁶ Dorsett, R. et al (2007) *Implementation and first year impacts of the UK Employment and Retention and Advancement (ERA) demonstration*. DWP Research Report No. 412. <http://www.dwp.gov.uk/asd/asd5/rports2007-2008/rrep412.pdf>

33. As part of the 2007 Spending Review process, we are also exploring incorporating an indicator around sustainable employment into the new Employment PSA.

34. The Department's aim is for individuals to remain in work in the longer term, not merely for 3 or 6 or even 12 months. The purpose of monitoring sustainment over a shorter period is twofold: statistics show that the risk of becoming workless decreases over time, outcomes in the short to medium term are a good indicator of longer term outcomes and, secondly, to ensure that providers are incentivised to provide practical support to individuals during the period of greatest risk of falling back onto benefits. In setting the appropriate period, a balance needs to be struck between wanting to encourage and monitor sustainment over as long a period as possible and the practicalities of contracted provision. This aspect of employment programmes will be considered as part of the Department's review of disability employment services and the response to the report from David Freud.

35. The Department agrees with the Committee about the need to promote sustainable employment. Jobcentre Plus is working with the Skills for Business Network to better understand employers' recruitment needs in order to help jobseekers gain a better appreciation of what is required of them to obtain and stay in work. In addition to this, the Department maintains strong links with the National Employment Panel, who provide policy advice and ideas on helping unemployed people gain, keep and advance in employment.

15. We recommend that the Government liaise with employers' organisations to promote take-up of the Skills Pledge. It should set out a timetable for assessing delivery on the pledge. We also note with interest Lord Leitch's proposal that the introduction of a statutory entitlement to workplace training at Level 2, in consultation with employers and unions, should be considered following a review in 2010 of progress in employer delivery. We intend to monitor developments and revisit the issue if necessary. (Paragraph 119)

36. The Government welcomes Lord Leitch's proposal for the development of a 'Skills Pledge'. Government is discussing with employers and their representative associations how it can best reinforce a shared responsibility for workforce development. The National Skills Envoy, Sir Digby Jones, is already working to highlight the process to the business community as it emerges; and to persuade employers of all sizes and sectors to make the Pledge.

37. Employers make certain commitments and receive support when they engage with Train to Gain, and the Government would want any Pledge scheme to fit with that approach and avoid duplication. The Government also needs to explore the links between the Skills Pledge and Investors in People; there is at least the potential for mutual signposting between the two, and potentially more.

38. The Government will engage with a wide range of stakeholders over the coming months to consider what an entitlement to workplace training should look like in outline. But the really detailed design, and when it might be implemented, will be taken forward by the Commission for Employment and Skills.

16. The Leitch report sets out a compelling argument for an overhaul of the UK's skills strategy. Better skills provision is essential if the DWP is to achieve its employment rate aspiration; increasing workplace training, and the relevance of qualifications to the needs of employers, will improve in-work advancement and make an important contribution to job sustainability and retention. We are concerned that, as yet, there has been no commitment to financing the implementation of Lord Leitch's proposals. The Government should be prepared to make a significant early investment in skills provision, in order to reap these rewards. (Paragraph 123)

39. The Government is already investing heavily to deliver the current set of challenging skills targets, and will consider the spending implications in the context of CSR 2007 when formally responding to the Leitch Review. However, the Government cannot deliver Leitch's ambition with public funding alone. Leitch recommends a clear financial balance with responsibility shared according to economic benefit. It is only right that at higher levels, where the returns are greater, that employers and individuals should bear a greater proportion of the costs of learning.

17. The DWP should clarify in what ways the benefit entitlements of people out of work who use Learner Accounts will be affected and what particular impact such participation will have on the job search obligations of those who claim Jobseeker's Allowance. (Paragraph 129)

40. With Learner Accounts still in development, the Department cannot as yet have the definitive answer as to how they will operate alongside Jobseeker's Allowance (JSA) and other benefits. The Department for Work and Pensions is working closely with the Department for Education and Skills (DfES) and the LSC on the development of Learner Accounts, to ensure that eligible learners who are out of work can benefit from skills developments through this initiative.

