

Integrated employment and skills

Maximising the contribution
for sustainable employment

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Inclusion

Integrated employment and skills for sustainable employment

Inclusion

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Foreword

JHP Group was founded in 1983 with the primary aim of providing vocational training services to young people, usually in administrative roles utilising newly available government funding. Since this time the business has grown substantially to become a major national provider of vocational training, servicing a range of sectors and age groups throughout England, Scotland and Wales, and more latterly, a substantial provider of employability and foundation learning programmes from our new operations covering Scotland and England. We now employ more than 1,400 staff and provide services to more than 25,000 clients per year. We work with employers who range from small and medium-sized enterprises through to multinational corporates and several main government departments. We hold major funding contracts with the Skills Funding Agency (SFA), the Young People's Learning Agency, Skills Development Scotland and the Department for Work and Pensions. Having been a privately owned business for our first 26 years, in January 2010 the executive management team completed a management buy-out of the business, backed by Lloyds Development Capital. In April of this year, we were awarded the Work Programme prime contract for contract package area 12, the South West.

At JHP Group we have believed for many years that the key to ensuring sustainable employment for the individual, and long-term economic prosperity for the country, lies in the skills development of our workforce. We welcomed the *Leitch Report* in 2006, published at a time when the UK had experienced 14 successive years of economic growth and when we enjoyed the highest rate of employment in the G7. Since then, there have been numerous policy changes and initiatives designed to help drive us towards the vision that Leitch espoused, but the world economic situation is now very different and prospects for the next few years are not so encouraging.

We sponsored the production of this report because we believe that there is increased recognition among government departments and their agencies that the country needs to achieve a step change, and because there is an increased willingness to ensure policy congruence of objectives. Radical changes are being made to how the welfare to work industry is funded and managed. There are major changes to benefit systems and rules. Equally there are major changes to the 'skills system' being introduced by the SFA, which bring with it opportunities for greater congruence of the world's employability and skills. However, without effective and targeted investment in skills, we will not achieve a long-term reduction in unemployment and increased competitiveness for UK plc. We feel that it is imperative that we, as stakeholders and as an industry, make sure that we grasp the

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opportunities presented by the focus on integrated employability and skills, and deliver tangible results with long-lasting benefits. This means actively participating in the debate and seeking to influence policy where we believe improvements can be made. This report addresses the empirical evidence of the linkage between employment and skills, and examines whether or not the policies that we are seeking to implement will achieve the results we desire.

Jim Chambers, Chief Executive
JHP Group

Executive summary

Introduction

'Integrated employment and skills' (IES) has been defined for the purposes of this report as employment and skills systems and services, working together to promote sustained employment and in-work progression for individuals.

Whilst there is currently some evidence of integration, policy and operation are still disjointed in many areas. With an increasing focus on sustainable job outcomes under the Work Programme, and a reduction of 25 per cent in the further education budget for adults during the spending review period up to 2014–15, there is a need to consider how the role of IES in achieving sustainable employment can be maximised going forward.

The aim of this report is to examine the role of IES in achieving sustainable employment, with a particular focus on those individuals who 'cycle' between employment and unemployment.

This report is based on an evidence review, supplemented by primary interviews with JHP Group (JHP) staff and employers.

Where we stand now

Employment is in a state of contraction, and the recent financial crisis, resulting recession, and austerity measures are squeezing the jobs market. **The overall state of the labour market will be a fundamental factor in the extent to which reforms in welfare to work and skills are successful in moving more people back into sustained work.**

The change of government in 2010 brought a raft of changes to welfare to work policy. Of particular note are the Work Programme, the Welfare Reform Bill and Universal Credit. There are a number of key features to the Work Programme, including: payment by results (rather than by volume of customers or activity delivered), incentives for sustained job outcomes, a 'black-box' approach (where providers have freedom to design the programme), and its universal nature (as it replaces a number of different previous welfare to work programmes).

