



July 2007

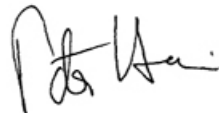
**In work, better off:
next steps to full employment**

Impact Assessment

DWP Department for
Work and Pensions

In work, better off – Impact Assessment

Summary: Intervention and options

<p>What is the problem under consideration? Why is government intervention necessary?</p> <p>The Government has set the challenging aspiration of an overall employment rate of 80% as well as continuing to narrow the gap in the employment rates of disadvantaged groups. The Government also aims to halve child poverty. The policies outlined here are intended to move the UK closer to that goal, by providing extra assistance to help people, especially the most disadvantaged and those claiming inactive benefits, move into work. Without government intervention, these groups would remain at risk of exclusion from the labour market.</p>	
<p>What are the policy objectives and the intended effects?</p> <p>We want to give individuals greater support and in return expect them to take on greater responsibility themselves for finding work. The objective is to increase employment, particularly among disadvantaged groups and those who have been on benefits for a long time. This will in turn help reduce child poverty, and poverty and exclusion more widely. There are also likely to be wider social benefits (health, crime, etc) which are not discussed in any detail here.</p>	
<p>What policy options have been considered? Please justify any preferred option.</p> <p>This impact assessment focuses on three areas of the Green Paper where policy changes are proposed and consultation questions have been asked:</p> <ol style="list-style-type: none"> 1) the introduction of a flexible New Deal to replace the current suite of employment support for the long-term unemployed with a more personalised, flexible and responsive New Deal. Jobcentre Plus will retain the core role as 'owner' of the customer. A network of specialist providers from the private, public and voluntary sectors will deliver back to work support after 12 months 2) for lone parents with older children, removing entitlement to income support and instead offering more active, work-focused support through the Jobseeker's Allowance regime 3) Local Employment Partnerships will aim to offer 250,000 job opportunities to people on inactive benefits and the long term unemployed. 	
<p>When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? There will be a comprehensive evaluation of all of the proposed Green Paper proposals following their implementation.</p>	
<p>Ministerial Sign-off For consultation stage Impact Assessments:</p> <p><i>I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options</i></p> <p>Signed by the responsible Minister:</p>  <p>Date: 18th July 2007</p>	<p>Ministerial Sign-off For final proposal/ implementation stage Assessments:</p> <p><i>I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.</i></p> <p>Signed by the responsible Minister:</p> <p>Date:</p>

Policy Option: Green Paper – In work, better off

<p>Annual Additional Costs</p> <p>One off (Transition) £10-15m</p> <p>Average Annual Cost (excluding one-off) £80m</p>	<p>Description and scale of key monetised costs by 'main affected groups'</p> <ul style="list-style-type: none"> Flexible New Deal is designed to be cost neutral to existing provision so all costs are one-off. There are annual costs of administering JSA to lone parents previously entitled to Income Support. These have been totalled over 3 years Estimated cost of providing 250,000 jobs through the Local Employment Partnerships is £100m over 3 years, of which 20m is the administration cost. <p>Total Cost (PV) £250-255m</p>
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Other key non-monetised costs by 'main affected groups'

There will be additional costs of any transitional support to lone parents, and other key features of policy design decided following consultation.

<p>Annual Benefits</p> <p>One off £0</p> <p>Average Annual Benefit (excluding one-off) £175-300m</p>	<p>Description and scale of key monetised benefits by 'main affected groups'</p> <p>Monetised benefits will flow to the extent that the new measures increase the rate at which people flow off benefits and into work. We can therefore only make rough estimates of the benefits in terms of lower benefit spending and higher tax and NI credits on the basis of existing policies. Benefits will reflect:</p> <ul style="list-style-type: none"> Reduced spending on benefits by helping more jobseekers and lone parents into work (totalled over 3 years) Increased tax and National Insurance contributions. This estimate does not take into account additional spending on childcare and the childcare element of tax credit, which would need to be offset against the savings. <p>Total Benefit (PV) £510-870m (exc. additional childcare costs)</p>
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Other key non-monetised benefits by 'main affected groups'

Increasing employment will also have wider benefits including reduced poverty, improved child outcomes, improved intergenerational and social mobility, reduced crime and improved health.

Key Assumption/Sensitivities/Risks

The cost/ benefit estimates given here are highly indicative and will be developed more accurately during the policy design phase following the consultation period. Further details of assumptions are given in the Evidence Base section which follows.

Price Base Year 2007	Time period Years: 3	Net Benefit Range (NPV) £ 260-615 million (exc. additional childcare costs)	Net Benefit (NPV best estimate) £ 430 million (exc. additional childcare costs)
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What is the geographic coverage of the policy/option?		Great Britain		
On what date will the policy be implemented?		From October 2008 or as resources allow		
Which organisation(s) will enforce the policy?		DWP		
What is the total annual cost of enforcement for these organisations?		N/A		
Will implementation go beyond minimum EU requirements?		N/A		
What is the value of the proposed offsetting measure per year?		N/A		
What is the value of changes in greenhouse gas emissions?		N/A		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro 0	Small 0	Med 0	Large 0
Are any of the organisations exempt?	N/A	N/A	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices)				
Increase of	0	Decrease of	0	Net Impact 0

Evidence base for summary sheets

Context

Compared with 1997 there are 2.6 million more people in jobs and more women, lone parents and disabled people working than ever before. Yet there remain stubborn barriers to achieving the goal of full employment in a generation. There are over 3 million people of working age who have been on benefit for over a year, many on incapacity benefits. There are concentrations of worklessness in our cities often close to thriving labour markets. There are nearly three million households in which no-one is working, and 1.7 million children are growing up in such families. Too many 16 and 17 year olds are not in education, work or training.

This Green Paper sets out the next steps the Government is taking on the road to full employment. This Annex provides an impact assessment for the proposals contained in the Green Paper. More specifically, it provides an impact assessment for:

- Proposals to increase the lone parent employment rate, including reducing the age of the youngest child at which a lone parent loses their entitlement to Income Support;
- Proposals to strengthen the requirements for those claiming Jobseeker's Allowance and developing a more flexible New Deal to support jobseekers into employment; and
- Proposals that Local Employment Partnerships should offer 250,000 jobs over three years to people on inactive benefits – lone parents, disabled and 'other' inactive benefit claimants, and the long term claimant unemployed.

Some provision under the flexible New Deal would be procured externally. The Green Paper does not contain detailed proposals in this respect, but for background an Annex discusses possible impacts.

These three issues are considered in turn.

This impact assessment has been produced for the purposes of a consultation exercise. It must therefore be regarded as a draft, since the purpose of the consultation is to ascertain the views of stakeholders and the general public as to the desirability and feasibility of these proposals; and about the mode and timing of their implementation. Costs, benefits and impacts will of course depend crucially on these factors. All costs, benefits and impacts in this draft impact assessment must therefore be treated as indicative. The impact assessment will be updated as further information becomes available and wider policy implications are identified.

Lone Parents

Introduction and Policy Rationale

1. The Government has set challenging targets to increase lone parent employment, and reduce child poverty. The current policy approach, based on voluntary participation by lone parents, has helped to achieve a lone parent employment rate today of 56.5%, an increase of 11.8% since 1997. However, to reach a 70% lone parent employment rate by 2010, which would lift around 200,000 children out of poverty, would require an extra 320,000 lone parents to be in work.
2. Work is a highly effective way out of poverty and social exclusion for lone parents and their children. Over half - 56% - of children in non-working lone parent families live in poverty, compared to 17% of children of lone parents working part-time and 7% of those working full time (2005/06 HBAI). Lone parent families are also more likely than other family types to experience persistent poverty and deprivation.
3. There are some 1.8 million lone parents of working age in the UK. Of these, 775,620 lone parents are claiming Income Support (November 2006 data). Lone parents are much less likely to participate in the labour market than partnered mothers. 71.5% of partnered mothers are in employment compared with 56.5% of lone parents (Q2 2006, LFS data). Recognising the importance for child poverty of increasing the lone parent employment rate, independent reviews by the OECD, David Freud and Lisa Harker have recommended that, with the right support available, it is right for the Government to consider increasing the obligations to look for work on lone parents with older children.
4. The Government believes that moving from the emphasis from a voluntary to a mandatory intervention regime for lone parents of older children will help more of them to move into work. It proposes to reduce, from 16, the age of youngest child at which a lone parent remains entitled to Income Support. The Green Paper proposes reducing the age to 12 (from 16) initially, and further to 7 subsequently. Table 1 below shows the lone parent employment rate, numbers on Income Support, and numbers of poor children in lone parent families by age of youngest child.