18. The DWP should consider the interaction between basic skills training and short-term job placements, and set this out clearly in its response to this report. (Paragraph 130)

41. DWP, DfES and the LSC are currently working together on the development of a new voluntary basic skills programme specifically designed for Jobcentre Plus customers. Continuity of learning will be one of the development considerations. Additionally, DWP and DfES colleagues will consider the issues of how best to support the transition from out-of-work to in-work skills as part of the Government's response to the Leitch Review's recommendation for an integrated employment and skills service.

19. Accepting that the issue of what effect migrant labour may have on the UK labour market is a complex one, we conclude urgent, up-to-date, high quality independent research is required. This research should consider the impact of different groups of migrants, particularly those with high and low skills, in different local employment markets in the UK. Such research should be published. (Paragraph 137)

42. In February 2006 the Department published a working paper on the impact of free movement of workers from Central and Eastern Europe on the UK labour market.⁷ A copy has been placed in the House Library.

43. The paper was produced in conjunction with an independent academic from Leicester University and assessed the impact of accession country migration on claimant unemployment at local authority district level. The research found that there has been no discernible statistical evidence of accession country migration contributing to higher claimant unemployment.

44. The Department continues to work with independent academics to monitor the impact of migration on the labour market.

20. We recommend that the Government include, in its response to the Leitch review, details of how the transition from out-of-work to in-work skills support can be facilitated and how such an approach will be reflected in job entry and learning outcome performance targets. (Paragraph 141)

45. Lord Leitch's recommendations included creating a new integrated employment and skills service, with an objective of sustainable employment and progression shared between DfES and DWP. Extensive work is underway to look at indicators which measure sustainable employment and progression effectively, and how these overarching objectives may be cascaded down into the delivery objectives of Jobcentre Plus and the Learning and Skills Council to drive the front-line to deliver on these proposals.

21. We recommend that the ESC have within its remit a requirement to continue the employer-led work which the NEP has carried out in order to improve the employment chances of people from ethnic minorities and other disadvantaged groups. (Paragraph 142)

46. The role of the Commission for Employment and Skills includes the remit to build on the work currently being carried out by the NEP, as well as the Skills Alliance and the SSDA. The Government wants to ensure in developing the remit of the Commission that an integrated employment and skills service tackles disadvantage and improves the sustainable employment and progression opportunities for ethnic minorities and other disadvantaged groups to help reduce the disparity in unemployment rates.

22. Centralisation of procurement may reduce the extent to which Cities Strategy consortia can make locally appropriate decisions. We recommend that the DWP make clear how consortia will be able to "influence" procurement decisions, and ensure that they have a significant role in choosing providers. Consortia should be able to control at least some funds directly; [for example, their allocation from the Deprived Areas Fund as recommended below in Chapter 9]. (Paragraph 178)

47. The Department has centralised its procurement function and this is now undertaken by five operational procurement units. The decision to centralise was taken to achieve a more professional service and introduce a national set of standards. With the advent of city strategy, the Department has developed a set of enabling measures to support the work of

⁷ Gilpin, N. et al (2006) *The impact of free movement of workers from Central and Eastern Europe on the UK labour market*. DWP Working Paper No. 29. <http://www.dwp.gov.uk/asd/asd5/wp29.pdf>

pathfinder areas. This has already led to agreement that the Department will work with pathfinders covered by phase two of Provider Led Pathways to Work so they have the opportunity to influence the nature of the provision contracted for in their area. The Department has also proposed the establishment of a regular city strategy working group to look at the scope for greater local involvement in contracting and procurement.

48. On 2 April 2007, Ministers announced that city strategy consortia would be given direct control of their allocation from the Deprived Areas Fund, subject to the agreement of stretching targets.

23. We recommend that DWP publish the full list of flexibilities requested by the 15 Cities Strategy pathfinder areas, as it has published the initial Expressions of Interest. If it has decided not to grant any of the requested flexibilities, it should explain why. (Paragraph 185)

49. Requests for enabling measures have been included by local areas as part of their draft city strategy business plans submitted to the Department at the end of 2006. The Department is in the process of working with areas to complete the planning process prior to final plans being signed off. The intention is that business plans, once agreed, will be public documents. An Enabling Measures Board, with appropriate representation within government and from the pathfinders, was established to consider requests coming out of the city strategy and Local Area Agreements. Recommendations from the Board, which were announced on 2 April 2007, include improving data sharing, facilitating access to training for individuals that need it, and easing the transition to work. The Department agrees with the Committee that this process needs to be open and transparent, so that it is clear to localities the basis on which decisions have been made.

