

Employability Action North East

FINAL REPORT

February 2007

Employability Action North East

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Executive Summary

Objectives

Rocket Science UK Ltd was commissioned by One North East to work with One North East (ONE), the Government Office North East (GONE), the LSC North East, Jobcentre Plus (JCP) and the North East Employer Coalition (NEEC) to create a Regional Employability Framework (REF).

The purpose of the REF is to contribute to the Regional Economic Strategy (RES) through **reducing worklessness and increasing participation** in economic activity and in doing so support the regional aspiration of getting an additional 80,000 people back into work by 2016. Specifically the REF:

- Produces a shared awareness of **current investment** in welfare to work, the return from this and how this return can be increased
- Creates an explicit strategic commitment by both funders and providers to **joint action** in order to:
 - **drive up** performance through new joint procurement and commissioning approaches so that the region gets more outputs for the same investment;
 - **improve** the quality and effectiveness of services to employers and help them fill vacancies through simplifying and co-ordinating current practice;
 - **improve** the quality and effectiveness of services for those not in work so that everyone who wants a job has the opportunity to get one;
 - **align funding** around common outputs and outcomes;
 - **shift resources** to create a better balance between the various elements in the journey to employment with more emphasis on engagement with clients and progression in employment;
 - **agree** common definitions of key outputs and outcomes and share information on these across agencies;
 - **support** local measures to achieve this.
- Provides the basis for explicit agreement on the local delivery and funding infrastructure required to **enhance performance** and articulates a commitment to jointly manage performance through the right combination of investment, incentives and competitive funding.

The timescale is for the partners to agree initial changes to come into operation from April 2007 and for the actions to be completed by April 2009.

The work to develop the REF was divided into two stages. The first stage, which was completed in July 2006 created a map of services aimed at economically inactive individuals in the region, looked at the level of funding for these services, looked at performance and identified gaps and overlaps in provision, along with providing recommendations and an action plan for the second stage. The second stage was completed in December 2006 and the findings launched at a conference in Newcastle with Jim Murphy MP, Minister of State for Employment and welfare reform at the DWP.

In summary the conference supported the view of the partners that the REF is needed:

- To reduce benefit dependency
- To simplify delivery arrangements
- To meet employer demand

and this will require:

- Joint planning of investment
- A joined up approach to performance management
- Incentives to reflect progression not activity
- More outputs for less inputs
- Increasing specialism from providers who should not always try and offer comprehensive services but focus on what they are good at.

This report sets out the Regional Employability Framework and is built around three tasks:

- Identifying the main features of the Framework
- Designing and implementing a joint management action plan with funders
- Designing and implementing an action plan to re-engineer the way we work together and how services are delivered with funders, employers and providers.

What is in the REF?

a) Aims and objectives

This section provides a clear overview of what the REF structure will look like for NE England. The purpose is to help people see how the different structures fit in and reinforce each other, and how each level supports the level of action below it.

- What the REF is for and what it seeks to change
- How the REF works at each level:
 - Regional, strategic
 - Sub-regional – fit with LSP activities
 - Local – local partnership action on the ground

b) Key themes and principles

This section sets out the key themes that have emerged from the work and the principles that we have used to develop appropriate actions. The purpose is to help readers understand the way that it builds on and supports what exists and how it will add value in terms of:

- Driving a strong demand led approach which responds to and meets the needs of employers;
- Taking account of the direction of policy to ensure that the NE can 'catch the next wave' and create a powerful and consistent strategic response that makes sense of a number of different themes and initiatives;
- Building on and reinforcing major initiatives such as the DWP City Strategy in Tyne and Wear;
- Supporting local approaches such as those being developed in Newcastle, Easington, Wansbeck and Blyth Valley;
- Focusing on some priority client groups (eg IB 'stock', BME groups, lone parents).

c) Areas of action to achieve these objectives

This section sets out a detailed description of the three areas of action which have been identified to achieve the objectives described in section 1:

- ***Transforming the approach to investment by funders***
 - The REF will ensure that by 2008 funders have made significant steps towards creating a payment system that rewards results, including progression towards work, rather than activities. This will mean payments are geared to rewarding those engaging with the right clients (those who have significant difficulties or are at a distance from the labour market) and getting them into sustainable work rather than just funding training activities and qualifications.
 - The REF will also ensure that funding is aligned around common objectives rather than those for individual organisations.
 - For each funding stream, the REF will show how flexibilities can be exploited, when flexibilities open up (eg at the end of current contracts) and what will be done at that stage.
 - The REF will indicate changing performance indicators to drive demand led behaviours and the development of approaches which join up welfare to work and workforce development (ie the development of skills in work).
 - The REF will show what shifts can be made to create a new profile of spend that more closely matches the need to spend more on engagement and post job retention.

- ***Transforming the way we work together***

The report describes the infrastructure for funding and delivering services not just to those who are registered as unemployed but those who are of working age and are economically inactive in the north east. What we mean by infrastructure is those agencies who pay for services, such as JCP, the LSC, ONE and so on and those agencies, public, voluntary and private who provide these services. The purpose of

the REF is to improve the way purchasers and suppliers work together and to create a more integrated **supply chain** where it is clear what is being bought (and why) and where standards of performance are both clear and stretching.

The REF shows or provides:

- How the full range of front line staff across all the different services can help to play an appropriate role in the employability agenda
 - How common systems and approaches will be developed:
 - ◆ Appraisal
 - ◆ Referral protocols
 - ◆ Management of client progression
 - The content, scale and format of joint training programmes
 - A system-wide development programme to help all intermediaries understand their position within a demand led system
 - Guidance on managing performance improvement
- **Driving up performance**

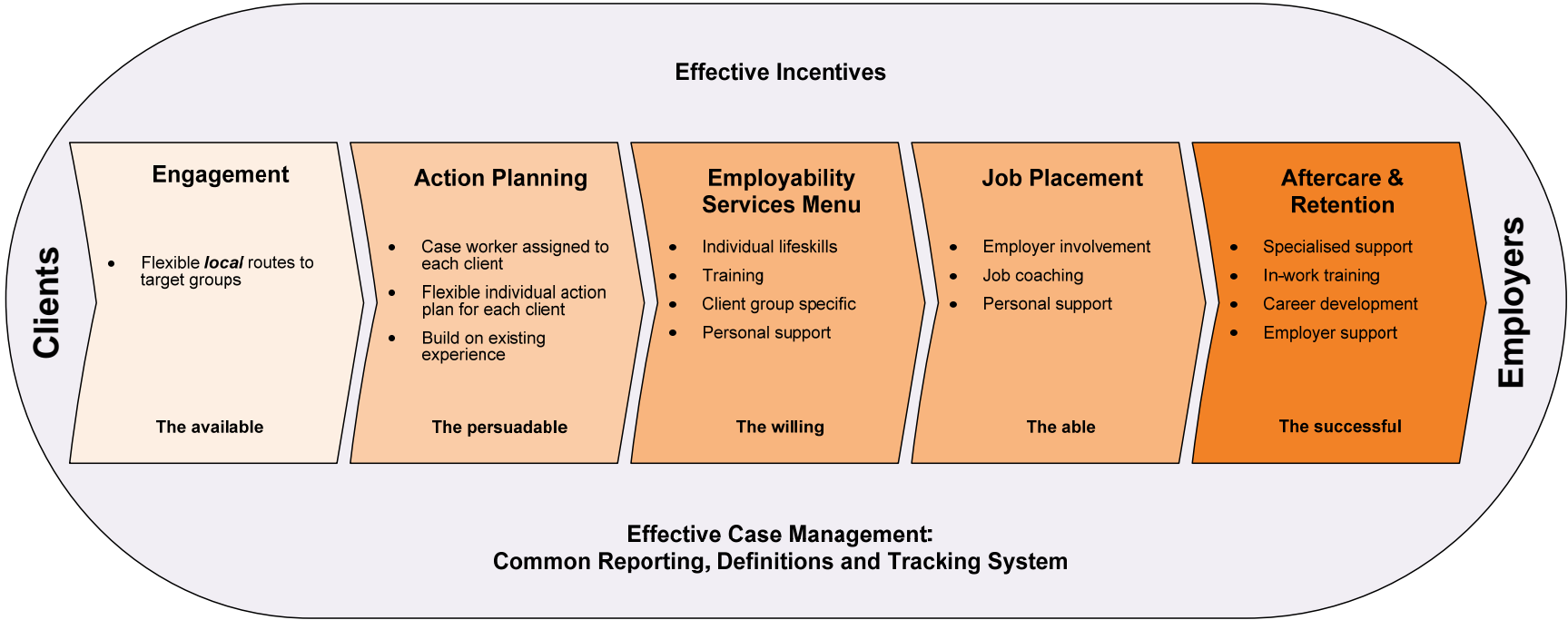
The REF will have failed if performance in terms of both engaging with hard to reach groups and getting people into jobs does not improve over the next two years. The REF will describe:

- How the partners in any area will:
 - ◆ Manage the infrastructure in terms of its overall performance and helping it to constantly improve
 - ◆ Collect and analyse the management information they will need to assess performance of the overall local system

Against each of the specific actions will be timescales, responsibilities and a clear sense of where the money and staffing resources will come from. It is this action plan that will form the basis of the commitment of each key agency.