Table 1

Age of youngest child	Lone Parent Employment rate (Q2 2006, Labour Force Survey)	Lone Parents claiming Income Support (thousands, November 2006)	Number of poor children in lone parent households
Under 7	42.9%	475,380	620,000
7-11	60.0%	192,070	270,000
12 and over	70.1%	108,140	180,000
All	56.5%	775,590	1,070,000

5. Lone parents with older children are more likely to be working than those with younger children and less likely to be in receipt of Income Support. However, the employment rate of lone parents with youngest child aged 12 and over is still some ten percentage points below that of partnered mothers with children of the same age, suggesting that further progress can be made with this group. However, in order to make a real impact on child poverty, policy reform needs to reach lone parents with younger children. 80% of poor children with lone parents live in a family where the youngest child is under the age of 12.

Table 2

Age of youngest child	Lone Parent Employment rate (Q2 2006, Labour Force Survey)	Partnered mothers' employment rate
Under 7	42.9%	65.0%
7-11	60.0%	76.8%
12 and over	70.1%	80.5%
All	56.5%	71.4%

6. A 70% overall lone parent employment rate does not mean 70% for all groups. It would require those with older children to achieve much higher rates of employment – closer to the partnered mothers' equivalent of around 80%.

Estimating Costs and Benefits

7. The Government is consulting on what age of youngest child entitlement to Income Support should end and whether there should be a phased reduction. There are also questions about what support should be made available to lone parents who claim Jobseeker's Allowance, and whether there should be transitional support. The cost estimates in this impact assessment are therefore very initial. They are based on IS entitlement for lone parents with youngest child aged 12 and over ending in October 2008 and this being broadened to lone parents with youngest child aged 7 and over in October 2010. They do not include the one-off costs of implementation.

8. Our initial estimate based on stylised assumptions is that this would cost in the region of £150 million over 3 years from April 2008-2011. However, for every additional lone parent moved into work, there are fiscal benefits generated by reduced spending on out-of-work benefits, extra income tax and National Insurance receipts, offset by spending on in-work tax credits. These savings are particularly hard to estimate as we will not know the additional impact of the policy change until a full evaluation has been conducted. However, our initial analysis suggests that savings might be in the region of £150-300 million over the three years (note that these do not include the cost of extra Government spending on childcare, including childcare element of working tax credit). We are therefore assuming a net fiscal saving.
9. The final costs and benefits will depend on various elements including:
 - whether lone parents who are no longer entitled to Income Support under the new regime join JSA, claim other benefits, leave benefits altogether;
 - the speed at which they find work from JSA (or other benefits);
 - the New Deal provision they access from JSA (or other benefits);
 - the extra income tax and National Insurance receipts resulting from extra lone parents entering work; offset by government spending on tax credits;
 - any additional help such as extra Work Focused Interviews, or a Work-related Activity Premium – the cost of these interventions, and the employment impact.
10. Assumptions have been made regarding some of these elements, but others will have to be refined when the details of the policy are decided following consultation. However, previous evaluation of government programmes aimed at helping lone parents moved into work (in particular New Deal for Lone Parents and Work-focused interviews) has shown that such programmes are effective and efficient, with favourable cost-benefit ratios¹.

¹ Knight, G. and others (2006). Lone Parents Work Focused Interviews/New Deal for Lone Parents: combined evaluation and further net impacts. DWP Research Report 368.

Dolton, P., Azevedo, J.P., and Smith, J. (2006). The econometric evaluation of the New Deal for Lone Parents. DWP Research Report 356.

Equality Impact Tests

Gender

11. Over 90% of lone parents are female. Moreover, female lone parents are more likely than male lone parents to be out of work (44.7% of lone mothers are not employed compared to 30.9% of lone fathers). 95% of lone parent Income Support claimants are female. Any changes to the policy regime for lone parents will therefore have a much greater impact on women.
12. However, it is worth noting that the gender impact is less pronounced for lone parents of older children. There is a thirteen percentage point gap in the employment rate for lone mothers and lone fathers. This gap falls to just two percentage points for lone parents of children aged 12 and over. Approximately 98% of IS lone parent claimants with youngest child aged under 5 are female, while 90% of IS lone parent claimants with youngest child aged 11 to under 16 are female.
13. The vast majority of NDLP participants are female – just under 95%. Women actually have somewhat better outcomes than men – 60% of women leave NDLP for employment compared to 52% of men.

Race

14. The table below shows the ethnicity breakdown of lone parents compared to the working age population as a whole. Some 13% of lone parents are of non-white ethnicity. The table also shows that there are substantially more Black lone parents than in the working age population as a whole and slightly fewer lone parents of Asian ethnicity. The employment rate of all non-White lone parents is 45% compared to 58% for White lone parents.

Table 3

	White	Mixed	Asian	Black	Chinese	Other ethnic group	All non-white
All working age population	89.2%	0.8%	5.2%	2.5%	0.5%	1.7%	10.8%
Lone Parents	86.8%	1.3%	3.4%	6.9%	0.2%	1.4%	13.2%

- 15. NDLP statistics can also be broken down by ethnicity. 14.3% of NDLP participants in November 2006 were from an ethnic minority. They have significantly worse outcomes from NDLP – 48% of all leavers go into employment, compared to 61% of white NDLP participants. This contrasts with results from ND25+ from which white leavers to employment are only slightly higher than ethnic minorities at 29% compared with 28%.

Disability

- 16. Lone parents with a youngest child aged 12 and over are particularly affected by the issue of disability. According to the Labour Force Survey, 27.6% of lone parents of this age group suffer from a type of disability, 19.8% of which are affected by DDA and work limiting disability. This compares with 22.9% and 14.8% for lone parents of children of all ages.
- 17. Disabled participants in NDLP are seen to have somewhat worse outcomes than non-disabled participants, with 53% of them entering employment.

Table 4

	Number of participants in NDLP (thousands, November 2006)	Percentage of leavers entering employment
Disabled lone parents	3.29	53%
Non-disabled lone parents	48.86	60%

- 18. There are also just under 24 thousand lone parents on Income Support with a child in receipt of Disability Living Allowance. We need to ensure that our support for lone parents is attuned to the particular needs of those with disabled children, and that all lone parents claim the appropriate benefit. This might be ESA for lone parents with disabilities or Income Support for lone parents receiving Carers Allowance.

Age

- 19. The table below shows the age profile of Income Support lone parents. Rolling out conditionality to those with older children will mean that the lone parents themselves are also more likely to be at the older end of the distribution. However, there are good reasons for targeting lone parents with older children, based on childcare constraints being lower the older the child. Furthermore the age distribution of lone parents is not particularly wide, with over 90% of lone parents on Income Support being between the ages of 18 and 45.

Table 5

Age of claimant	Number of Lone Parent Income Support claimants (thousands)	Percentage
Under 18	5.93	1%
18-24	161.16	21%
25-34	288.18	37%
35-44	250.21	32%
45-49	48.7	6%
50-54	16.69	2%
55-59	4.74	1%

Summary

20. The assessment above suggests that the lone parent proposals contained in this Green Paper will have a stronger impact on the following groups: women, lone parents of non-white ethnicity, older lone parents, disabled lone parents and lone parents of disabled children. Moreover, some of these groups, in particular lone parents from an ethnic minority or those affected by disability, appear to have worse employment and poverty outcomes under the current system.
21. The change in IS entitlement should benefit the groups identified insofar as it moves more of them into work, and removes disparities in their treatment, and it is the Government's clear objective that this should be the case. We will be undertaking more detailed equality impact assessments to determine the precise nature of these impacts, and what further actions we may need to take to ensure that the proposals do indeed improve outcomes for disadvantaged groups. As part of the consultation process on this Green Paper we are inviting further comments from stakeholders to enhance our analysis.