24. Unless the Cities Strategies are able to make use of core budgets from organisations such as Jobcentre Plus and the LSC, and make significant alterations to the way in which services are delivered, it is doubtful whether they will be able to achieve as much as the DWP hopes. We recommend that DWP clarify as soon as possible what budget and programme flexibilities will be available to the Cities Strategies. We recommend that it be bold in allowing local consortia to make real changes in order to tackle worklessness and social exclusion in cities. (Paragraph 186)

50. The Department agrees with the Committee that city strategy pathfinders could have an increasing impact on the way local services are delivered if the range of funding streams they are able to align, and influence, widens. In the short-term a significant proportion of departments' core budgets are committed to help and support provided under previously agreed contracts. In the longer-term the Department for Work and Pensions will take account of the evidence emerging from the pathfinder phase, as well as the views of the Committee, before taking decisions on how the extent and nature of consortia influence over provision should develop.

25. We recommend that the DWP's next set of PSA targets include a clearer target for increasing the employment rate of people over 50, as a stepping stone clearly linked to the achievement of the employment rate aspiration. (Paragraph 193)

51. As part of the Department's PSA target to promote work as the best form of welfare for people of working age the Department already has a target to increase the employment

rates of disadvantaged groups (which includes people aged 50 and over) and to significantly reduce the difference between the employment rates of these disadvantaged groups and the overall rate.

52. As explained in the response to recommendation number nine, the aim to increase the employment of people over 50 years by one million is a longer term aim. The Department does not anticipate that progress towards the extra million older workers, net of demographics, will be consistent year on year. The equalisation of State Pension age will make an important contribution and will only start to have an effect at the end of the next PSA target period. The usefulness of any specific target for the employment of the group over a short period would therefore be very limited.

26. We recommend that the DWP publish data on whether those employment programmes available to over 50s and under 50s are working equally well for both age groups, and this should be done at least yearly. Area based initiatives, including the Cities Strategy pilots, should be included in this data. The DWP should more explicitly monitor the participation of people over 50 in skills training programmes. (Paragraph 203)

53. The Department makes a variety of National Statistics data on its employment programmes available online through the Tabulation Tool.⁸ The programmes for which data is available are: New Deal for Lone Parents, New Deal for Disabled People, Employment Zones, New Deal for Partners, New Deal 25+, New Deal 50+. The data may be sorted by a number of factors, including "age group on joining the programme". The City Strategy evaluation is still being developed, and the Department will look at whether it is possible to include breakdowns of the pathfinders' performance by age.

54. Where DWP has ownership of skills training programmes, participation by age is monitored and published. The LSC also monitors and publishes data on learners on its funded programmes, including analyses by age. In addition, last year, the DfES published the National Adult Learning Survey 2005 which includes data on all learning, not just that funded through the LSC.

55. DWP officials are currently reviewing the Department's strategies to increase the employment rate of people over 50 and extend working life. This work has a particular emphasis on the contribution these strategies can make towards achieving the aim of 80% employment. As part of this work, officials have drawn in expertise and scrutiny from outside of the Department, and will share progress and draw in wider views at a seminar later in 2007.

27. As recommended in Chapter 3, the DWP should move towards a flexible New Deal along the lines of the Building on the New Deal proposals, and pilots of this programme should include people over 50. Allowing older people to become distanced from the labour market, and come to think of themselves as "early retired", is a loss to the economy, limits the choices of older people and increases their risk of poverty. We recommend that the DWP move towards making New Deal support available for this age group as soon as benefit is claimed. (Paragraph 209)

⁸ <http://www.dwp.gov.uk/asd/tabtool.asp>

56. Early access to employment programme provision has to be determined by degree of labour market disadvantage. It is important that resources are targeted at those in greatest need, and it should be borne in mind that around three-quarters of JSA customers aged 50 and over leave the register within six months of making a claim. The Department is currently exploring how greater flexibility can be introduced into the New Deal employment programmes through initiatives such as the city strategy pathfinders.

28. We recommend that the Government monitor, through the new CEHR or directly, the effectiveness of age discrimination legislation. (Paragraph 217)

57. The Commission for Equality and Human Rights (CEHR) has a duty to monitor the effectiveness of equality and human rights legislation. If the Commission identifies issues of concern about the practical implementation of the age regulations it would be expected to advise government and make recommendations as to how they might be addressed.