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February 2011 saw the publication of the government's Welfare Reform Bill. The Bill outlines some of the most significant welfare reforms in decades, including fundamental changes to the tax and benefits system with the introduction of Universal Credit. These reforms are happening in tandem with the major reform of employment support delivered through the Work Programme.

The coalition government introduced a new strategy for skills in November 2010. The strategy sets out a shift in the strategic thinking towards increased shared responsibility for skills, with employers and learners being asked to contribute to the costs. A significant part of this has been the curtailment of state-funded training, particularly for those aged over 25 and in work. There are key reforms in Apprenticeships, entitlement to training, learner support and funding through loans, changes in support for small to medium enterprises and infrastructure changes.

In terms of IES, the coalition government has indicated that it is keen that the skills and employment systems should complement each other in order to help achieve sustainable job outcomes. The coalition government has stated that they are abolishing the *Leitch Review* ambitions. However, they assert that the black-box approach afforded to Work Programme providers will enable them to deliver the right kinds of training needed in their local areas. It is projected in the strategy document that a 'responsive and dynamic system' will be created through the flexibility of delivery and in meeting local needs for both learners and employers.

Why IES matters

Sustainable employment is important. In the last decade there has been an increasing concern about the sustainability of the low-income jobs that long-term unemployed people often take. The National Audit Office estimates that if it were possible to improve job sustainability and reduce the time that repeat claimants spend on benefit by 50 per cent it would save the Exchequer £520 million per year. Improving the sustainability of work is important in reducing the likelihood of a person repeating this cycle between low-paid work and benefits – 'the low-pay, no-pay cycle'.

Skills have an important role to play in sustainability. Skills development can make a meaningful contribution to moving people into work and helping them to stay there. Training significantly reduces the risk of exiting employment into either unemployment or economic inactivity. Qualifications increase the probability of an individual being in employment over the course of their lifetime, and increase the wages earned in employment. In particular, Apprenticeships have been found to add the most value on average.

Skills development needs to: be linked to local labour market needs, involve employers in its design to meet their requirements, give people the opportunity to put skills into practice within work placements, deliver work readiness and basic skills alongside more technical skills training, be accessible to those in work, and focus on the qualifications that have shown to have the greatest positive impact on individual's circumstances.

Work-first approaches may be most effective at moving people into jobs, but skills development has an important role to play in achieving sustainability. Studies have found that job search support, sanctions and other work-first services have a more immediate (and cost effective) effect on job outcomes than training and other skills development in the short term. However, consideration of longer-term impacts and job sustainability provides a different picture, with the effect of training on sustainability, progression and earnings increasing over a period of five years and more.

Recommendations

Sustainable employment is important, and skills have a key role to play in its achievement. With major reform introduced by the coalition government and a need to achieve more but with less funding, this report has considered what more needs to be done to enable employment and skills providers to integrate services to better achieve sustainable employment.

Our report calls for change in three areas:

1 Outcome payments

There is a need to improve provider focus on IES through appropriate and aligned outcome payments for both welfare to work and skills providers.

- Introduce outcome payments for skills providers for job outcomes and sustainability.
- Introduce outcome payments for Work Programme providers for career progression.
- Use a differential payments model for skills-provider outcome payments.

2 Skills priorities

There is a need to revisit priority areas and introduce more sophisticated mechanisms to ensure funding is based on need and affordability.

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- Introduce a new priority group designation for those newly employed following a period of unemployment.
- Refine current skills-fee remissions relating to employer size.
- Revise current skills-fee remissions relating to age and previous qualifications.
- Revisit changes to funding eligibility for those on inactive benefits.

3 Delivery

There is a need to allow providers the flexibility of a black-box approach to delivery and reduce funding, policy and institutional barriers to IES.

- Extend the black-box approach used within the Work Programme to skills providers.
- Simplify funding structures.
- Revise the minimum levels of performance mechanism.
- Support efforts to offer and deliver flexible and innovative training.
- Support efforts to co-locate services and share information.
- Utilise information, advice and guidance to create informed customers and employers.

We hope this report will stimulate debate and help take the IES agenda forward.