Question 1: What further analysis do you think we need to do when undertaking a fuller equality impact assessment? How can we ensure that we have involved stakeholders in these assessments?

22. Further analysis will need to consider carefully the likely impact on these groups, as well as any others such as lone parents living in urban or rural areas. Respondents to the consultation process are invited to comment on these issues. We will publish an extensive equality impact assessment alongside the publication of our response to this consultation.

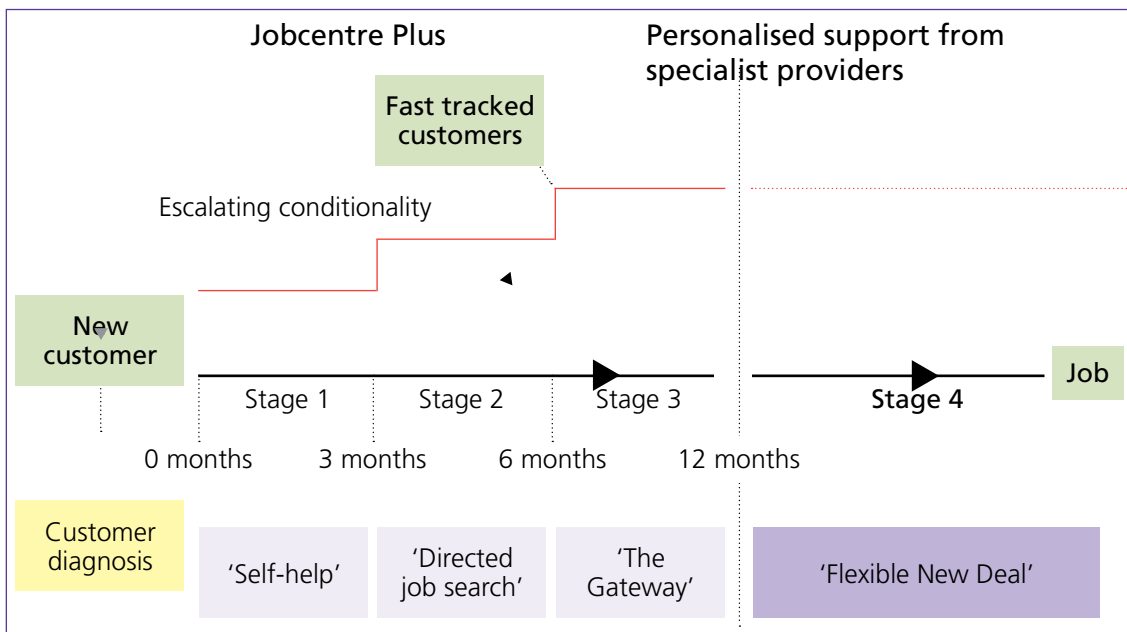
Flexible New Deal

Introduction/ Policy Rationale

1. The Government has set the challenging aspiration of increasing the employment rate to 80%. The current policy approach for jobseekers is based on mandatory participation by jobseekers in the Jobseeker’s Allowance (JSA) regime and New Deals, this has helped to achieve an employment rate today of 74.3%. However, to reach an 80% employment rate would mean moving significantly more jobseekers into employment.
2. The flexible New Deal (FND) is being developed to replace the current suite of employment support for the long-term unemployed with a flexible programme procured from specialist providers.

Outline of a flexible New Deal

3. We propose to strengthen the requirements for those claiming JSA and introduce a new flexible New Deal for all jobseekers to replace the current separate New Deals for young people and unemployed adults. The effect of this would be to provide increasing levels of support and require corresponding effort on customer’s part as the duration of his claim for Jobseeker’s Allowance increased. Access to the flexible New Deal would be at the point when the large majority of JSA recipients have already moved to into a job. There would be four stages to the increase in support and mandatory activity.
4. When someone looking for work seeks to enter the benefits system, whether for the first time or not, the personal adviser would straight away – at the same time as the interview for the benefit claim - look at the customer’s barriers to finding a job. This assessment would be the very first stage of the new regime.



5. This would help the personal adviser to understand whether a customer needs immediate help to support them in getting a job and would inform their path through the Jobseeker's Allowance regime. Those identified at the start of the claim with a significant gap in their basic or employability skills would be referred for a 'skills health check' in line with the Leitch report recommendations. This indicates the emphasis we are putting on a more integrated employment and skills service for people seeking work. All job seekers would be signposted to the help and advice on offer to support them in getting and progressing in a job. Although the Leitch review of skills only looked at England, we would want to see a similar provision throughout Great Britain, subject to discussions with the Scottish Executive and the Welsh Assembly Government.
6. From then on the customer would be guided through the regime step by step in a way that offered more support to those who needed it and asked each person to respond individually to the mutual rights and responsibilities that benefit receipt must entail.
7. The first three months of a claim would be based on the current Jobseeker's Allowance regime. Most customers leave JSA quickly – around 60% leave within 13 weeks. These customers need little more than signposting and ready access to job vacancies, reinforced by fortnightly reviews as under the current system, in order to find work themselves. We will also consider using group sessions at around week six of a claim to reinforce the 'work first' principle. These would set out the customer's rights and responsibilities and what is expected of them.

Stage 2

8. After three months, if the claim continued, the customer would, as now, have a formal review of their Jobseekers Agreement to see what more should be expected from them to help them return to work quickly and all customers would be submitted to vacancies. This will be followed by a series of more frequent interviews. Jobseekers will also be expected to extend their jobsearch based on travel to work, wage and working hours rather than by preferred employment or occupation.

Stage 3

9. After six months on Jobseeker's Allowance claimants would enter the Gateway stage, building on the current New Deal Gateways. This will involve a formal review with a personal adviser who will draw up a back to work action plan drawing on a menu of activities aimed at improving employability and job chances. Each customer would be expected to agree to and complete a number of such activities. Each of the agreed activities would be mandatory, thus balancing the increased employment support with the increased responsibility to make best use of that support.

10. We envisage that in England there would be a further opportunity to refer the customer to a skills health check and, if appropriate to training funded by the Learning and Skills Council. In Scotland and Wales, the question of ongoing referral to the all-age Careers Service and appropriate provision will be subject to discussion and agreement with the Scottish Executive and the Welsh Assembly Government.
11. Customers with, for instance, a history of benefit dependency or those facing particular barriers or disadvantage could be referred earlier to the more intensive support available during the Gateway stage. We believe that this would have advantages for the customer and for those providing the back-to-work support. A customer's skills needs would also be taken into account when determining whether they should be fast-tracked to the gateway. If it is evident that a lack of basic skills is preventing someone from getting a job it would also be possible at any point during a claim for a personal adviser to refer that person for skills help. And at this gateway stage customers may be directed to attend a skills health check to identify any skills issues preventing them from gaining employment. Those with literacy, numeracy or language needs would be actively encouraged to take part in suitable training.

Stage 4

12. After 12 months undertaking solely Jobcentre Plus work related activity, the customer would be required to join specialist return-to-work provision, through the public, private or third sector. This would be made up of intensive and personalised support to meet the needs of the most disadvantaged.
13. The specific package of support would be for the provider to agree with the customer based around a minimum level of prescription as in the current Employment Zones. This would include a minimum of fortnightly contact with the customer; an initial, in-depth assessment of employment-related needs; and the production of a challenging personal action plan. Participation and compliance with the action plan would be mandatory.
14. We have made it clear since the start of the New Deals, that we should expect those who can work to take advantage of the help available and in turn we accept that we should provide support for those unable to work. Given the commitment we are now prepared to make to providing greater levels of support through the flexible New Deal, we think it right that we should continue to expect jobseekers to take up suitable work, or help to improve their job chances. To ensure that everyone is guaranteed a minimum level of help, we plan to build into the flexible New Deal an underpinning requirement to participate in full time activity, such as work experience, or work in the community, for a period, to refresh and reinforce work habits and disciplines. Providers will therefore be required to ensure that every claimant who fails to find work earlier on in Stage 4 will be mandated to participate in a period of full-time activity.