The diagram on page 7 illustrates the stages in the process from inactivity to sustained employment, the content and partners involved in each stage.

Employability Service Model



1. Introduction

1.1 What we were asked to do

The overall objective of the work commissioned from Rocket Science is to create a Regional Employability Framework (REF) for the north east of England. The REF aims to:

- Significantly improve the focus and impact of current resources (both people and money) for employability;
- Produce a more co-ordinated and appealing service for employers;
- Produce a more co-ordinated, appealing and progressive service for individuals seeking work, especially those who are at a distance from the labour market and are members of the key groups identified by government (lone parents, those on IB, those over 50 and members of BME groups);
- Give regional stakeholders a range of tools and techniques that will enable them to manage and improve performance in the future.

The REF is '**demand led**'; that is to say it starts with, and focuses on, the current and future needs of employers. The prime goal of the REF is to help funders and delivery agencies continually **improve performance** at the local level. The first stage of the work set out to:

- Establish the level of investment in services for economically inactive individuals in the north east from key public agencies;
- Map provision in the north east for helping economically inactive individuals make progress towards and re-enter the labour market in terms of:
 - Funding
 - Geography
 - Client Group
 - Activity
 - Performance

- Establish gaps and overlaps in provision by the categories outlined above;
- Establish areas of strength and weakness in existing provision;
- Identify a series of options and actions in order to improve:
 - Coherence amongst funders
 - Support for delivery agencies
 - Information needs of both employers and suppliers
 - Performance by suppliers

The second stage built on this by:

- Revising the information on levels of investment, performance and provision on the basis of further information supplied by funders and intermediaries;
- Reviewing policy changes and initiatives that have occurred since the first stage was completed;
- Looking at evidence on contracting and procurement systems in Australia, the Netherlands and the USA to identify options for funders purchasing services;
- Looking at progress in Scotland on its own employability framework, Workforce Plus;
- Designing options around how activities might be funded on a more collaborative basis;
- Designing options around how the delivery infrastructure could be changed to improve the service to both employers and individuals;
- Indicating the training and development needs that will be required by both those pruring and delivering services in the future.

1.2 What is the REF and what does it seek to change?

The REF is a series of principles and operational agreements agreed between funders, employers and delivery agencies which will enable the north east to increase employment by 80,000 over ten years and reduce the numbers on benefits. In order to achieve this objective the partners need to:

- Create a simple and compelling offer to **employers** who wish to recruit individuals who are currently out of the labour market, both in terms of providing the skills and attitudes that they need and the aftercare and support to deal with any problems arising from the transition to work;

- Create a simple and compelling offer to individuals who are **economically inactive** but who want employment and support them by creating an effective pipeline from coming off benefits to sustainable employment through:
 - Finding appropriate routes toward employment and responses to what are often chaotic lifestyles in order to engage with individuals (any client)
 - Raising confidence and aspirations (persuadable clients)
 - Preparing for work (willing clients)
 - Making the transition to work (able clients)
 - Sustainable employment (successful clients)
- Match the service delivery infrastructure that needs to be created to deliver this with the funding that is available and re-deploy resources accordingly, if necessary stopping or reducing some activities in order to increase or start up more relevant activities (such as employer aftercare or local outreach);
- Re-design procurement and commissioning processes to deliver improved job outputs and improved retention rates, rather than qualifications or activities;
- Create effective management information systems and case management systems that will enable providers to track clients, effectively target activities, collaborate and allow funders to switch resources towards effective interventions and areas of market failure.

This will result in:

- Increasing the number of people who are economically active;
- Reducing the number of people on benefits;
- Reducing poverty;
- Changing cultures and attitudes towards employment and jobless people

It follows from this that what the REF must deliver is:

- Adapt current funding patterns that focus on delivering activities, not outputs and design more effective interventions at the engagement and retention ends of the pipeline;
- Change the behaviour of funders and intermediaries to be more collaborative and focussed on client and employer needs;
- Increase the willingness of funders to be as flexible as possible with their money and to see themselves as jointly contributing to meeting the employment needs of employers and clients, rather than meeting their own organisational targets.

The REF will have three sets of agreements working at three spatial levels:

- At the **local level** the framework will, through best practice guides and transfer, information sharing and support for local partnerships, improve action on the ground, in particular by putting in place agreements that will be more effective in reaching hard to help groups;
- At the **sub-regional level** the framework will fit along with the work of the LSPs and the DWP city consortium, align smaller scale resources and design mechanisms for

employer involvement. Crucially, this is the level at which a 'joined up' offer will be made to employers to help them meet their business objectives;

- At the **regional level** the framework will support local and sub-regional actions through aligning investment decisions, aligning funding and procurement flexibilities, as well as pressing the case for greater flexibilities and additional resources to government. It will also be the vehicle for managing performance across the region and this in turn means that there will be one performance management and information system for the region.

At each of these levels of the REF we set out clear roles and responsibilities for the key partners in relation to implementing any action plans. Precise targets cannot be set at this stage and one of the central follow up actions is to refine and agree targets on increases in employment and reductions in those on benefit at each level and for each key client group.

Responsibility for delivering the framework rests with:

- The **main funders** for re-aligning their funds and changing their commissioning and procurement systems to reflect joint objectives to increase employment
- The **main funders** for managing and driving progress through joint action
- **Employers** (including public sector employers) for taking on more clients from inactive groups
- **Delivery agencies** (including the voluntary and community sector) for accepting the need to change, adapt and work together.

2. Where is action required?

2.1 Introduction

This section deals with the three principal areas of action that we have identified as necessary to achieve the overall objectives of the REF.

To remind readers of the argument so far, the REF is saying that the partners want to:

- Increase the number of people in jobs, and
- Decrease the number of people on key benefits identified by DWP

through adopting various targets between now and 2016. In order to do this the REF will:

- Meet the needs of employers in terms of skills and volume
- Attract individuals onto programmes to help them get jobs
- Shift funding towards results not activities
- Re-engineer procurement and contracting and
- Re-engineer performance management systems to underpin this.

This in turn, will need the changes below.

2.2 Transforming the infrastructure

What will be done and how will it be different?

The current position in the region is that performance is not as good as the partners would wish. The main weaknesses that have been identified include the following:

- The initial survey showed that agencies remain relatively poor at engaging with non-JSA client groups who want jobs. This is partly because the offering (training, guidance, work experience) is not considered attractive enough and partly because the mechanisms at the local level are limited and not always effective enough at working with clients who are often both difficult to reach and difficult to help. Recent investment elsewhere (e.g. the FEAI in Glasgow) seems to indicate that if set up in the right way, with the right level of resources and the right front-line staff, local programmes can start to work with both difficult to reach and difficult to help groups and connect them up with other agencies who can offer wider guidance, training and work experience in ways that will increase the prospects of participants.

A principle to which the partners will seek to adhere as part of the new delivery mechanism in the region will be to replicate, or adapt, the methodology of the FEAI from Glasgow and to invest in it as a way of improving levels of engagement. The simple lesson of the FEAI is that teams of local support staff can make effective interventions in geographically focussed areas with low levels of economic activity given time, resources and access to organisations that can offer good quality training and work experience. This is because the FEAI works on the view that there is 'no wrong door'. In other words, whoever comes into contact with the FEAI will be signposted to an organisation that can help and will be supported by a case worker to do so.

- At the other end of the process, retention is poor and there is limited evidence to suggest that individuals are making progress in the labour market to better quality and higher paid jobs. This is partly because links with some types of employers are weak (or at least confusing to employers), partly because resources for support are lacking during the initial period of employment where problems can arise and partly because employers are insufficiently involved in the design of programmes so that they can reflect their specific needs rather than a generic template. This means that it is often easier for employers to recruit from other groups in the labour market.