29. We welcome the Government's initiative on outlawing age discrimination, but we remain concerned that it still leaves people over 65 without adequate protection. Given that the State Pension age is due to rise steadily in future, and that there is a consensus in favour of making retirement a process rather than a cliff-edge event, we recommend that the Government reconsider its decision not to address this issue until 2011. (Paragraph 221)

58. The Employment Equality (Age) Regulations 2006 introduced significant new rights for people over 65. For the first time employees over 65 have a statutory right to ask to work beyond their normal retirement age. They benefit too from the removal of the upper age limit on unfair dismissal claims. The Default Retirement Age, combined with the new procedures requiring employers to give at least 6 months notice of retirement and to consider requests to continue working, will help create a change in culture which sees far less reliance on the old style cut-off for retirement.

59. The Government's formal review of the default retirement age in 2011 will be five years after the age regulations came into force and 13 years before the increase in state pension age begins in 2024. It will draw on the accumulated evidence from the monitoring of retirement age. Whilst some information will become available in the period leading up to the decision in 2011, the Government believes that it would be sensible not to come to any conclusions before then. Five years is a reasonable period in which to judge the practical effects of the legislation and the extent of the culture changes it will have achieved.

60. More information about the Government's strategy for monitoring and reviewing the default retirement age is set out in Annex D of the Final Regulatory Impact Assessment on Retirement Ages, published in March 2006.⁹

30. We conclude that Jobcentre Plus needs to do more to successfully engage harder to reach lone parents. The further increase in the frequency of WFIs announced in the Pre-Budget Report 2006 may not be an effective use of Jobcentre Plus advisers' time and may undermine the quality of the provision that is already there, making it more difficult effectively to engage disadvantaged lone parents in preparing for paid work.

⁹ <http://www.dti.gov.uk/files/file26518.pdf>

We recommend that DWP monitor carefully the success of the implementation of this measure. (Paragraph 248)

61. The Department agrees with the Committee that the Department must continue to build on its successful engagement with lone parents. Despite the number of lone parents dependent on benefits falling by 300,000 in ten years there is still a long way to go to meet the ambition of a 70% employment rate. The Department continues to develop its policies using its extensive evidence base and it has undertaken a review of the child poverty strategy. A number of reports have contributed to this review (including those from Lisa Harker and David Freud).

62. The increase in frequency of Work Focused Interviews announced in the Budget 2006 will ensure a labour market discussion takes place with lone parents to encourage them to join the New Deal for Lone Parents at an appropriate time and begin to plan a return to the labour market. In addition, Budget 2007 announced an expansion of English for Speakers of Other Languages (ESOL) provision in the London city strategy pathfinders as part of the Department's efforts to help harder to reach clients. As with all major initiatives the Department will carefully monitor the effect of introducing these measures.

31. The Committee welcomes the introduction of the Work Related Activity Premium, which appears to be a sensible way of engaging lone parents to prepare for work. We have received evidence, however, that targeting it at lone parents with secondary school age children may not be the most effective use of the programme, and we conclude that the DWP should consider making it available to lone parents with children of all ages on an opt-in basis. (Paragraph 249)

32. We recommend that, in its evaluation of the WRAP, the DWP should attempt to quantify the effectiveness of the quarterly work-focused interviews which accompany the WRAP payments. Particular attention should also be paid to whether the six months allowed is long enough to engage disadvantaged lone parents. (Paragraph 250)

63. As discussed in the recent paper Working for Children, the Department remains attracted in principle to the introduction of a Work Related Activity Premium for lone parents; but needs to consider how it might best be structured in a context where such lone parents would be expected to claim Jobseeker's Allowance. The Department thinks that this is the right strategic direction, as moving into work is the biggest factor associated with a move out of poverty. The Department will monitor and evaluate the effects of introducing the quarterly work-focused interviews and the Work Related Activity Premium. This evaluation will be published in due course and will inform the ongoing development of these measures.

33. We conclude that it is essential to ensure good links between voluntary and community organisations and Jobcentre Plus and the Learning and Skills Council to help engage lone parents with Jobcentre Plus provision. (Paragraph 251)

64. The Department agrees with the Committee's conclusion and Jobcentre Plus is continuing to build upon its good working relationships with the LSC, the Voluntary and Community Sector and employers to create opportunities for lone parents.