15. The few claimants who fail to find work after 12 months with the provider would return to Jobcentre Plus, and fast-tracked to the Gateway stage.
16. Throughout this new, flexible regime, the offer of increased help would be balanced with the responsibility on individuals to make the best use of that support or face a loss of benefit. This is an important part of the current mandatory New Deals and would continue to be a feature of the flexible New Deal. Jobcentre Plus would remain responsible for making decisions about benefit sanctions and applying them. Customers would retain all the rights of reconsideration and of appeal to an independent tribunal that exist now.
17. Clearly the impact of these changes would depend on the way in which the Department contracted for return to work provision in Stage 4. The Green Paper does not contain detailed proposals in this respect, but in responses to David Freud's report a number of responses asked for greater evidence and analysis on contracting. This is summarised below in Annex A. We would welcome views on how this evidence might be better developed to inform our future contracting strategy.

Methodology

18. There are two key elements to the costings: (1) the number of jobseekers receiving interventions, and (2) the unit cost of each intervention.
19. To estimate the number of jobseekers receiving interventions weekly off flows for a cohort of jobseekers from 2004/05 have been used. A cohort from 2004/05 has been used so that the jobseekers can be followed for at least 2 years. The number of jobseekers reaching weeks 26, 31, etc. has then been used to estimate the costs of the number of jobseekers receiving interventions from Jobcentre Plus and joining the FND stage at 52 weeks.
20. Off flows for young people after 6 months have been replaced by off flows for 25 to 29 year olds because young jobseekers will enter a modified Gateway from 6 months followed by the FND from 12 months. Twenty-five to 29 year olds are the group of jobseekers most similar to young jobseekers.
21. The unit cost of Jobcentre Plus interventions have been estimated using Jobcentre Plus Finance's staff costs and the costs of non-Jobcentre Plus interventions have been estimated using the costs of similar interventions.
22. The final element of the FND is early entry to the Gateway stage. To estimate the number of jobseekers who could receive early entry, the pot of money left over after paying for mandatory FND participants has been divided by the additional cost of allowing jobseekers to join the Gateway stage rather than at day 1.

23. There are a number of remaining issues that need to be worked through in the costings. These include:
- Transitional costs and arrangements;
 - The costs of jobseekers failing to attend interventions and subsequent Jobcentre Plus activity; and
 - Further policy implications as they are identified.

Sensitivities

24. The principal risk in the costings model is the number of jobseekers flowing through 6 and 12 months and therefore receiving additional support during the Gateway and FND stages. This is a particular risk because the off flows for jobseekers from 2004/05 have been used for costings, but the level of unemployment might differ in 2009/10 and 2010/11.
25. To understand the scale of this risk we have tested the robustness of the base model against a number of possible sensitivities. Outside forecasts estimate higher flows through 6 and 12 months than off flows for jobseekers from 2004/05. The funding for the FND is tighter under these forecasts, but the FND remains deliverable.
26. In addition, assuming no additional off flows as a result of the extra Jobcentre Plus interventions during the Gateway stage, more jobseekers enter the FND stage – the major cost of the proposed model. It is however still possible to remain within a balanced budget.

Impact of the proposed flexible New Deal

27. We have estimated that overall the claimant count will fall by between 10 thousand and 15 thousand as a result of the Gateway and flexible New Deal stages. These estimates have been made using evidence from evaluations of the mandatory New Deals and Employment Zones (EZs).²

² 'Evaluation of Employment Zones: Report on a Cohort Survey of Long-Term Unemployed People in the Zones and a Matched Set of Comparison Areas' Hales et al. National Centre for Social Research (November 2003). 'Findings from the Macro Evaluation of the New Deal for Young People' White and Riley (2002).

28. Helping more jobseekers into work will provide benefits for four groups:
- **Jobseekers:** Jobseekers will gain financially as their in-work income from earnings and tax credits will be higher than their out-of-work income from benefits and tax credits. There will also be wider benefits for jobseekers from moving into employment.
 - **Employers:** There will be benefits for firms that employ the jobseekers.
 - **The Exchequer:** There will be financial savings to the exchequer from reduced benefit payments and higher tax, national insurance, and VAT receipts.
 - **Society:** There will be wider benefits for society from reduced crime, reduced social exclusion and improved health.
29. Our expectation is that the ongoing costs of the flexible New Deal will be met from reallocating existing spending on employment support for the long-term unemployed. There will however be one off costs in the range of £10 million to £15 million.
30. Our initial estimate of the benefits of the flexible New Deal to the exchequer is between £70 million and £100 million per year. This estimate includes reduced benefit payments, higher income tax and National Insurance contributions, higher indirect tax payments and payment of tax credits. We assume that all additional jobseekers moving off the claimant count move into employment. Over a three year period the flexible New Deal has been estimated to have a benefit of between £200 million and £300 million.
31. Our early estimates suggest that the net benefit of the flexible New Deal over a three year period could be within the range of £175 million and £260 million.

Specific Impact Tests

Flexibility

32. The FND model will draw on the most successful aspects of current programmes and provision, notably Employment Zones (EZs). EZs have three stages, which involve developing an action plan, implementing that action plan and in-work support. Providers are able to tailor a package of support to individuals' needs as a result of their flexibility. EZs are work-focused and centre their attention on 'realistic aspirations'.
33. Evidence shows that EZs are better than their equivalent New Deal programme at placing customers into (sustained) employment: EZ performance is significantly better than equivalent New Deals for all client groups, including those with multiple barriers. For example, for 25+ clients EZs achieve between 5 and 10 percentage points more job outcomes and more of these jobs are sustained to 13 weeks. EZs for the over 25s (EZ25+) outperforms ND25+ and have had even greater improvements for movement into full-time jobs (16+ hours per week).

34. EZs aim to build trust and a good rapport with their customers. As part of this process, and to attain good job outcomes, some have attempted to match the personal adviser with the jobseeker e.g. younger jobseekers will have a younger personal adviser. Evidence has shown that they are then in a better position to engage with their customers. In addition, it is known that younger jobseekers have appreciated the greater amount of time they had to spend with their EZ adviser and the level of attention and support they received. It is expected that FND providers will use this type of individual, tailored support to help jobseekers find sustained employment.
35. EZs have both operational and financial flexibility. In practice this means that advisers can, for example, meet customers in alternative locations, such as cafés or outreach centres - not just the Jobcentre Plus office. In terms of tailoring support to the individual, when writing the action plan advisers will ascertain what real barriers the jobseeker faces, e.g. childcare responsibilities, and they can then help to find a solution. With respect to financial flexibility, EZs are able to shift resources between clients allowing them to spend more money on those jobseekers who need it.
36. Hales et al (2003) compared EZ performance with ND25+. They established that EZs outperformed comparison New Deal areas. This held for those EZ participants who were in poor health, which included jobseekers with a health condition or a disability. The focus on individuals' barriers to employment and a range of provision should ensure that like EZs, the FND achieves better outcomes for this group than seen under the New Deal.
37. In addition, further flexibility is included in the model by fast tracking hardest to help jobseekers to the Gateway stage - providing more intensive support earlier in their claim to help them into sustained employment.

Competition assessment

38. The implementation of the FND will expand the market for providers of employment services presenting an opportunity for a larger number or range of suppliers. For some smaller providers the ability to compete for large scale contracts could be diminished if the FND adopted a prime contractor model, but smaller providers would be able to compete for provision sub-let by the prime contractor. Overall the impact on competition amongst providers will depend on the specifics of the tendering process for contracts but they are expected to be positive. See Annex A.