1 Introduction

Employment and skills policy is changing rapidly across Great Britain under a new government. The recently launched single Work Programme aims to create a focus on producing longer and more productive employment outcomes for individuals. Skills policy has also seen changes: Train to Gain has been replaced by an expanded Adult Apprenticeships programme and there have been changes to funding.

'Integrated employment and skills' (IES) has been on the agenda for a number of years. IES has been defined for the purposes of this report as employment and skills systems and services working together to promote sustained employment and in-work progression for individuals. There is currently some evidence of integration between the Department for Work and Pensions' (DWP's) Work Programme and the Skills Funding Agency's (SFA's) funded training programmes. The latest SFA skills investment strategy, for example, demonstrates a focus on the unemployed.

IES still has a way to go, however. Policy and operation are still disjointed in many areas, and funding mechanisms often do not allow for holistic support and are, therefore, a barrier to the true integration of employability and skills.

With an increasing focus on sustainable job outcomes under the Work Programme, and a reduction in the further education (FE) budget for adults of 25 per cent over the Spending Review period up to 2014–15, there is a need to consider how the role of IES in achieving sustainable employment can be maximised going forward. Individuals who struggle to maintain employment and who 'cycle' between periods of short-term employment and unemployment will need to be supported to maintain more stable employment, and there is a need to consider the role of skills development in achieving this.

The aim of this report, therefore, is to examine the role of IES in achieving sustainable employment, with a particular focus on those individuals who cycle between employment and unemployment.

The objectives of this research are to:

- explore and evidence the relationship between skills development and sustainable employment
- identify and detail best practice examples of employability and skills integration
- identify and explore barriers to the integration of employability and skills

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- provide recommendations for further improvement to employability and skills integration policy, funding and practice.

This report is based on an evidence review, supplemented by primary interviews with JHP Group (JHP) staff and employers.

2 Where we stand now

2.1 The state of the labour market

Employment is in a state of contraction, as the recent financial crisis, resulting recession, and austerity measures squeeze the jobs market. The latest figures from the Office for National Statistics (ONS) show the unemployment rate for the three months to April 2011 was 7.8 per cent, with 2.48 million people unemployed.

Looking ahead, the Office of Budget Responsibility continues to forecast employment rising by over one million through to 2016 but the unemployment rate is now forecast to rise more sharply than was predicted in November 2010. The International Labour Organisation¹ unemployment rate is forecast to rise to 8.3 per cent later this year and then slowly reduce to 6.1 per cent in 2016. The unemployment rate is falling much more slowly than anticipated by the last forecast, so the forecast rate is as much as 0.5 per cent higher in spring 2013. Employment and the employment rate are expected to remain below trend over the entire forecast period, so the losses in the recession will not be fully recovered by 2016.

Initially billed as a 'white collar' recession, with the expectation that the majority of job losses would occur in professional occupations, as a result of the crisis in the financial services sector, this recession has operated as others have – most severely affecting people working within traditionally 'blue collar' jobs. Typically, the impact of recessions falls most heavily on the young, full-time workers, men in manual jobs, and the unskilled.

A report by the Institute for Fiscal Studies has highlighted this story showing employment losses being concentrated among low- and medium-skilled workers.² It suggests that employers are retaining their higher-skilled employees in order to be ready to grow and avoid recruitment difficulties once economic recovery takes place. Lower-skilled workers are more likely to be easier to replace.

¹ ILO unemployment is the proportion of economically active people looking for and available for work, whether or not they are claiming Jobseeker's Allowance (JSA) (referred to as the claimant count). ILO unemployment includes students who are looking for work.