34. We recommend that Personal Advisers be given greater discretion over further benefit extensions. (Paragraph 256)

65. Extended payments of Housing Benefit or Mortgage interest payments and Council Tax Benefit are provided for people leaving Income Support, income-based JSA or incapacity benefits in order to take up employment. The duration of these payments is four weeks, to help the claimant until their first in-work payday. The Department considers that benefit extensions beyond this timescale have no policy justification.

66. People can receive support once they have moved into work if they are on a low income through Housing Benefit, Council Tax Benefit and Tax Credits.

35. We recommend that the Government ensure that lone parents receive advice on their existing employment rights. The Committee welcomes the piloting, in the New Deal Plus for Lone Parents, of measures which offer increased support for lone parents preparing for and moving into paid work. We recommend that a commitment be made in the Comprehensive Spending Review to roll out the effective elements of this nationwide, either as New Deal Plus for Lone Parents or as part of a more flexible Building on the New Deal programme, as recommended in Chapter 3. (Paragraph 258)

67. The Department agrees with the Committee that lone parents can benefit from sound advice on their employment rights. The Department is currently evaluating the New Deal Plus for Lone Parents and this evaluation will be used to inform any future commitments to extending elements of this programme wider.

36. We conclude that the performance of Jobcentre Plus and the New Deals in London will need to improve if the DWP is to have a chance of achieving its 70% lone parent employment target. Lone parents and other groups with low employment rates face particular barriers to work in London, including a lack of affordable childcare and high housing costs. We also recommend that the Government should examine the take-up rate of the childcare element of Working Tax Credit in London. (Paragraph 269)

37. We will follow with interest the evaluation of Employment Zones, and the development of the Cities Strategy pilots in London. We recommend that the DWP also consider offering enhanced incentives to work to lone parents in London, and ask it to set out how it intends to improve its performance in helping lone parents in London overcome the particular difficulties they face. As we have already recommended, the DWP should move towards a more flexible menu of provision for all. (Paragraph 270)

68. The Department agrees that there needs to be an improvement in the employment rate of lone parents in London. This is one of the areas that will be examined as part of the city strategy pathfinders in London. Jobcentre Plus has recently reviewed its structures and has appointed adviser managers across the country to support the improvement of internal processes and raise adviser capacity and capability. London Jobcentre Plus is currently working in collaboration with the Greater London Assembly and the London Development Agency to address the lack of affordable childcare places and has also embarked on a strategy to increase its supply of family-friendly vacancies specifically to cater for the needs of lone parents.

38. Because the allocation of DAF funding has been delayed, we recommend that areas should be allowed to roll this year's allocation over into the next financial year, rather than being required to spend it by the end of the current financial year. (Paragraph 278)

69. The Department has agreed that Jobcentre Plus Districts have the flexibility to carry over DAF funding for 2006/2007 into the 2007/2008 financial year.

39. We hope that the end of the Ethnic Minority Outreach programme does not demonstrate a reduced commitment on the part of the DWP to improving employment opportunities for this group. (Paragraph 280)

70. The Department continues to be committed to improving employment opportunities for people from an ethnic minority background. This is reflected in the PSA target to increase the employment rate of ethnic minorities, and significantly reduce the difference between the employment rate of this group and the overall rate.

71. Although the Ethnic Minority Outreach programme closed at the end of September 2006, the Department has a range of initiatives, such as the city strategy and the Deprived Areas Fund, that are continuing to work towards improved outcomes for people from an ethnic minority.

40. Evidence suggests that the Ethnic Minority Outreach programme was working well at improving employment opportunities for people from ethnic minorities, using small local organisations. Since this is to be replaced by the Deprived Areas Fund, we will want to see evidence that organisations contracted to administer the Deprived Areas Fund are working with small local groups to reach the same clientele as the Ethnic Minority Outreach programme did. It is important that the focus on offering employment services to people from ethnic minorities should not be lost, either in Cities Strategy areas or other areas. We recommend that Cities Strategy consortia, or, in those areas receiving DAF which are not Cities Strategy pathfinder areas, Jobcentre Plus District Managers be given control of DAF funding, so that they can contract directly with local organisations, instead of having to go through centralised procurement. (Paragraph 281)

41. We expect to see that those of the 15 Cities Strategy pilot areas which have significant ethnic minority populations have given a high priority to addressing ethnic minority unemployment in their plans; the DWP should monitor this, and report back to the Committee on this point in six and twelve months' time. The Department should also, in its response to this report, set out its plans to ensure that the focus of, and lessons learned from, the EMO are taken forward outside the Cities Strategy areas. (Paragraph 283)

72. Funding from the Deprived Areas Fund (DAF) is allocated to 903 wards which have the lowest employment rates, and 272 wards which have high proportions of ethnic minority groups – after overlap the funding covers 1043 wards, and is therefore available in all wards previously targeted by Ethnic Minority Outreach.