Small firms impact test

39. The FND will not increase regulatory requirements for small and medium sized firms. Hence, no negative impacts are expected in this respect. See Annex A.

40. There is a possibility that the FND will operate a prime contractor model. We would not expect a move to this model to have a substantial negative impact on small providers since a wide variety of providers have won contracts under the mandatory New Deal prime contracts. Under the New Deal prime contracts there are 94 prime contracts, of which 53 were won by private sector organisations, 14 by public sector, and 27 by voluntary organisations. There are 527 sub-contracts, 257 won by the private sector, 82 by the public sector, and 188 by third sector organisations.

Health impact assessment

41. There is much evidence to suggest that unemployment has negative effects on people's health and that entering employment can improve people's health.³ Our estimates suggest that the FND will help more jobseekers into employment, the FND may therefore have positive health effects. It is not possible to quantify the scale of these effects.

Equality impact assessment

Age

42. There are a greater number of young claimants compared with older claimants; 29% are aged 18 to 24, compared to only 16% aged 50 to 59 years. Interestingly, the proportion of 18 to 24 year olds has increased over time by the same number of percentage points that 25 to 34 year olds has fallen (see Table 1).

Table 1 Proportion of JSA caseload by age

	Under 18	18-24	25-34	35-44	45-49	50-54	55-59	60-64
May 1997	1%	24%	29%	21%	9%	9%	7%	1%
November 2006	1%	29%	24%	21%	9%	8%	8%	1%

43. Under the proposed regime jobseekers will not be segmented on the basis of age. All ages are treated equally, so while 18 to 24 year olds and the over 50s will continue to receive an intervention at six months, those aged 25 to 49 should benefit from the additional help offered earlier into their unemployment spell. The proposals would therefore remove the current differential treatment by age.

³ 'Is Work Good for your Health and Well Being?' Waddle and Burton. July 2006.

44. No negative effects relating to the FND are expected. Indeed the proposed FND will bring forward additional support for jobseekers aged 25 years and over from 18 months to 6 months. Young people will receive a modified Gateway from 6 months and older jobseekers will all enter the Gateway from 6 months onwards. In addition, the flexibility of the proposed regime will ensure that all jobseekers receive individually tailored support, which should be an improvement on the prescribed activities in the current New Deal provision.

Gender

45. The proportion of female jobseekers claiming JSA has increased over time, from 23% in May 1997 to 27% in November 2006.
46. New Deal for Young People (NDYP) has seen an increase in female participants of similar proportions to that seen in the JSA caseload, from 27% in 1998/99, to 30% in 2005/06. It is, however, worth noting that despite the increase in female participants, females are slightly under-represented on NDYP compared to the claimant count: 32% of jobseekers aged 18 to 24 are female, compared to the 30% on NDYP. Additionally, there is a two percentage point gap in performance between males and females, with the female employment destination rate at 36%, while for males it is 38%.
47. New Deal 25 plus (ND25+) has seen a small increase in female participation from 17% in 2001/02 to 19% in 2005/06. There are disproportionately fewer female ND25+ participants than the proportion of females on the claimant count aged over 25 (24%). There are no gender differences in terms of employment outcomes; they are both 29%.
48. We do not expect negative impacts on the basis of gender. Providers will offer greater support tailored to the individual needs of jobseekers, much like that provided in EZs. Our experience of EZs suggests that greater flexibility will have a positive effect on these groups. Evaluation backs this up as EZ performance is significantly greater than equivalent New Deals for all client groups, including those with multiple barriers. Evidence on female customers in EZs (early entrants who were over 25s) indicates that they benefited from the encouragement offered by their personal adviser. In some cases they had secured jobs in sectors they were unfamiliar with or initially reluctant to apply for.

Ethnic Groups

49. The proportion of white jobseekers on the count has fallen from 76% in May 2002, to 72% in November 2006. This reduction has been offset by a two percentage point increase in both jobseekers from an ethnic minority and 'unknown ethnicity' jobseekers. Ethnic minorities currently make up 16% of the caseload, while unknown ethnicity accounts for 12%. This is a substantially greater proportion than their representation in the total population.

50. There has been a slight increase in NDYP participants from an ethnic minority, increasing from 14% in 1998/99 to 17% in 2005/06. Ethnic minorities have a higher proportion of female participants (34%) than white participants (30%). The employment rate for NDYP participants from an ethnic minority is lower than that for whites at 31% compared with 38%, but there is wide variation between different ethnic groups.
51. There has been a significant increase in ND25+ participants from an ethnic minority, from 12% in 2001/02 to 16% in 2005/06. Unlike NDYP, there is no significant gender difference between whites and ethnic minorities. White leavers to employment are only slightly higher than ethnic minorities at 29% compared with 28%.
52. It is not expected that the FND will result in negative impacts for any ethnic group. Providers will offer greater support tailored to the individual needs of jobseekers, much like that provided in EZs. From our experience of EZs, it is suggested that greater flexibility will have a positive effect on these groups. Evaluation backs this up as EZ performance is significantly greater than equivalent New Deals for all client groups, including those who are harder to help.
53. Each ethnic group will benefit from the flexible provision, focusing on their personal barriers and how they can be overcome. Participants within this group will not be treated homogeneously and so a positive impact is expected on jobseekers from this group.

Disability

54. There has been a marginal increase in the proportion of NDYP participants with a disability, from 13% in 1998/99 to 14% in 2005/06. ND25+ has a much larger proportion of disabled participants. This has increased from 27% in 2001/02 to nearly a third in 2005/06.
55. Participants without a disability perform significantly better on the New Deal: on NDYP 38% leave to employment compared with 31% who have a disability. A similar difference can be seen on ND25+ where only a quarter of participants with a disability leave the New Deal for employment, compared with 31% who do not have a disability. The support offered by the FND will look at the needs of the individual to establish what help they require to improve their employment prospects.
56. It is not expected that the FND will have a negative effect upon employment outcomes for disabled people. Providers will offer greater support tailored to the individual needs of jobseekers, much like that provided in EZs. From our experience of EZs, it is suggested that greater flexibility will have a positive effect on these groups. Evaluation backs this up as EZ performance is significantly greater than equivalent New Deals for all client groups, including those who are harder to help.

Rural

57. For both NDYP and ND25+ the more rural districts perform better than the urban ones. Under the new regime it is expected that this performance will continue; more frequent attendance and increased conditionality should not negatively affect rural areas and should positively impact upon the lower urban performance.
58. We do not expect negative impacts on any of these groups. The flexibility of the FND should cater for both urban and rural participants by ensuring they receive the correct support. Jobseekers in varying geographical locations may need differing help, with diverse local labour market conditions (e.g. type of vacancies) commanding different support requirements.

The Impact of Contracting on Equality

59. The approach to contracting might also impact on the number of specialist providers such as specialist disability providers, or black and minority ethnic providers. The contracting model for the FND has not yet been decided, but our experience from the recent New Deal prime contracting, suggests that this has not had a significantly adverse effect on specialist providers.

Conclusion

60. Disadvantaged groups are over represented amongst programme participants and they currently have worse outcomes than the wider group of jobseekers. The flexible New Deal is expected to help to improve outcomes for disadvantaged groups by offering individualised support tailored to their specific needs and boosting their likelihood of finding employment. We expect the flexible New Deal to improve both the absolute and relative position of disadvantaged groups by targeting resources on those jobseekers with the greatest needs. Targeting early access to the Gateway stage on disadvantaged jobseekers should also help to provide greater support for jobseekers requiring more help to find sustained employment.
61. However, securing better outcomes for the most disadvantaged in practice will be dependent on ensuring that providers, whether from the public, private or voluntary sector, have:
 - the flexibility to attune their programmes to the needs of the most disadvantaged, including those from specific ethnic groups and those with health conditions;
 - the experience, knowledge and tools to be able to do so in an efficient and effective way; and
 - the incentives to do so, through the contracting structure.