In addition, large public agencies have not made this a priority area and are not setting a good example to both larger private sector firms and the SME sector.

Part of the new delivery mechanism will be to invest more heavily in direct support services to individuals who return to work during that crucial transition period and in streamlining, where possible, relationships with employers. The public agencies contributing towards the framework (NHS, local authorities, police) will be supported to look at how they can change their own recruitment processes to open them to both hard to reach and hard to help groups.

Of course, some of the main obstacles to people returning to work remain outside of the powers held by local agencies. For example, the inter-relationship between benefit levels (including in-work benefits) and wage rates and the risk of coming off benefits for what may turn out to be a short-term job often acts as a real disincentive to taking a low paid job. Part of the purpose of the framework will be to identify, and put the case to DWP for, flexibilities that can enable the risk to unemployed and economically inactive people to be overcome through a series of guarantees or rule changes.

- The third area is that of actually providing services to help individuals get back into the labour market, whether that is college based vocational training or work experience on an employer's premises. The review of provision in the North East has indicated that delivery is often at a small scale and often of insufficient quality (though many small organisations are very good).

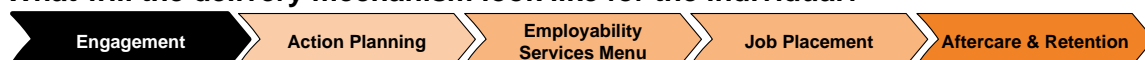
The new delivery mechanism will seek to create an effective supply chain based around a number of discrete, but connected, steps described below. The effect of this will be to reduce the number of organisations supplying services, but to increase the effectiveness of those doing so by giving them the capacity to either focus on a specialist area (client based or geographical) or to get to a sufficiently large scale so

that they can offer a comprehensive service. A number of ways exist to create such a supply chain and they are also dealt with below.

None of this can happen without at least four things:

- A **restructuring of delivery mechanisms** in the region to reduce the number of poor performers, support the improvement of better performers and to increase the focus on engagement and meeting employer needs.
- A **restructuring of funding mechanisms** at the regional level to support this. This will mean that funders must look outside of their own criteria and look at the needs of the region. This will initially require the alignment of funding to meet common objectives and may in the longer-term require pooling of funds and other resources. This will be largely determined by current rules and existing contract lengths and flexibilities. An important first step will be for partners to put the new Disadvantaged Areas Fund (DAF) to be managed as a common pot, along with any non-programme funds. In the medium to long-term, this will also involve working with health and social care budget holders to bring their funds to support the employability agenda. This approach should start off with action at the Tyne/Wear city strategy level from April 2007 and then be rolled out across the remainder of the region.
- Intervention at the level of the local partners, GONE and DWP to create the **right range of flexibilities** to support this. This is especially important in terms of current contractual arrangements with providers such as those put in place by Jobcentre Plus or more locally, through LSPs.
- The creation of **common assessment and tracking systems, linked to strong case management** to ensure that clients do not slip out of the system, that progress short of getting a job can be reflected and rewarded, but that providers behave in ways that will see getting people back to work as the prime objective.

What will the delivery mechanism look like for the individual?



The mechanism proposed here is that for all the target groups on the government agenda (Lone Parents, NEET, Over 50, BME groups and IB stock) and for other key target groups of the partners (e.g. ex-offenders) the same process will be used:

Step 1: Client identification/referral

Clients will be referred by three broad mechanisms – self-referral, referral through participation in a mandatory activity, voluntary referral through a local mechanism (e.g. GP programmes). Previous records/activities will be checked where possible and a case manager identified.

Step 2: Need assessed

All clients will meet with their case manager and be assessed using a common format and a shared record will be started. The aim will be to create an action plan for the client to meet their aspirations.



Step 3: Action Plan

The agreed plan will capture client goals, address their personal needs and provide information for those agencies who will deliver services for the client. It will be used by the case manager, in discussion with the client to identify suitable providers, a suitable timetable for progress and any non-skills based obstacles that will need to be overcome (childcare, financial issues, personal issues) and where support will come from for these.

It is important to note that the design of action plans will both evolve from the personal needs identified and be influenced by employer needs, especially where large public and private sector employers want to adapt mainstream programmes to their own specification (e.g. Tesco) because they are recruiting large numbers in a locality. This will be done through co-design between employers and the 'prime contractor' in the area. It is anticipated that many action plans will change and be adapted in the course of events.



Step 4: Matching clients and provision

Client will be interviewed by identified suppliers. The client can turn provision down and go back to the case manager for an alternative if their individual needs are not met. If client and provider accept each other then programme is agreed.

Step 5: Training/work experience programme

Delivery of agreed programme for client. Case manager will make sure that timetable is met, or investigate why progress is not being met and work with provider/client to create an alternative. This part of the programme will focus on how the individual can meet the needs of the employer.

Step 6: Review of Action Plan

If the plan is working then the case manager will agree to the next stage and provide the necessary documentation to trigger any payments to the organisation for performance. If not, alternatives (including other provision) will be agreed.

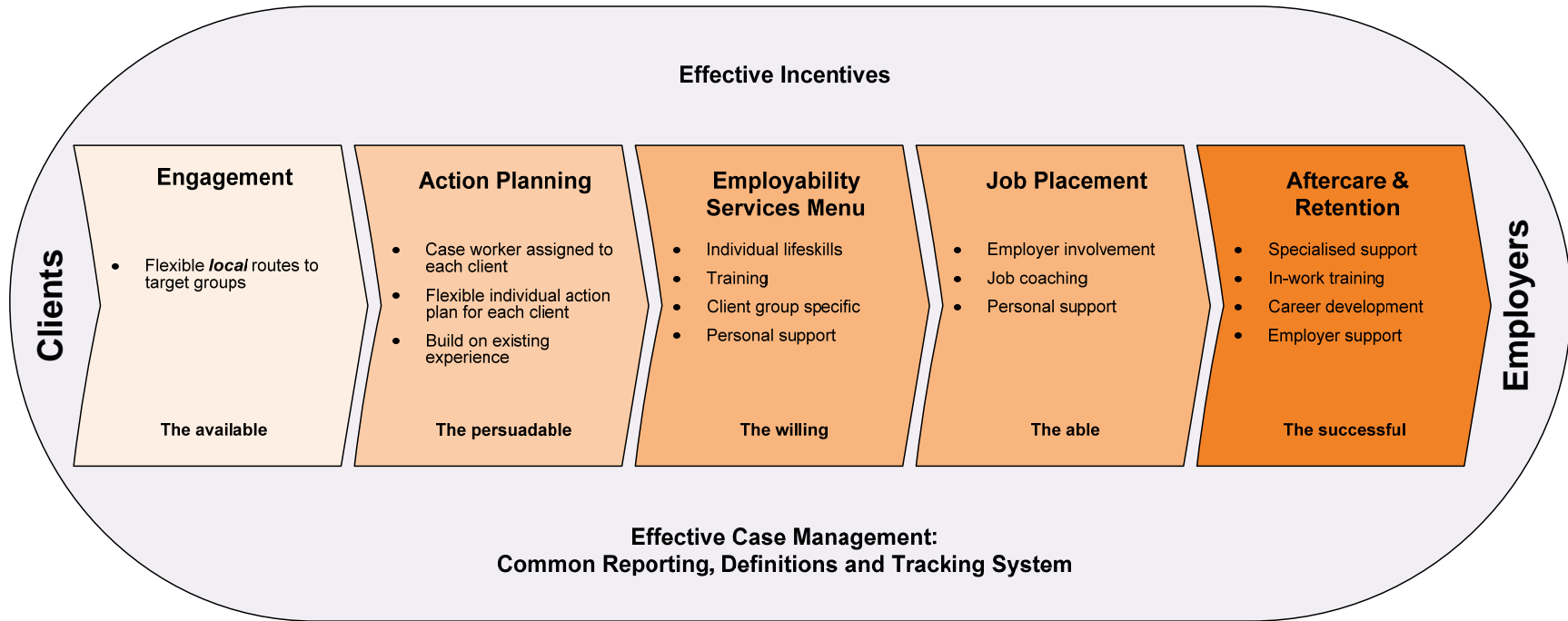


Step 7: Job placement and post-placement support

Once the action plan has been completed, the client will be referred on to the relevant job matching service and transitional support agreed. This may involve job coaching, financial advice, help with transport, or financial support.