73. Jobcentre Plus District Managers will use local labour market knowledge and evidence of 'what works' to tailor provision and support local residents into employment. To ensure

the contracting and procurement process is conducted professionally and with appropriate safeguards, it is undertaken centrally by appropriately qualified staff. However, District Managers still have an important role in helping to draw up specifications for the purchase of local employment and training services.

74. Around half of the overall DAF fund falls in areas that will be covered by the city strategy from 2007-08. The Department has carefully considered the draft business plans submitted by the city strategy pathfinder areas. Where the ethnic minority population constitutes a significant proportion of the disadvantaged community the Department would expect DAF provision to be targeted accordingly. The Department will provide further information on the extent to which this is happening as part of the monitoring and evaluation of the pathfinders.

42. We recommend that a higher priority be given to making ESOL training available to those people from ethnic minorities for whom it would increase their chances of finding work, and that the Government monitor the success of this provision. (Paragraph 292)

75. In September 2006 a new approach to ESOL training was introduced in Jobcentre Plus which provided an additional 15,000 training places for customers with basic skills and English language needs. On 12 February 2007 the Minister for Employment and Welfare Reform also announced that JSA customers with obvious language needs will be expected to take steps to learn English. As mentioned previously, Budget 2007 announced an expansion of ESOL provision in the London city strategy pathfinders, as part of the Department's efforts to help harder to reach clients.

76. The Department is continuing to work with DfES and the LSC to develop a new programme that will deliver basic skills and ESOL training within an employability framework specifically for Jobcentre Plus customers. Funding for ESOL has also been prioritised to help those who are most disadvantaged by their lack of English language skills including, amongst others, welfare benefit recipients.

43. We conclude that the DWP and the DTI should work with businesses to promote the advantages of a diverse workforce, and to encourage them to review their recruitment policies to ensure that they offer equal opportunities. The Government should also charge the new CEHR with providing clear guidance to employers on their responsibilities. (Paragraph 301)

77. DWP and the Department of Trade and Industry (DTI) are working together on the promotion of diversity in the workforce. Employer engagement is one of the priorities of the cross-government Ethnic Minority Employment Task Force. DTI is currently streamlining the advice available to employers.

78. The CEHR will have the power to issue statutory codes of practice on any aspect of parts 2 to 4 of the Race Relations Act, Sex Discrimination Act and Disability Discrimination Act – this includes the provisions relating to employment. They will also be responsible for the Commission for Racial Equality's Code of Practice on Racial Equality in Employment, published in 2005, which provides clear guidance to employers on their responsibilities under the law in relation to race equality. The CEHR sees helping businesses by promoting awareness of equality issues as one of its core responsibilities.

44. As well as working to improve the employment of people from ethnic minorities, we think Jobcentre Plus should promote self-employment as an option to people from these groups. (Paragraph 302)

79. The Department agrees with the Committee's recommendation and this issue was also highlighted in the National Employment Panel's 2005 report *Enterprising People Enterprising Places*.¹⁰ DWP and DTI are taking forward work following this report by encouraging and supporting enterprise amongst people from ethnic minorities, through improved understanding of their needs and streamlined Business Link services. The city strategy will also play an important role in focusing resources on support for ethnic minorities.

45. We recommend that the DWP publish an updated strategy, underpinned by evidence of the costs and effectiveness of its proposals, setting out how it plans to reduce discrimination of all types. (Paragraph 306)

80. The Secretary of State has asked the Ethnic Minority Employment Taskforce to report back to him ahead of a Ministerial summit in May on how to close the ethnic minority employment gap more quickly, including a particular look at how to combat discrimination.

81. Any strategies or policies in this area will be underpinned by analysis of the evidence, including the likely costs and benefits. The Department will also take into account the proposals of the Discrimination Law Review¹¹ Green Paper, due for publication in May 2007.