62. We welcome views on how this might be achieved in practice.
63. There is a theoretical concern that funding providers on the basis of outcomes will encourage “creaming” (focusing on the easiest to help at the expense of the most disadvantaged). Available evidence suggests that while creaming is always a concern in this context, it is no more so for outcome-focused contracts than for Jobcentre Plus provision. However, it will be important in contract design to ensure that providers are properly incentivised to focus on the most disadvantaged.
64. Further analysis will need to consider carefully the likely impact on these groups. Respondents to the consultation process are invited to comment on these issues. We will publish an extensive equality impact assessment alongside the publication of our response to this consultation

Question 2: What further analysis do you think we need to do when undertaking a fuller equality impact assessment? How can we ensure that we have involved stakeholders in these assessments?

Local Employment Partnerships

Introduction and Policy Rationale

1. At the heart of our reforms must be the assurance that people who are willing and able to work will get a job. In the Welfare Reform Green Paper we set out our plans for a new ‘Jobs Pledge’, which will offer a quarter of a million job opportunities across the public and private sectors to people who are long term benefit claimants.
2. Employers can offer jobs for the hundreds of thousands of people who face disadvantage in the labour market. In England, Jobcentre Plus, working with the Learning and Skills Council and providers, can ensure disadvantaged people can access these jobs, preparing people for specific roles and delivering trained candidates that employers need. We want to work with the Scottish Executive and Welsh Assembly Government to develop an appropriate approach for our customers living in Scotland and Wales.
3. Jobcentre Plus already has significant day-to-day interaction with employers, working with 400,000 employers every year and taking over 10,000 new vacancies every working day. We want to build on this engagement with employers to enhance the service that we offer both to them and to our individual customers to make quicker and more effective progress with our welfare to work agenda.
4. We believe that this new national commitment will give people who are at a disadvantage in the labour market more chance of competing for the 600,000 vacancies that come up in the labour market each and every month and because we are giving individuals much greater support to gain the necessary skills required to take up these jobs, we should, in return, expect them to take on greater responsibility themselves for finding work.

5. In the 2007 Budget statement the Chancellor of the Exchequer announced the introduction of New Local Employment Partnerships (LEPs), initially with a focus on the Retail Sector. These Local Employment Partnerships provide a fresh approach to the work that Jobcentre Plus does with employers, building on the development of work with employers under the New Deal. They are designed to help ensure that the support for long-term unemployed and other priority groups prepares them for the world of work, providing them with the skills they need to meet employers' expectations. Up to now 24 companies have already signed up and we have extended the sectors to Finance, Hospitality, Facilities Management, Logistics, Security and the Public Sector.
6. Jobcentre Plus account managers are working every day with our major employer customers to sign up further employers and to pin down specific locations and volumes with those signed up already.

Estimating Costs and Benefits

7. Local Employment Partnerships offer a new approach, linking priority disadvantaged groups with relevant training and opportunities with a range of employers seeking to fill vacancies. As such, there is a lack of available information and evidence to enable us to provide a definitive cost benefit assessment. The estimates that follow represent the department's best estimates under what are considered reasonable assumptions based on broadly comparable past programmes and policies. However these estimates are sensitive to the assumptions on which they are based

Benefits

8. We are expecting that the Local Employment Partnerships will offer 250,000 jobs over three years to people on inactive benefits – lone parents, disabled and 'other' inactive benefit claimants, and long term claimant unemployed.
9. The existing evidence shows that around 150,000 lone parents, 385,000 disabled and around 180,000 people who were claiming Jobseeker's Allowance for over 6 months, move from worklessness to employment each year.
10. The available data on flows from worklessness into employment enables us to provide some estimates on how the 250,000 jobs provided through the LEPs might be taken by various client groups. The base case assumption is that these proportions are broadly replicated by the LEPs. Therefore, of the 250,000 jobs, we estimate that around 21% would go to lone parents, 54% would be taken by disabled and 25% by long-term claimant unemployed.

11. The net impact of the policy on employment depends crucially on two factors – additionality and displacement.
12. Additionality refers to the proportion of those getting jobs through the programme who would not have done so otherwise. Obviously, additionality will not be 100% – some people will get jobs anyway. Estimating additionality is difficult even with an existing programme, since it is impossible to know precisely what would have happened to those on the programme had they not participated.
13. We use three scenarios - additionality of 10%, 25% and 30%. We believe these scenarios are plausible, given the evidence from evaluations of programmes with similar client groups, which show relatively high levels of additionality⁴. This follows from the nature of the target group - since most long-term benefit recipients are inactive - that is, not looking for work - rather than unemployed, and those who are looking for work face multiple barriers, they are less likely to have found work in the absence of the programme. The programme will be fully evaluated so that we can estimate the actual additionality in practice
14. Displacement and/or substitution refers to the fact that the programme may have a negative impact on the employment chances of other jobseekers in the labour market, since they will not have access to these jobs. In practice, the UK labour market is highly flexible and the number of jobs is not fixed. Someone who fills a job does not necessarily preclude another person from finding alternative work. Employment is primarily driven by the supply side, the proportion of people active in the labour market, rather than by any limit on the number of job opportunities available. Therefore displacement is not necessarily a serious concern.
15. There is no significant quantitative evidence of displacement in existing evaluations of UK labour market programmes⁵. Other evidence suggests that the UK labour market is sufficiently flexible that substitution is not a serious concern. For example, Gilpin et al⁶ show that the large influx of workers from new EU member states did not have a significant impact on the unemployment chances of natives, although they clearly moved into jobs that were therefore by definition not immediately available to natives. Moreover, empirical analysis by DWP shows no evidence of displacement at the lower end of the labour market; lower-skilled people moving into jobs does not appear to have any significant impact on the employment prospects of other lower-skilled people. We do not therefore assume any substitution or displacement effects in this impact assessment.

⁴ For Pathways to work see “The impact of Pathways to work” Bewley, Dorsett and Haile (2007). DWP research report 435.

For NDDP see “New Deal for Disabled People: Third synthesis report – key findings from the evaluation” Stafford et al (2007). DWP research report 430.

⁵ See for example, “Evaluating the impact of a mandatory job search assistance programme” Blundell, Dias, Meghir and van Reenen (2001) IFS working paper WP01/20.

⁶ “The impact of free movement of workers from Central and Eastern Europe on the UK labour market” Gilpin, Henty, Lemos, Portes, Bullen (2006). DWP working paper 29.

16. We believe that this new national commitment will give people who are at a disadvantage in the labour market more chance of competing for the 600,000 vacancies that come up in the labour market each and every month and because we are giving individuals much greater support to gain the necessary skills required to take up these jobs.
17. In addition, individuals on benefit who find work will gain financially as their in-work income from earnings and tax credits will be higher than their out-of-work income from benefits and tax credits.
18. There will be financial savings to the exchequer from reduced benefit payments and higher tax, national insurance, and VAT receipts. We estimate that moving people into work through the LEPs scheme, over the course of a year, has net benefits of around £6,600 for the exchequer. This estimate includes reduced benefit payments, higher income tax and National Insurance contributions, higher indirect tax payments and payment of tax credits. This is based on the weightings given above in paragraph 10. We would expect higher fiscal savings if these proportions were weighted towards those on incapacity benefit and, or long term JSA claimants. For lone parents the saving is lower, reflecting higher in-work tax credit payments and lower working hours.
19. Employers will also benefit from the scheme. Jobcentre Plus can offer employers a service which matches the right potential candidates to their vacancies and can, in conjunction with the Learning and Skills Council and local providers organise tailored pre-recruitment assessment and training so that employers can be confident that the people they are recruiting have the skills they need to do the jobs.

Costs

20. We estimate that cost per job provided through the Local Employment Partnerships would be around £400. The total cost of providing 250,000 jobs will be £100m over three years, of which £20m would be administration costs.