The diagram below illustrates how this might work at the local level. It is important to note that although the steps are outlined as a sequence above, in practice clients may go back as well as forwards, depending on their pace of progress.

Employability Service Model



Current mechanisms for employer engagement

The current mechanisms for employer engagement are vast and varied. It is important to note that many of the services provided to employers by public agencies such as Business Link, sector teams, LSC delivered activity funded by ONE (such as skills brokers and sector development staff) and local authority business development services all have an important role to play in opening routes for employability programmes into employers as clients. Employers can be approached by a large number of organisations on a range of topics and issues.

At present there is no accurate way of measuring the range of employer contacts or any indicator of the success of these different approaches. However, there appear to be three main reasons for employer contact/ engagement in relation to employment. These are:

- ***Vacancy related contact*** – targeting employers in a number of ways to try to gain employment for different individuals and clients.
- ***Employer network and support organisations*** – which work directly with employers to try to improve their business
- ***Consultation*** – direct consultation with employer to elicit their opinion on things such as labour market trends or attitudes and opinions

Vacancy related contact

There are a number of mechanisms which are used to secure vacancies from employers. These vary between organisations. Examples of vacancy related contact with employers (and who might lead them) will include:

- Dedicated employer marketing team to co-ordinate the offer to employers based on individuals who are coming through the programme (led by Job Centre Plus and local providers)
- One to one contact with employers based on client's careers choice (led mainly by the voluntary sector and not for profit organisations)
- Work placements and job trials with selected employers (most organisations will contribute to this)
- Service level agreements to supply suitably qualified individuals to employers who are recruiting (in partnership with private recruitment companies)
- Gatekeeping roles to create a simple one-stop-shop for employers with planned expansion or new developments
- Direct training for work

Employer network and support organisations

Combined with the many employment related projects approaching employers in the region there is an additional layer of employer networks and support organisations. These organisations are working with employers to improve their productivity and working environment. Alongside these organisations there are a number of networks engaged with employers, such as, the Employer Coalition, Chambers of Commerce,

local business clubs and employer forums. In addition there are programmes and activities around brokerage with employers and diagnostic services for companies provided by, or through, Business Links, and the Sector Teams who operate out of ONE North East and the LSCs. Because of the nature of recruitment in a free labour market, not all vacancies can, or should, be routed through one network or supplier; the important point here is that the large number of individuals who come through employability programmes should have both the support of the network described in the REF and access to other job search and training networks if they choose.

Consultation

The opinions of employers must be sought on a regular basis to better improve the services which are deployed to support them. A recent review of employer engagement literature identified over 60 pieces of recent UK research, which asked employers for their opinions of employing different priority groups, which implies that these processes are in place and well understood. The REF will build on regional best practice in this area.

Actions on employer engagement

More Systematic Approach to Vacancy Filling

If the current position is that many organisations seek to secure and fill employer vacancies, including Jobcentre Plus, but also a range of organisations working on behalf of jobless people and private recruitment agencies, then the REF is proposing a much more effective process for securing more vacancies.

A team of professionals from a variety of partner agencies, including JCP and not for profit organisations will be brought together at the sub-regional level. Account Managers will develop and support a portfolio of employers either on a geographical, sectoral or individual basis with whom they link to identify job vacancies for the jobless pool. Vacancies secured through this route will be circulated around the network of employment related projects. Projects will then be required to submit information on clients who are interested in the vacancies. Depending on the number of clients who are interested the Account Manager may be required (perhaps with the employer HR department) to short list the number of candidates they put forward to the employer. They may at this point link with projects for more information, and will clearly need to link in the the brokerage activities of the Business Link network described earlier.

It is important that the team will be supported by a common, shared, database which will allow projects to see which officer is account managing which employer. This will aid the two way communication process. It will assist the projects to link with the Account Manager regarding clients who may want to work in that sector so jobs are flagged up and may assist with work placement. This will ensure that the 'single point' of contact concept is upheld and the Account Manager will act as a gatekeeper to these employers while still delivery opportunities to the client group.

In sum, if effective, the improved system will:

- waste less employer time and provide a more effective vacancy filling service

- waste less provider time and generate more vacancies for jobless people as employers make more use of it.

Measures of success will include an increasing share of regional vacancies coming into the vacancy pool, an increasing volume of vacancies in the vacancy pool and an increase of repeat business from employers (proxying speed of vacancy filling, appropriateness of people referred etc.)

Employer Support

Despite an increase in the supply of jobs in the region many people who want to work still experience significant barriers some of which are caused by employer practices. There are three main areas where employer practice acts as a barrier to people affected by health and social issues to return to work or stay in work:

- At the recruitment stage
- Retaining employees in a supportive working environment
- Rehabilitating employees who have become ill or suffered an accident, whether work or non-work related.

If the REF is to be successful then employer practice will have to change to recruit and retain a more diverse workforce. There are already some supports in place for employers which could be promoted through the REF. However there are also some gaps most notably on job specification and interviewing procedures and on return to work and workplace adjustments.

The following actions will help the region achieve the aims of joining up support for employers and equipping employers with the tools to recruit individuals with additional support needs. It is intended that this will provide “*in work support*” for the employer.

Similar to the job marketing team it is proposed that single point of contact is created for employers. Any team would work to simplify the issues of recruitment, retention and rehabilitation with employers:

- In terms of ***recruitment*** it is recommended that the team creates a resource for employers to offer support on reducing barriers at the recruitment stage. This could be someone seconded from the business sector with an HR background who is willing to work with employers on innovative recruitment practice.
- In relation to ***retention*** the team will identify and disseminate best practice to give employers guidance on how best to support an individual’s additional needs.
- Finally, in terms of ***rehabilitation*** the team will promote services such as a Safe and Healthy Working Advice Line to employers and develop support for employers on rehabilitation policies and guidance on best practice. Again, this will be linked into the brokerage and diagnostic services offered through Business Link.

We also want the NEEC to obtain 20 major employers (including those in the public sector) to sign up to promoting participation in the REF and setting targets for recruitment through the REF.

2.3 Driving up performance through smarter contract management

Change and improvement in the infrastructure will require shifts in resources and this will need to be done through changing the way in which services are bought by public funders. The main issues around procurement and contracting are related to the flexibility of funding arrangements in terms of eligibility and timescales. Some funds are only available in specific geographical areas or for specific client groups and some contracts will have a particular period to run before they can be changed or re-negotiated. This means that there will be certain critical times when procurement can be changed more easily (e.g. when EU structural fund changes are finally put into operation).

At the regional level, the principal funders, Jobcentre Plus and the LSC in particular, will identify discretionary, flexible, funds and jointly plan those. Examples would be a new use of the LSC funds outlined in the Leitch Report to support people into jobs where at the regional level the LSC could commit these resources to additional work in aftercare and in work support and the DAF.

This will require active management of procurement, especially in terms of specifying the outputs required by the funders. It will also require constant 're-regulation' to avoid providers finding ways of 'working the system' too easily.

In terms of shifting the spend profile, procurement will need to emphasise the progression from stage to stage, the final job destination and also emphasise the volume of clients required from each target group to avoid both creaming and parking. It would be possible, for example, to offer an appropriate up front payment for the first target milestone of a target group into jobs, to increase that rate for the next milestone and to increase it further for the most stretching target, thus giving incentives to the provider to reach higher volumes. Of course, the base rates and volumes need to be chosen with great care; otherwise a windfall may be given to the provider for little actual effort.

The main features that will apply to the REF approach to managing employability services are outlined below:

- ***Sub-regional or city/region procurement process***

The scale of procurement needs to be sufficient to attract organisations who will see contracts as an opportunity to invest for the long-term delivery of services. This scale implies moving towards some form of 'prime contractor' model, with the whole range of services being tendered, rather than just elements of provision. It will be up to contractors to identify and negotiate a plausible and effective supply chain of sub-contractors and specialist services and it will be up to funders to manage jointly the outputs they wish to see delivered by all providers for all of the key groups.