46. The Government should make clear in what circumstances it would consider extending to the private sector the duty to promote racial equality. (Paragraph 307)

82. The Government will make clear in the findings of the Discrimination Law Review in what circumstances it would consider extending to the private sector the duty to promote racial equality.

47. We recommend that the DWP ensure that its own procurement sets an example to other public bodies in setting high standards for equal opportunities policies in the firms with which it contracts. Promoting racial equality should be one of the priorities of the new "centre of excellence" in procurement. We recommend that if public procurement proves to be a useful tool in improving racial equality, all public bodies should adopt a similar approach to procurement. We also recommend that the DWP set out what "further" approaches it would consider to promote racial equality. (Paragraph 315)

83. The Department's new 'centre of excellence' in procurement will work to actively promote diversity and equality through its contracts for the delivery of employment services. No employment programme contract is awarded unless the contractor has in place policies covering all aspects of diversity and equality including disability, gender, sexual orientation, faith and age. The application of these policies is checked annually by an

¹⁰ <http://www.nationalemploymentpanel.gov.uk/publications/nep/2005/epeppdf/fullreport.pdf>

¹¹ <http://www.womenandequalityunit.gov.uk/dlr/index.htm>

independent external organisation, and any issues arising are taken up as a part of the contract management process. Contracts can be terminated in the event of persistent and/or serious breach of these requirements.

84. The Ethnic Minority Employment Task Force is working with the Department as well as the DfES and the Identity and Passport Service to assess the impact of these procurement measures, and will disseminate good practice across government and press other departments and public bodies to adopt it. The Department will continue to work with the Ethnic Minority Employment Task Force to explore what further approaches should be considered to promote racial equality.

48. If the DWP is to obtain the best value from PVS providers, it needs clear evidence on their comparative performance levels in different fields. We recommend that the DWP continue with its assessments of the relative performance of PVS providers and Jobcentre Plus, and provide us with details of their findings. (Paragraph 329)

85. The Department will continue to publish its research reports as they become available; these will include assessments of the comparative performance of Jobcentre Plus and private or voluntary sector providers where appropriate.

49. We repeat our previous recommendation that DWP needs to "consider carefully how best to progress with [outcome-based] funding to ensure that all providers - private and voluntary sector - do not skew their focus towards helping into work those who are already closer to the labour market". Providers for all groups should receive payments that recognise the ongoing support needed, not only to move a person into work, but also to ensure that their jobs are sustained. The need for the system to be improved to reflect these objectives is becoming more acute as the level of private and voluntary sector provision increases. (Paragraph 334)

86. David Freud's recent report made a number of recommendations around contracting, including that there should be greater use of outcome-based funding and retention payments. The Government is considering the report carefully and will be responding in the summer.

87. In mainstream New Deal contracts, providers were traditionally paid 70% for ongoing support and 30% for outcomes but the Department is experimenting with contracts now in place that move away from this funding split, for example, providers throughout Scotland are being paid on a 50/50 basis. The Department will be evaluating these pilots towards the end of this year to establish impact.

88. The Department has in the past considered introducing arrangements which set payment tariffs on the basis of degree of disadvantage a person faces in the labour market, but found that these were very difficult to apply with any accuracy and without having in place a very complex set of funding arrangements. The Department endeavours to make sure through contract management arrangements that providers are giving appropriate support to all clients, including those who are in greatest need.

89. Payments are already in place for EZ providers in return for the support they provide clients in their first 13 weeks of employment. The Department plans to introduce 'job sustainment' arrangements in Pathways to Work where 20% of contract price will be made

available 26 weeks after job outcome. The Department will be monitoring closely how these arrangements work with a view to determining future funding arrangements for employment programmes.

50. Prime contractors must not be allowed to become sole contractors, or valuable local expertise will be lost, reducing the opportunities to engage with those far from the labour market. We recommend that the DWP should publish data on how many organisations prime contractors are, in fact, contracting with, and the value of these contracts. We also recommend that the DWP should clarify what its response would be if a prime contractor was found to be consistently underperforming. (Paragraph 338)

90. The Department has no evidence that prime contractors are beginning to deliver more themselves and use sub-contractors less. In the case of the JSA New Deals, there are 93 prime contracts held by 53 different organisations. These prime contractors also have 527 sub-contracts with 327 different organisations.