Cost Benefit Assessment

21. Under each of our additionality assumptions we find that the programme would deliver a net fiscal benefit to the exchequer. The figures below assume a duration of one year for all 250,000 jobs. In reality some jobs will last three years from the start of the period, and will accrue benefits throughout the programme. Some will last for much shorter periods of time. Analysis of NDDP suggests employment effects can last for several years⁷, however one year is used here for simplicity and the absence of specific evidence for programmes of this type.

⁷ "New Deal for Disabled People: Third synthesis report – key findings from the evaluation" Stafford et al (2007). DWP research report 430.

- Given additionality of 10%, we estimate benefits to the exchequer of £166m, or a net benefit of £66m.
 - Given additionality of 25%, we estimate benefits to the exchequer of £414m, or a net benefit of £314m.
 - Given additionality of 30% we estimate benefits to the exchequer of £497m, or a net benefit of £397m.
22. Given that we are unable to give a precise estimate of additionality, we have also calculated what the additionality of the programme would need to be in order for it to break even, or in other words give a net benefit of £0. This level of additionality is found to be 6%. This is equivalent to 15,000 of the 250,000 jobs to be additional, or 15,000 people which the Local Employment Partnerships need to help into employment and who would otherwise remain workless.

Equality Impact Tests

Gender

23. While women make up half of all benefit claimants, they tend to make up a disproportionate share of recipients of some inactive benefits. Over 90% of lone parents in Great Britain are female. Moreover, female lone parents are more likely than male lone parents to be out of work (44.7% of lone mothers are not employed compared to 30.9% of lone fathers). 95% of lone parent Income Support claimants are female – 740 thousand people. Any efforts to target these customers will have a much greater impact on women.
24. The trend is reversed, however, for recipients of Incapacity Benefit (IB) and Jobseeker's Allowance (JSA). 58% of IB claimants are men, while 42% are women. Since 1997 the male caseload has fallen by 94,000, with the female caseload rising by 117,000, though it has been broadly flat over the last year. Only 23% of long-term (6 months plus) JSA claimants are women. An LEP focus on New Deal and Pathways to Work customers could probably make the impact on women substantially less.

Disability

25. The Incapacity Benefit caseload has fallen from a high of 2.78 million in November 2003 to 2.67 million in November 2006, its lowest level in seven years. Programmes such as Pathways to Work and the New Deal for Disabled People have already had some success in boosting the number of disabled people moving into work.
26. 22.9% of lone parents have a disability, compared with 16.1% of the overall population. Disabled lone parents also have slightly worse outcomes in the New Deal for Parents, with 53% entering employment compared with 60% overall.

Ethnicity

27. While 10.8% of the working age population in Great Britain has an ethnic minority background, about 13% of Income Support for Lone Parent claimants are ethnic minorities, while 20.3% of long-term JSA claimants also have an ethnic minority background. Just over 9% of the disabled working age population comes from an ethnic minority background—slightly smaller than their share of population. An LEP focus on all on long term benefits will have a substantial impact on getting ethnic minorities into work.

Age

28. Since 1997 the proportion of the incapacity benefit caseload that are in the 50-State Pension age group has fallen by 2.8 percentage points and this group currently makes up 46% of the caseload. In the last year all of the three main age groups on the IB caseload have seen a reduction in numbers. The table below shows the trends for IB.

Table Number and percentage of Incapacity Benefit Claimants by major age group, 2001-2006

	2006		2005		2001	
	Number	% of caseload	Number	% of caseload	Number	% of caseload
Under 25	168,000	6.3%	170,000	6.3%	166,000	6.0%
25-49	1,279,000	47.9%	1,292,000	47.7%	1,276,000	46.5%
50 – SPA	1,226,000	45.9%	1,249,000	46.1%	1,304,000	47.5%

29. The age distribution of lone parents is not very wide, with over 90% of lone parents on Income Support being between the ages of 18 and 45. 48% of long-term JSA claimants are aged 25-49, with 37% aged from 50-state pension age and only 13% between the ages of 18 and 24. The LEPs are therefore likely to have a greater impact on the middle and older parts of the age distribution.

Summary

30. The assessment above suggests that the Local Employment Partnership proposals contained in this Green Paper will affect disproportionately: women, ethnic minorities, disabled people, and older long-term unemployed people. . Moreover, some of these groups, in particular those from an ethnic minority or those affected by disability, appear to have worse employment and poverty outcomes under the current system. The offer of guaranteed job opportunities through Local Employment Partnerships should benefit the groups identified insofar as it moves more of them into work, and removes disparities in their treatment, and it is the Government’s clear objective that this should be the case.

31. We will need to work closely with employers to ensure that they are committed to providing a supportive working environment for those from disadvantaged groups, including where necessary flexible working (particularly relevant for lone parents and parents more generally) and reasonable adjustments (particularly relevant for those with a health condition) as well as being committed more generally to the promotion of a diverse workforce in ethnicity and gender terms..
32. We will be undertaking more detailed equality impact assessments to determine the precise nature of these impacts, and what further actions we may need to take to ensure that the proposals do indeed improve outcomes for disadvantaged groups. As part of the consultation process on this Green Paper we are inviting further comments from stakeholders to enhance our analysis.

Question 3: What further analysis do you think we need to do when undertaking a fuller equality impact assessment? How can we ensure that we have involved stakeholders in these assessments?

33. Further analysis will need to consider carefully the likely impact on these groups, including more comprehensive cost benefit assessment as well as other differences such as the impact on target groups living in rural areas. Respondents to the consultation process are invited to comment on these issues. We will publish an extensive equality impact assessment alongside the publication of our response to this consultation.

Annex A – Contracting For Employment Programmes

1. DWP has a complex patchwork of contracts. There are more than 900 suppliers of welfare to work provision and DWP employment programme costs in 2006/7 were over £950m. Contracts follow a variety of different models, according to the area and the group of people that they are designed to support.
2. Back to work support has two parts:
 - intensive intervention at the start of the claim managed primarily by Jobcentre Plus
 - additional intensive, individualised support for putting the most disadvantaged people into work which might be delivered by the public, private or voluntary sectors
3. Contracted provision might be for a whole programme such as Employment Zones, or for part of a programme such as training elements like Work Based Learning for Adults within a New Deal programme.
4. David Freud in his independent report to DWP, *Reducing dependency, increasing opportunity: options for the future of welfare to work*, recommends that the accompanying contracts are outcome-based and payments should only be made for performance which exceeds that achieved with current policy. He saw a number of weaknesses with the current arrangements. One is that the contracting structures too often specify process rather than outcome, which limits the value that private and voluntary sector providers can add. Another is that the contracts have ceiling values in expenditure, which means that providers cannot be rewarded for overachievement. Contracts are not only small scale, but are let according to benefit group so that it is difficult to set up adequate systems to handle sub-groups with specific barriers. The system has a multiplicity of requirements and start and finish dates for each contract. A common complaint among providers is that the length of the contracts – at a typical two years with an option to extend for a further year – is far too short to set up the systems and recoup the investment necessary to provide outstanding performance. This is also a barrier to new entrants to the market. There are also complaints that the monitoring process looks more at compliance than on performance. One consequence is that contracting arrangements could play a greater part in helping people on benefit to find work, and in the achievement of the long-term aim of an employment of 80% for people of working age.