- **Partnership Framework Agreement (PFA)**

- Traditionally procurement and implementation have often been split. Different people have been involved. The procurers have not always been interested in results. Implementation outcomes were considered to be the contract manager's problem, not the procurer's;
- The aim of a PFA is to bring procurement and contract management together;
- Quality procurement does not begin and end with tendering. It is about being actively engaged with service delivery throughout the whole contract implementation period. The REF partners will adopt this approach by using a framework of PFAs;
- The adoption of a PFA means that the REF partners will regularly meet the selected providers over a five year period to discuss and mutually agree when employability services need to be adjusted in the light of experience, results and changed circumstances;
- The PFA approach could lead to a more mature relationship being developed with providers as opposed to the alternative of an annual contracting process dominated by legal and re-tendering issues;
- However even under the PFA all payments are ultimately performance based and the process will also involve a more formal annual review of provider performance. This should be linked to a version of the Australian star system (currently being adapted by DWP) or the American 'right of first selection' to reduce uncertainty and the loss of performance associated with tendering processes. Satisfactory performance will mean continuity of contract.

- **Non-prescriptive approach**

- As already mentioned the diagram shown on page 16 broadly represents a model of good practice. This model contains elements which should be covered by the overall managed funding portfolio in the region;
- **However** exactly how each provider delivers some or all of the features shown on the diagram is up to them. We feel there is considerable room for innovation in this area;
- The REF recognises that providers are much better placed to design innovative and effective approaches to employability than public funding agencies and it is not appropriate to devise detailed service delivery models for providers to follow. Thus the precise service delivery recipe should clearly be the preserve of individual providers provided they can attract the right clients and meet targets;
- The REF is not saying that the features shown in the model are the only ways to do things, but that this reflects a broad idea of good practice. Bidders would need to demonstrate the capacity, management skills, financial reserves and so on to underpin exactly how they propose to deliver the specified results.

- ***Outcome based funding***

The REF is based on the view that ultimately funding drives performance and service delivery.

Therefore, if increased employment is the objective, then funds must be used to get workless people into jobs and to enable them to stay in and progress within them for as long as possible.

Funding would be based on:

- ***Progress*** towards key stages of the journey towards employment;
- Job ***placement***;
- Job ***retention*** at 13 weeks/26 weeks with a final bonus after a year;
- In-work ***progression*** – career development/higher wages/promotion/– not necessarily with the same employer; and
- Extra payments for ***priority target groups*** (discussed in more detail below).

It is likely that the conditions above might create real cash flow related and core funding concerns for many key organisations currently delivering employability services, such as social economy organisations operating in this field whose continuing operation depends on core and other flexible funding being available in advance in order to meet central overheads, management and basic running costs. If all of this core funding were to be pooled centrally under the REF and re-allocated on a strict outcome performance basis many of these organisations, particularly the smaller voluntary sector or community based ones operating in the specialist sub-contractor or referral agency field, would be unlikely to survive.

Therefore we are proposing that existing core funding to such organisations (especially from local authorities) will continue and fall outside the REF remit with the existing methods of core funding to remain in place.

The proposed payments schedule would include:

- Up front funds to help deal with cash flow and investment or development issues;
- A disadvantaged group payment for reaching an agreed figure from the following groups – physical disabilities, mental health issues, learning difficulties, care leavers, ex-offenders, homeless people, people with addictions
- Payment for a job placement;
- Payment after a specified number of weeks in a job.

Use of specialist sub-contractors/referral agencies

The above list of priority target groups makes it clear that providers will need to involve a wide range of specialist providers and referral agencies and that this should be clearly reflected in any funding bids. Providers must spell out how they propose to work with and use specialist employability service sub-contractors and referral agencies with the potential for joint-ventures or partnership bids between more than one provider and specialist providers and referral agencies.

What would be different as a result of these Programme Design changes?

Partners want to move from the current position in 2006 where:

- The service delivery emphasis is on activity rather than engagement with priority groups and retention and real progression in the labour market;
- Funding reflects these priorities;
- Funding remains in silos driven by targets for one organisation rather than the region as a whole;
- Procurement reflects a largely passive tendering culture (with an emphasis on accountability and blame avoidance) rather than an active purchasing system (with an emphasis on responsibility and getting results);
- The delivery infrastructure has some poor performers who do not add value;
- Transitions between some providers for some clients are poorer than they should be; and
- Information and management systems do not readily allow for rapid identification of problems (or opportunities) making it hard for an overview to be taken and for actions to be taken to benefit the workless client.

In direct contrast to the above situation by 2008 the partners want the REF to have made progress in:

- Shifting more resources into engagement, retention and in-work progression whilst spending relatively less on employability service activity. Currently we estimate that 15% is spent on engagement and 15% on retention/aftercare, with 69% on activities. This can change to 25/50/25 over two years ;
- Aligning funding streams so that they all contribute to the end objective of sustainable employment for the identified key client groups;
- Creating and managing a supply of providers with longer term contracts within the FPA framework in return for strong provider performance;
- Through review and evaluation reducing the number of under-performing organisations and re-investing these resources into engagement and retention;
- Using effective case management and common client tracking and reporting systems to enable clients to efficiently move through the support system towards a job; and
- Creating an information system for managing employability provision in the region that can be shared by all the partners and reduce the need to gather the same information from workless clients several times by several different providers.

2.4 Managing the infrastructure

Performance management will be a key element in helping the new infrastructure to improve consistently. The REF is based on the following:

Assumptions

- Individual is referred to provision based on their postcode or priority group
- Reduced contract bureaucracy for providers
- DWP/JC+ and HMRC provide evidence reports (off benefits and in-work)

- Funding for work based qualifications post employment will continue
- Access to work based qualifications and career guidance is given to working parents with children, identified as living in poverty

Targets

- by geographical areas and priority groups
- reduce gap between the national average and priority groups
 - reach national average employability rate by 2016 with interim targets to be agreed by partners for 2008, 2010, 2012 and 2014

Funding

- New or additional funds to be allocated on jointly managed basis from April 2007
- Existing funds to be re-allocated on jointly managed basis as contracts end
- Least flexible funds to be wrapped around by more flexible funding to create right package at sub-regional and local level
- After 2008 Health and Social Care budgets have started to be integrated as sources of additional funds to support employability.
- Providers should be encouraged to move towards to an incentivised model of payment.

Example Payment Model

- Start payment to ensure cash flow
- Premium will be allocated to priority groups
- Agreed part of funding available to provide support to get a job
- Agreed part of funding available to support sustainability and progression up to one year
 - Payment monthly in arrears based on information supplied by DWP and HMRC
- conditions for re-entry onto programmes will reflect the need not to pay for someone twice, but the desire to avoid people needlessly waiting to re-qualify. Immediate re-entry will be allowed, but with no further 'entry' payment to the provider if this takes place within a year.

Measurement Framework

- Off benefits (confirmed by DWP), in work P46U (confirmed by HMRC). Provider claims checked against evidence supplied by DWP/JC+ and HMRC.
- Within 13 weeks of leaving programme.
- Real time payment, since DWP/JC+ and HMRC operate real time systems
- DWP/JC+ to provide financial data on money saved on a quarterly basis.
- Measurement Framework goes live from 1st April 2008 for all partners.

Infrastructure development

- As part of the first stage of our work 57 local labour market intermediaries completed detailed benchmarking scorecards. These provided the REF partners with insights

into those areas where the infrastructure was strongest and weakest but also provided each LMI with a development tool. We will revisit this benchmark on regular basis to assess whether and how the infrastructure is becoming stronger.

Management and governance

- We suggest to oversee the strategic direction of the REF that a small sub-group from Jobcentre Plus, One North East, LSC, GONE, City Regions representative (Tyne & Wear/Tees Valley). rural area representatives and the NEEC be formed. This will be the The Regional Employability Framework Implementation Team (REFIT). The proposal is that the group will be chaired by NEEC to ensure that employer's voice has a central role in the overall development.
- The REFIT will be under the auspice of the Regional Skills Partnership and will report quarterly on developments.
- Implementation of the REF in two phases – an initial phase from January to April 2007 which will agree initial actions and a phase to cover the first year of activity with an emphasis on monitoring and driving progress and identifying the development and support needs to staff in both commissioning and delivery agencies.
- As the key funders are engaged in developing the City Region agenda we suggest a practical route to implementing the design of the framework is through the Tyne and Wear City Region Employer Consortium. Utilising this structure as the vehicle to implementation ensures that both the City Region and the REF develop and display the fit necessary to achieve an effective Framework.