91. A list of prime contractors is available on the Jobcentre Plus website.¹² The Department accepts the Committee's recommendation that information about numbers of sub-contractors should also be made available, and will publish this information in the same place. Payments to providers are made according to the number of customers referred to contractors and the outcomes they achieve in terms of placing people into work, so payments made against any one contract may change from month to month depending on the provider's performance. Therefore the value of these contracts has not been published because this fluctuates considerably. It is intended for future New Deal competitions to publish at the outset a range of estimated values for each contract. The Department is not privy to the value of the sub-contracts to prime contractors, as it is a commercial agreement between the prime contractors and their sub-contractors.

92. If a prime contractor performs poorly, this is dealt with through the formal Contract Management Framework processes. In the first instance, the Department seeks to agree a performance improvement plan with the contractor. If performance fails to improve, terminating the contract would be considered. Should it be necessary to terminate the contract of a prime contractor, temporary provision would be put in place whilst a competition was run to find a new prime contractor.

51. Given the importance of welfare to work policy, we are concerned at the lack of clarity around the timetable for the review (which is not mentioned in the press notice) and the fact that there seem to be no formal consultation arrangements. Such a crucial process must not be rushed and should be - and be seen to be - transparent and actively engaging all those who have an interest. We expect DWP to ensure that this takes place. (Paragraph 342)

93. David Freud's report Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work was published on 5 March 2007. This was an independent report, and the Government will respond to it fully in the summer. Whilst conducting his review, David Freud consulted widely, both by meeting key stakeholders directly (welfare rights groups, think tanks, academics, international experts and people on benefits) and through a number of seminars organised by the Department. In order to inform the

¹² www.jobcentreplus.gov.uk/jcp/partners/noticetopartnerorganizations/dev_012063.xml.html

Government's response to this report, the Department has invited views from anyone with an interest in welfare reform by mid-May. In addition, the Department will be organising a small number of consultation events in May 2007.

52. We recommend that any changes to the system of benefits for lone parents take account of the fact that paid work may not be the best option for a lone parent, even if they have children of secondary school age. There may be a range of reasons why a lone parent does not wish to work. We recommend that the DWP concentrate its efforts on providing better support for the majority of lone parents who do want to work, as discussed in the chapter on lone parents above. (Paragraph 345)

53. We recommend that the Government continue to improve the provision of suitable, affordable childcare in all areas, which will be essential in order to improve the ability of lone parents to enter and keep paid work. (Paragraph 346)

94. The Government believes that work is the best form of welfare and it is the children of workless lone parents who are at the greatest risk of being poor. The Government accepts that it may not be possible for some lone parents to consider working straight away but it is important that lone parents are regularly reminded of the support available for when they are able to start looking for work.

95. Childcare is a key element that enables lone parents to take up work. The Government has invested over £20 billion on early years and childcare services since 1997 and by 2010, there will be a childcare place for all children aged between 3 and 14, between the hours of 8am to 6pm each weekday.

96. Support for lone parents is a major part of the Government's child poverty strategy as set out recently in *Working for Children*. Moving into work is the biggest factor associated with a move out of poverty and the Government believes that the current and planned investment in childcare alongside the balance between welfare rights and responsibilities will help more lone parents to make this move. As the Department develops its proposals it will consult with stakeholders on how these reforms can be best implemented.

54. We conclude that the effects of complex benefits are potentially significant, and we intend to inquire into benefit simplification in the near future. (Paragraph 347)

97. The Department for Work and Pensions agrees that simplifying the benefit system has clear rewards for the Department and its customers. There are also financial advantages to simplification in improved efficiency, reductions in customer and staff error, fewer complaints and fewer appeals. This issue is of concern across government and was the subject of a recent National Audit Office report in 2005¹³ and a report from the Committee of Public Accounts in 2006.¹⁴

98. The Department has underlined its commitment to simplifying the benefits system in its 2006 Annual Departmental Report,¹⁵ which stated that "the Department is exploring and developing ways to tackle benefit complexity while continuing to protect social

¹³ November 2005, *Dealing with the complexity of the benefits system* (HC592)

¹⁴ April 2006, *Tackling the complexity of the benefits system* (HC765)

¹⁵ <http://www.dwp.gov.uk/publications/dwp/2006/dr06/>

security expenditure.” The Department’s senior management team now receives quarterly reports on changes to the benefits system and their effect on complexity. Benefit simplification is also reviewed on an ongoing basis as part of the Annual Assurance reporting and reviewed by the Departmental Audit Committee.