5. Freud also recommends that contracts should cross client group boundaries, and so should cover people on unemployment benefits and incapacity benefits, and lone parents on Income Support. This would reflect that many of the most disadvantaged face disadvantage because of their gender, disability, race etc, and barriers to work, such as the need for workplace adjustments, which may be flexible working, or affordable childcare. It would allow contracts to have the flexibility to tailor support to reflect individual circumstances, especially for those people who face multiple disadvantages.
6. Freud recommends as well the use of prime contracts, and longer and larger contracts. He saw prime contractors as managing agents who could provide financial, technical, and managerial expertise. In other models prime contractors are delivery agents, or integrate service provision. It is likely that different models will have different impacts in terms of value for money and job outcomes. This will also depend on the:
 - design of the programme, of which a part of the provision might be contracted out
 - degree of freedom open to individuals to choose between providers, and how they exercise it
 - the nature of the competition for contracts, and barriers to entry and exit from the provider market
 - contract funding mechanisms, whether this is payment by activity, or for outcomes, or some combination of the two, and how it might reflect the diversity of the clients served
 - contract performance management, which US experience testifies is important⁸, and where in Australia the use of the star rating system to rank provider performance has been effective in driving up job outcomes and increasing value for money

⁸ There is a range of experience in the US on contract design and performance of privately and not-for-profit provided employment programmes, summarised in Heinrich C and Choi Y, Performance-based Contracting in Social Welfare Programs, October 2006. From 1997 to 1999 Wisconsin Works contracts focused on performance against process measures. They heavily incentivised provider workload reduction, and the savings in employment programme costs enabled contractors to make high profits. The contracts in place from 2000 to 2001 addressed these failings by increasing monitoring, and assessing performance against outcome-based standards including employment, wage and job retention measures.

Some lessons from the US experience are:

- it is a major challenge to write contracts that adequately capture the nature of the services to be provided, and that specifies relevant contingencies and actions which follow their occurrence
- it is critical to determine how to monitor and evaluate outcomes. Significant resources are needed to manage and oversee contracts. Data collection and real-time evaluation systems are vital for the timely identification of problems and what works; attention must be given to the design and implementation of such feedback loops before projects get underway.

7. The commissioning strategy which DWP will publish later this year will set out the way forward on a number of these issues, and how they will dovetail with implementation of the Flexible New Deal. This paper sets out what costs and benefits there might be, and for whom, and the evidence on experience so far.

Costs and Benefits

8. There will be a range of effects from the new contracting arrangements affecting a number of groups.
9. There will be costs for private and voluntary sector bodies in bidding for contracts, and for those that are successful in setting up and running employment provision. The benefits to the successful organisations will depend on the terms of their contracts, and the results they achieve in getting people into work. Longer and larger contracts should reduce this overhead for bidders, and provide more income for successful bidders to recoup these outlays. Indeed, providers may wish to invest more up front in systems to reap savings downstream in the provision of support.
10. DWP will also have costs in setting up and managing contracts. There will be some complex effects from a new approach to contracting. If there is a move to longer contracts the letting of contracts may become more resource intensive, while there would be savings from the greater time between letting processes. If we continue to adopt larger contracts, or the prime contracting model applied to the latest New Deal contracts, there would be lower DWP costs as there would be fewer contracts to set up. Potential savings in auditing might be offset by a more a stringent performance management regime.
11. A successful contracting regime will get more people into work and bring financial savings to the exchequer from reduced benefit payments and higher tax, national insurance, and VAT, receipts even after taking account greater relief from tax credits.
12. Individuals on benefit who find work will gain financially as their in-work income from earnings and tax credits will be higher than their out-of-work income from benefits and tax credits.
13. Employers who take on these people will do so because they expect to gain financially. There will be a wider benefit to all employers from the increase in labour supply and competition for jobs as it will restrain wage pressures, and so wage inflation.
14. The figures in this report cover only the costs and benefits from the contracting process for government and contractors – that is the first two sets of effects.

Costs and Impact of Provision

15. As Freud has noted existing employment provision is quite disparate. The employment programmes with outcome-related funding are New Deal 25+ for the long-term unemployed delivered in Employment Zones, and New Deal for Disabled People in regions where there is pathways to work provision, the intensive intervention at the start of a claim for incapacity benefits. The cost of getting someone into work will depend on how close they are to the labour market, and may vary both within and across client groups. In consequence because NDDP as a programme helps people who are less likely to find work than EZ25+ the cost for each additional job found by an NDDP participant is lower than EZ25+, despite the cost for any job being higher.

Table 1 Costs and benefits of private and voluntary sector employment provision

	Cost (£000s)	Job entries	Cost per job	Cost per sustained job
EZ 25+	£11,300	2,560	£4,400	£5,320
NDDP in pathways areas	£33,900	12,060	£2,810	

A person is in sustained employment if a provider expects them to hold down a job for 13 weeks.

NDDP figures relate to job entries in 2006/07.

EZ 25+ figures are for the cohort which started in the second half of 2004

16. It is not possible to identify separately start up costs, or even know overall provider costs, because payments are for activities completed or outcomes.
17. DWP has taken some initial steps towards prime contracts (for larger and longer contracts), and cross-client group contracts. Provision for the New Deal for Young People and New Deal 25+ was let out through prime contracts in 2006, from May in Scotland and from July in England and Wales. This has been successful in achieving efficiencies in the procurement process. Prime contractors are also delivery agents. In September 2005 it is estimated that there were approximately 1000 contracts, of which around a quarter were with voluntary and charity sector, who are most likely to be equality providers. There are 94 prime contracts, of which 53 were won by private sector organisations, 14 by public sector, and 27 by voluntary organisations. There are 527 sub-contracts, 257 won by the private sector, 82 by the public sector, and 188 by third sector organisations. Equality providers continue to play a full part in contracted employment provision. It is too early to provide robust evidence of an impact on job outcomes of the move to prime contracting.
18. There are 15 Employment Zones, and they provide employment support to both unemployed people and lone parents, and provide an example of a cross-client group contract. The evidence is that the gross cost per job found by a lone parent through an Employment Zone is lower than that for someone long-term unemployed, although the cost per additional job is broadly similar.

19. More broadly, the available evidence is that EZs perform better on measures of job entries and 13 week sustained employment for the longer term unemployed under the current contract management regime, but no better in the longer term and at a higher cost than comparator New Deals. The cost of helping lone parents into work is around £1,900 per person through EZs and around £600 per person through Jobcentre Plus delivered New Deal for Lone Parents. Direct comparisons cannot be drawn between the costs of helping someone into work through EZs and NDLP. EZs operate in some of the most disadvantaged areas in the country whilst the New Deals operate nationally. In London EZ areas, employment support is provided to lone parents through EZs rather than through NDLP. Outside London, lone parents in EZ areas are offered help through NDLP at their first Work-Focused Interview (WFI), but can choose between EZ and NDLP support if they continue to claim Income Support and have a second WFI. This increases the likelihood of such EZ participants requiring additional, and thus more costly, support to help them into work.

The Impact of Contracting on Equality

20. The approach to contracting will have an equality impact in terms of the numbers of people from equality strands it gets into work, whether disabled people, lone parents, ethnic minorities etc. If the funding mechanism for cross-client group contracts does not reflect the diversity both within and across client groups providers may have an incentive to cream people from one equality strand who are closer to the labour market at the expense of people from another equality strand. There is a risk that many of these people would have found work anyway without support from providers.
21. The approach to contracting might also impact on the number of equality providers, such as specialist disability providers, or black and minority ethnic providers. New Deal prime contracting has not had an adverse effect on equality providers. These providers might bring an understanding of the barriers people from equality strands face, and so be effective in helping them to find work. A lesser role for equality providers might have an adverse effect on job outcomes. It is not clear to what degree workforce diversity amongst mainstream providers might complement the use of equality providers in helping people from equality strands into work.
22. DWP has a duty under disability, race, and gender legislation to ensure that there is equal access to its services, and that participants do not face physical or attitudinal barriers. The department continues to have this duty for contracted out employment services, and the exercise of this duty is one means to ensure that providers do not act to the detriment of people from equality strands.

Specific Impact Tests – Checklist

Type of testing undertaken	Results in Evidence Base? (Y/N)	Results annexed? (Y/N)
Competition Assessment	Y	N
Small Firms Impact Test	Y	N
Legal Aid	N	N
Sustainable Development	N	N
Carbon Assessment	N	N
Other Environment	N	N
Health Impact Assessment	N	N
Race Equality	Y	N
Disability Equality	Y	N
Gender Equality	Y	N
Human Rights	N	N
Rural Proofing	Y	N

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