2.5 Implementation timetable

REF Milestones	By End	Interdependencies
The REFIT formed	Jan-07	
Develop a 3 months implementation plan	Feb 07	
A performance group agreed to oversee the development of performance tracking system through the Tyne and Wear City Region Employer Consortium	Feb 07	
REFIT to consider the spread of key funding in the region and develop joint funding plan	March 07 on wards	Depends on partners
Agree 12 months activity plan with identified leads with key partners	April 07	
City Regions Employer Consortium begins delivery.	April 07	

Appendix 1: Policy Context

Introduction

This appendix reviews some of the information gathered in Stage 1 and adds in new factors which have arisen since the summer in order to explain the reasoning behind the REF. Readers who are familiar with the policy context could only read those sections headed 'implications for the REF' where we look at the impact of policy on action.

The first stage noted six key aspects to the policy context within which the partners were developing the REF:

- The **Regional Economic Strategy**, with its focus on participation and productivity;
- **DWP Green Paper** - 'A new Deal for Welfare: empowering people to work', with its focus on clients on incapacity and making it worthwhile to work;
- The wider **cities agenda**, with the recognition of cities as key economic drivers and associated issues of governance, scales of delivery and the relationships between cities and their regions;
- The **Northern Way** and its combination of funding for pilots and influencing role on ODPM.
- The **reform of the EU structural funds** and working through the implications for the funding of employability approaches;
- Changes to **Jobcentre Plus** and the way that their performance is measured

There have been developments in several of these areas since the summer, and for the purposes of this report we have brought the cities agenda into that part of the DWP green paper dealing with welfare reform. In addition there have been policy developments in other areas, in particular:

- The Department of Community and Local Government (DCLG) White Paper on 'Strong and Prosperous Communities';
- The Leitch Report on skills which is expected to be published in November or December.

It is also worth mentioning in this context the Treasury work on 'benefits realisation management' as a tool for moving away from 'activity based' measures and the three year spending targets for DWP with both reductions in staff and a 5% reduction each year in funding.

In this section we draw on these different aspects of the context to briefly update some of the key directions of travel for the REF which were identified in the first stage.

Regional Economic Strategy

“The North East will be a region where present and future generations have a high quality of life. It will be a vibrant, self-reliant, ambitious and outward looking region featuring a dynamic economy, a healthy environment and a distinctive culture. Everyone will have the opportunity to realise their full potential.” [RES pg.3]

As we noted in stage 1, the principal policy document in relation to this work is the Regional Economic Strategy (RES, 2005). The RES identified two fundamental issues that need to be dealt with if the north east is to close the economic gap that exists with the UK average and, eventually, the more prosperous south of the country.

The first issue is that of economic activity or **participation** rates. The north east has the lowest rate in the UK at 69.7%, compared with the English average of 75.1% and though unemployment levels are low by historical standards (having declined by 26% between 2001-04) numbers on non-JSA benefits remain a problem. The RES estimates that 40% of the gap between the north east and the national average in terms of economic output is due to lower participation rates.

Within this regional figure, which, like other regions, is improving, there remain significant variations. Only one area within the north east has a level significantly above the average, whilst Middlesbrough in particular remains well below.

The second is the issue of **productivity** within the existing workforce. If Gross Value Added (GVA) per person is taken as the measure, then the north east is at 80% of the UK average, this is low in comparison with other regions, with only Wales and Northern Ireland having a lower figure. This accounts for the other 60% of the gap in economic output.

The point made by the RES is that tackling only one of these issues will not be sufficient to achieve the desired goal, since the level of improvement required in either would be unrealistically high. The target in the RES is to bring a further 80,000 people back into the labour market and, in doing so, raise participation rates to the UK average by 2016.

Though the RES deals with issues at a regional level, it also recognises that there are significant differences within the region and that the labour market will both vary, and not necessarily correspond with, local authority boundaries. As research from the Social Exclusion Unit (SEU) has shown, some 22% of the population in the north east live in the worst 10% of areas, suggesting quite severe geographical concentrations of economically inactive households. The RES makes the point that the issue of place cannot be ignored and that the city-region approach sits quite comfortably within a regional framework, given that the two city regions in the area house over 90% of the region's population and contribute more than 90% of its economic output.

In addition, it is worth re-emphasising a central message of the RES that the fundamental justification for public intervention is to overcome **market failure**. This has significant implications for how we will look at the issue of employability and the types of solution that will be appropriate.

The RES is itself being reviewed with support from the consultancy, Shared Intelligence, with a December 2006 deadline for a revised action plan designed to respond to external changes since the launch and to the desire to focus on a smaller number of key priorities. In terms of the labour market, a key issue is in-migration from new EU member states. Government estimates of migration have been wrong by a significant factor and this has led to the twin issues of local authorities having to plan services for a much larger number than they anticipated and local employers having access to a more skilled (and cheaper) labour force; but a labour force that may return to its homeland once economic conditions improve.

DWP Green Paper: 'A New Deal for Welfare: empowering people to work'

The Green Paper (GP) was launched in February 2006. The thrust of the GP is the need to bring more people back into work and reduce unemployment, but also to recognise new factors that have arisen since the creation of the original New Deal, especially the increase in the number of individuals on Incapacity Benefit (IB).

Part of this new landscape is the issue of those who are inactive rather than unemployed, but who want to return to the labour market. The GP recognises that there is both a **stock** and a **flow** issue here. The GP sees the way forward for reducing the future **flow** of claimants as, essentially, making the benefit system less attractive for new claimants and by early interventions to prevent individuals becoming resigned to their fate.

However effective the GP is in terms of reducing the flow of people onto IB, the **stock** issue remains a significant one if the Government is to reach its target of reducing IB claimants by one million and of increasing the number of older people and lone parents in work by one million and 300,000 respectively. This will require something like a doubling of the current rate at which people leave the system. Unlike those joining the system, there are limitations to making benefits less attractive. But it is important to note that although the rhetoric is about the reduction of those already on IB being best tackled by positive incentives to join employment orientated programmes coupled to effective support once in the labour market, the two systems will be integrated within five years so that even existing claimants will see their benefits changed.

The GP describes plans for:

- **A reformed benefits system** to remove perverse incentives, balance rights and responsibilities and combine back-to-work help for those who can work with support for those who cannot;
- **A modernised delivery system** with the public, private and voluntary sectors working together, actively engaging with employers to offer an effective and comprehensive service to those in work but may be at risk of losing their job, to those who find themselves without work and to those who are moving back into work.
- **A new unified menu of support**, for all people who find themselves out of work, with a personalised menu of services tailored to the needs of the local economy.
- **A new initiative for cities** to make better use of existing resources by developing high-performance solutions to help people prepare for and find work.
- **A radical reform of the Housing Benefit system** to make it simpler and more flexible, and to address some of the perverse incentives of the current system.

- A ***much simpler benefits system*** in the longer term.

In terms of the REF, two areas in the GP are of particular significance:

- The commitment to a modernised delivery system, based around collaboration, employer needs and also, importantly, on those who are also at risk of losing their job as well as those who are out of the labour market,
- The establishment of a new initiative for cities to make better use of existing resources. Since the first stage report, the Tyne/Wear region has become one of 15 such regions (10 in England) invited to put forward a full business plan to the DWP. The cities initiative is based on the idea of focussing on ***existing*** resources and there is no indication that large (or even small) amounts of additional funds will be forthcoming, or indeed that the flexibilities approved will be significant or radical.

What is important here, however, is the wider notion stemming from the minister, John Hutton MP, and his advisors that Government should be looking to create and, more significantly, ***build a market*** in the field of welfare to work. We will discuss later on the lessons that the Government has taken from Australia and the USA in this area. Hutton's speech at the Welfare to Work Convention in Birmingham and subsequent moves indicate that DWP is keen to see something much closer to the Australian model in the UK, with consolidation in the market place, more contracting out of service delivery and greater continuity through the 'Star System' to encourage investment, development and innovation.

Some of these moves are also a consequence of budgetary constraints and reductions within DWP: it not only faces significant 'headcount' reductions but also a 5% year on year reduction in budget from 2007-10 leading inevitably to the search for more radical savings.

Our view on this policy, which we will discuss further on, is that welfare to work is not actually a market at all, since there are no effective price signals and no real choice for clients, but that what we have here is a variation of the theme of ***public/private partnership*** which can be made to work more effectively.

Linked to the wider issue of cities and welfare reform is the concept of the Northern Way, the attempt to bring together economic activity in three regions (North East, North West and Yorkshire) in a way that will contribute to a reduction in the gap between these areas and the UK average. Part of the activities consist of a series of actions to try out new ways of doing things utilising a budget of £100 million, the other part consists of assembling a credible case for the north in relation to the next spending review. The REF will have to both be broadly consistent with the thrust of the Northern way and learn from the experience of the employability pilots it is funding in such places as Easington.

Reform of the EU structural funds

One of the key themes of the first stage of this report is that it is not only levels of funding that are important, but also the trajectory of funding. If funding is increasing under certain headings then all sorts of short-term issues can be solved by additional resources. This is not automatic, and we know from other areas that increased

expenditure does not necessarily translate into improved performance. However, decreases in resources are always likely to result in short-term problems and uncertainty even if they provide longer-term opportunities for re-alignment and rationalisation.

EU funds are by no means the only area where reductions are taking place, but the crucial feature in terms of the REF is that they are predictable and that they will start to have an impact in the short to medium term, with the voluntary sector particularly exposed to their effects.

The new EU programme which will come into effect for 2007-13 raises the following issues for the REF:

- Within the reduced UK budget for ESF, how much will be allocated to the North East? There is clearly an issue here for effective lobbying at the national level to make the case for continued substantial investment in the region, given its relative performance.
- What will be the range of activities that can be funded under the new programme and to what extent will they allow for continuous development of individuals, as opposed to separate programmes for unemployed people and those already in work?
- How can the regional partners and funders handle the transition from the current types and levels of support to those that will exist under the new programme in a way that minimises disruption to clients?
- Given that it is unlikely that there will be agreement about UK programmes until at least the middle of 2007, there is also the crucial issue of transitional arrangements for 2007 itself.

Changes at Jobcentre Plus

As we noted in stage 1, Jobcentre Plus continues to go through significant changes, the most relevant of which are:

- The roll out of Jobcentre Plus offices which focus on interactive technology and associated self-service (eg the use of telephone contact centres) with staff focusing their time on those clients who need face to face help. This has been associated with a stronger focus on marketing to employers with additional staff resources being devoted to this task. The practical implications of this include:
 - Staff reductions have increased the organisation's need to work with others to deliver an effective service;
 - Clients are becoming familiar with the use of technology in finding work and there is scope to learn from and build on this particularly in providing an effective reactive service to lower priority clients;
 - There are additional marketing resources but these are still small compared with the scale of the task of effective employer engagement.
- The change from their performance being measured by job **entries** (ie Jobcentre Plus being credited for placing their clients into jobs) to job **outcomes** (ie Jobcentre Plus being credited for any person moving from benefit to work). This removes the last barrier to effective inter-agency referral and will underpin any framework that emerges.
- What is clear here is that there is much more of an emphasis on what might be termed '**double activation**', the belief that not only do clients need to be activated to take advantage of policies, but that staff in Jobcentre Plus need to be activated and

supported to change ways of working in order to deliver these new objectives as well.

- The ever-strengthening focus on clients on Incapacity Benefit and the growing significance of the Health Boards as key partners of Jobcentre Plus and more generally in approaches to employability.
- The recent round of New Deal contracting highlighted two significant trends – towards larger contracts covering larger areas, and towards contracts which expect a significant management task of subcontracting to more local delivery. Both these are highly significant in terms of the kind of infrastructure that is created and its sustainability and robustness. This has been reinforced by the move towards national rather than local procurement and the consequent erosion of local knowledge being replaced by more paper driven systems.
- As we shall note later, the Leitch review poses a number of questions around what may be retained by Jobcentre Plus and what might be handed over or shared with other agencies. One important feature of the future is, however, the drive towards **joint commissioning** by Jobcentre Plus and the Learning and Skills Council, with the emphasis on joint outcomes as well as joint investment.

Strong and Prosperous Communities

The Department for Communities and Local Government (DCLG) launched a new white paper in October. There are a number of consequences that may be relevant to the REF and other partners.

- The potential for areas to argue for unitary council status could have implications for Durham and Northumberland;
- The perceived role for local authorities as strategic leaders in certain areas and the impact upon Local Area Agreements and Local Strategic Partnerships;
- The desire to see improvements in local authority procurement processes.

The Leitch Review

Publication of the Leitch Review took place in early December, following the publication of an interim report in December 2005. The review has important things to say in relation to improving productivity (a serious issue within the UK economy and where hourly productivity rates are 20% below those in France, 13% below those in Germany and 18% below those in the USA) through improving skills at the bottom end of the labour market where there are over 3.5 million adults with skill levels below NVQ level 2. Given that 70% of those who will make up the working age population in 2020 are already over 16 this cannot just be brought about by improving schools.

Leitch is not a blueprint, but rather marks a 'direction of travel' and there are clearly significant issues of how it might be implemented. The broad point here is that Leitch is concerned with **all** adult funding and as such has major implications since it involves not just LSC issues, but the adult careers service, Sector Skills Councils and Employment and Skills Boards.

The relationship with the REF will lie in how Leitch sees the follow up to engaging with those who have low skills but are out of the labour market and the steps and resources

needed to both keep them in work and to improve their productivity through further training. Leitch makes a number of central recommendations here:

- Responsibility for helping individuals achieve certain levels should be taken on the following basis:
 - Getting 90% of the population to NVQ Level 2 should be primarily funded by government;
 - Getting 4 million people to NVQ Level 3 should be jointly funded by government and employers;
 - Getting 40% of the population to NVQ Level 4 and above should primarily be funded by employers
- DWP and DfES should align their objectives around employment, skills acquisition and retention more closely moving from a position where:

“The key employment objective of DWP is to increase the employment rate over the economic cycle. It has translated this into operational targets... to help a certain number of people into work each year, with a focus on disadvantaged groups. Welfare to Work providers are also rewarded if their clients are still in work after 13 weeks. The short-term focus moves attention away from pre-work interventions that might improve the sustainability of employment, as well as creating little incentive to build links with in-work support that might improve retention. Two-thirds of Jobseekers' Allowance claims are repeat ones.” (para 28)

To one where:

“The DWP should be held accountable through the PSA framework for improving the employment rate over the cycle. The Commission will monitor annually whether DfES skills policy and DWP employment policy is making a full contribution to sustained employment and progression. (para 7.66) In practice, this means that Jobcentre Plus and others delivering Welfare to Work services should still be rewarded for getting people into work. However, they should be rewarded for retention in work for at least a year. Their contribution to supporting progression includes referrals to in-work support and delivery of basic employability skills. This will give providers strong incentives to help people improve their retention and progression, including through skills improvements.”(para 7.68)

- The system (and payments) should be based on customer demand from 2010, rather than purchasing block places based on anticipated demand, using the Train to Gain and Learning Account models and with FE Colleges being rewarded for employment outcomes as well as qualifications;

This will partly be an issue of the *level* of resources, which may need to be found from savings elsewhere, and also an issue of the *institutional framework* for those resources. In this case, Leitch recommends that a Commission for Employment and Skills should be established to replace the National Employment Panel and the Sector Skills Development Agency and to ensure co-ordination and progress between the main government funded departments and agencies.

Implications for the REF

Taken together, the current range of policy changes presents important challenges to the region.

- The review of the RES provides the opportunity to sharpen up the focus on the participation theme within the strategy;
- The DWP Green Paper is an open invitation for the region to stake out how the REF will enhance the national agenda for reducing economic inactivity by demonstrating how a strong local consortium can deliver results within existing resource constraints;
- The core cities agenda recognises that effective delivery needs funding to be pooled (or at least aligned) at a wider level than exists at present, that effective interventions need to be demand rather than supply led and to be related to the labour market rather than current administrative boundaries;
- Changes in EU funds present the opportunity to re-engineer activities around successful organisations and activities and to create a more holistic approach to employability than is possible at present;
- The Leitch Review provides the opportunity to focus on linking services for those out of the labour market to opportunities once they have obtained a job to improve their skills and productivity;
- Reductions in EU and other funds may lead to the longer-term erosion of capacity to work with inactive clients in an effective way;
- The timing of these changes may create uncertainty and paralysis in the supply chain unless well planned, communicated and managed.

Lessons from Australia, The Netherlands and the USA

The changes in UK Government policy outlined above have a number of roots. One important aspect of their genesis has been the desire of the Government to look outside the UK and to look at 'what works' elsewhere. There have been two major sources since 1997, the USA and Australia, with some more muted interest in the Netherlands.

The USA

The USA was the starting point for the 'Re-inventing government' philosophy of the mid to late 1990s and there are now some 49 states who contract out some services. The state of Wisconsin has been seen as being at the leading edge of many of these reforms, partly because it is seen to have been influential in the reforms taking place in New York.

The important features in this transformation seem to be:

- Bi-annual contracts;
- A 'Prime Contractor' model for an area, with local sub-contractors;
- A system of 80% fees and only 20% for outputs;
- Performance is judged on results along with client satisfaction, employer satisfaction and other measures;

- The right of 'First Selection' if performance is acceptable (38 out of 69 contracts were renewed on this basis in 2003).

In terms of results this has produced:

- No conclusive evidence that the private sector is better than public or not for profit agencies;
- A dramatic decrease in caseloads on welfare (300,000 to 15,000 in ten years) but a corresponding increase of those on poverty programmes (the Food Stamp programme now has 200,000 recipients);
- Extensive audit evidence of perverse incentives (turning people away) in initial programmes that have required re-design.

Australia

In recent years the UK Government has looked much more towards Australia for policy guidance and several Australian organisations have brought their models across to the UK, including Ingeus (who own Work Directions) and Mission Australia (who now own part of Working Links). The Australian experience also starts around ten years ago and has resulted in the replacement of their equivalent of Jobcentre Plus, as a delivery agency, with a combination of for-profit and not-for-profit agencies. The position is:

- Sole purchaser (Dept of Employment and Welfare Reform);
- Three year contracts;
- A move from price competition to fixed prices;
- A move from up front and outcome payments to a 'drip-feed' system with payments up to 26 weeks after a job;
- A star rating system resulting in 60% of contracts being rolled over;
- A drop in the number of organisations delivering contracts from 306 in the first tendering round to 109 by the third round (50:50 for-profit/not-for-profit)

In terms of results it has produced:

- A halving of the real cost of job outcomes;
- Significant improvement in performance;
- A net impact on employability of 10%;
- When the star rating system was introduced in 2001, 13 week outcomes went up from 18% to 27% and are now at 32%.

The Netherlands

The Dutch model has borrowed extensively from Australia and a number of Dutch organisations such as Maatwerk are running contracts in England. Though Dutch programmes tend to be run through municipal government a number of lessons are similar to those in the USA and Australia:

- Annual contracts but some use of preferred suppliers;
- Incentives to deal with inactive people efficiently by retaining central government resources if they do so;
- Small number of large contractors (but lots of smaller sub-contractors);

- Costs have increased for outcomes as harder to help groups have been encountered.

Implications for the REF

A number of conclusions can be drawn from the operation of these 'quasi-markets' over a number of years:

- There are distinctive purchaser/provider arrangements in each country;
- Competition is *for* markets, not *within* markets;
- Tender selection has not just been on price and has looked at other issues, but competition has helped keep prices down;
- There are significant differences in payment systems between those paying for processes and those paying for outputs;
- There are unresolved issues about how to create a level playing field between different sectors;
- Contracting out services does *not reduce management* time in public procurers but *changes the management skills required*;
- There is a steep learning curve for public agencies and a *need to re-regulate* as contractors get smarter about 'working the system';
- There is a trade off between continuity and high barriers for new entrants;
- The introduction of market mechanisms places risks on contractors who then develop strategies to shift or reduce those risks down the line to sub-contractors;
- Creaming, and in particular, 'parking' remain issues even for sophisticated payment systems. Creaming is where only those most likely to get a job are chosen, parking is where those unlikely to get a job are offered the minimum in training and support to reduce costs;
- There is evidence of convergence and an innovation plateau in providers unless procurers 'freshen up' the process;
- There are dangers of 'mission drift' for the voluntary sector towards becoming an arm of the public sector and being driven by financial goals.

We will look at how some of these lessons can be avoided by the REF in more detail in section 3.

The Scottish context: Workforce Plus

At the start of this current exercise it was noted that the Scottish Executive had embarked upon the task of creating an employability framework and that this might have some lessons for the REF. Progress with the Scottish employability framework, now re-branded as 'Workforce Plus', has been slower than anticipated but the document – together with the NEET strategy – was launched in June. Since then there has been some progress around two of the three points raised in the stage 1 report as being relevant to the REF:

- An additional £8 million in seven local authority areas where levels of economic activity are lowest over two years has been agreed by the Executive. All, apart from Dundee, cluster around Glasgow and are, in effect, part of the greater Glasgow labour market. Bids for the resources and action plans were submitted to the

Executive at the end of October and it is anticipated that decisions will be made early in the New Year. The evidence so far is that the six local authorities around Glasgow have not yet agreed a joint approach, but that Glasgow and Dundee have both submitted bids that are consistent with the wider DWP city strategy agenda. Both cities have focussed on simplifying arrangements for employers and on reducing the number of smaller, poorly performing, suppliers.

- The implementation of Workforce Plus will be guided by a Scottish Employability Panel (which will include employers) and supported by an Employability Unit within the Enterprise and Lifelong Learning Department. The focus of the unit will be on driving local improvements through, amongst other things, aligning funds, common assessment and understanding employer demand. There is no appetite for adding additional layers between local and national activities and no appetite for designing new organisational structures at the local level. Staff have now been recruited to this unit, including external secondments from local areas and with specialist knowledge of key client groups.

Implications for the REF

Taken together, the issues raised above have a number of implications for the REF.

- ***Do more resources need to be allocated to brokerage activities with employers?***

The outcome of the first stage was that brokerage activities needed to be ***simplified*** for employers and that larger employers could be much more involved in co-designing programmes, rather than simply allocating more resources. However, we need to remember that:

- Most jobs will still come through normal market mechanisms and these changes will impact on around 33% of vacancies;
- The key feature is smarter management of relations with employers;
- Engaging with large public sector employers will be crucial
- Engaging with SMEs is an issue that will not be solved quickly

- ***Does more focus need to be put on sustainable job outcomes?***

The issue of retention rates is at the heart of improving effectiveness because of the high costs involved in re-cycling individuals through various programmes with inevitably diminishing returns. In addition, the evidence on child poverty suggests that up to 50% of poor children are in working households and this implies that the next step for Government policy must be to encourage progression as well as retention in the labour market. But it is also true that progression is much easier within a pattern of stable employment, so retention is a necessary but not sufficient condition to moving families and individuals out of poverty. This suggests the need for more resources in this area to work with employers, not only in terms of those moving into work but in order to prevent individuals falling out of the labour market due to health related issues.

But we also need to note that any payments system to promote more sustainable job outcomes will need to avoid 'deadweight' (funding what would have happened anyway). This is discussed in the next section. In addition, this focus re-emphasises the need to link in programmes such as Train to Gain within the overall employability framework and not as separate activities.

- ***Should the REF focus on a small number of areas where economic inactivity is concentrated or focus on client groups with high rates of economic inactivity?***

Services are delivered on a geographical basis and most disadvantaged groups have a geographical concentration, but it is important to recognise two things – a universal offer must be flexible about geography and not be obsessed by postcodes and the labour market (and the availability of jobs) is rarely related to areas of high disadvantage. For example, many jobs are in city centres or retail parks. This implies that even if the engagement part of the process needs to be local, the employment element will not.

The work of such programmes as the Full Employment Area Initiative in Glasgow demonstrate how this local focus with key groups can feed clients into a bigger, city wide, network of employers. We must stress here the importance of good and effective case management of clients in order to ensure that they make progress through the employability process.

- ***Do partners want to focus on particular employment sectors?***

There is a wealth of information about the workings of the labour market and areas of market failure in terms of employment. There are a number of areas that partners can focus on:

- Sectors with growth in demand, especially in entry level jobs;
- Sectors with high turnover, either because of demographic reasons (an ageing workforce as in the health sector) or because of the nature of the sector itself (tourism, catering, hotels). This is especially relevant where there is a mismatch between perceptions of the industry in terms of conditions, wages and prospects and reality (call centres, tourism);
- Large public sector employers with predictable demand (and often with significant numbers of entry level jobs);
- Large private sector employers with predictable demand.

The strong view of employers was that a sectoral approach was especially important in terms of entry level jobs.

- ***Do partners see benefits from a regional unit devoted to performance management, the strategic alignment of funds and the rapid roll out and transfer of good practice?***

As we noted earlier, driving the REF will require different and more sophisticated management skills, not less management time. We will discuss later on the options around a dedicated independent unit, a unit housed in one of the partners and a team drawn from all of the partners.