² Muriel, A and Sibieta, L (2009) *Living Standards During Previous Recessions*, London: Institute for Fiscal Studies

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Youth unemployment now stands at a record high with the unemployment rate for those aged between 16 and 24 having reached 20.6 per cent, the highest figure since comparable records began in 1992.³

Within the UK, even before the recession, a report by the Organisation for Economic Co-operation and Development (OECD) suggested that since 2005 the jobless rate for 16 to 24 year olds in Britain has been growing.⁴ But, this issue is exacerbated during times of recession when competition for jobs becomes greater and those with more experience and better skills are more likely to gain and keep employment. Young people typically find it hard to get established in the labour market owing to their lack of experience, which makes them especially vulnerable in downturns. Failure to find a first job or remain employed can have negative long-term consequences on the career prospects of young people. Beyond the negative effects on future wages and employability, long spells of unemployment can often create permanent scars: many years later, harmful effects on a number of other outcomes can become apparent, including happiness, job satisfaction and health.⁵

Another employment trend which has implications for skills demand and development opportunities is an increasing polarisation of the labour market caused by an increase in availability of low-income and high-income jobs, and a decline in middle-income jobs. There is some evidence to suggest this trend is occurring in the UK, driven by increased computerisation.⁶ High-income jobs (driven by a need to manage the new technology) and low-income jobs (relating to manual non-routine tasks) are both needed, whereas technology tends to substitute the jobs of the people in the middle. Analysis of research into polarisation by the Work Foundation found that, by and large, employment growth between 1990 and 2000 was at the top and bottom of the labour market. Research also suggests that individuals in low-wage jobs are more likely to move back on benefits than achieve salary progression.⁷

The overall state of the labour market will be a fundamental factor in the extent to which welfare to work and skills reforms are successful in moving more people back into sustained work.

³ ONS (2011) *Labour market statistics*, Statistical Bulletin, March 2011

⁴ OECD (2008) *Jobs for Youth: United Kingdom*, OECD

⁵ Scarpetta, S, Sonnet, A and Manfredi, T (2010) *Rising Youth Unemployment During The Crisis: How to Prevent Negative Long-term Consequences on a Generation*, OECD Social, Employment and Migration Working Papers, No. 106

⁶ Fauth, R, and Brinkley, I (2006) *Efficiency and Labour Market Polarisation*, Knowledge Economy Programme Report, the Work Foundation

⁷ Dickens, R (2000) 'Caught in a trap? Wage mobility in Great Britain: 1975-1994'. *Economica*, vol.67, pp 477-497

2.2 Welfare to work

The change of government in 2010 brought a raft of changes to welfare to work policy. Of particular note are the Work Programme, the Welfare Reform Bill and Universal Credit.

Work Programme

The Coalition: our programme for Government, published in May 2010, set out a number of reforms, including the establishment of the Work Programme, a unified welfare to work programme which has replaced many of the programmes that existed previously, including Flexible New Deal and its predecessors. Private- and third-sector providers deliver the Work Programme. A competitive tendering process was undertaken to establish supply chains of provision across the country, the results of which were announced at the start of April 2011, and the programme launched in June 2011 with national coverage expected by July 2011. There are a number of key features to the Work Programme:

- **Payment by results:** A service fee will not be paid to providers, instead a small attachment fee will initially be paid for each customer but this is planned to reduce each year, ultimately down to zero by year four, with all revenue after this period to be earned by results.
- **Incentives for sustained job outcomes:** After payment of the attachment fee, providers will not receive a further payment for a customer until they have been in work for 26 weeks, at which point a job-outcome payment will be made which is higher than the attachment fee. Providers will continue to receive sustainment payments after this date if the customer continues to maintain employment. This demonstrates a much greater emphasis on sustainment than previous programmes.
- **A 'black-box' approach:** The Work Programme specification has focused on desired outcomes, with providers free to determine the best processes and services to achieve those outcomes. This is hoped to enable innovation and best practice.
- **A universal programme:** All customers⁸ who do not find work whilst being supported by Jobcentre Plus for a defined time-limited period will be referred to the Work Programme. Differential payments will therefore be made according to customer type in an attempt to compensate for the different levels of support

⁸ With the exception of a small sub-set of disabled customers who may be referred to another new programme, Work Choice

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different customers will need to move into and sustain employment, and prevent 'parking' and 'creaming'. For example, a customer aged 18 to 24 on Jobseeker's Allowance (JSA) will attract an attachment fee of £400, a job-outcome payment of £1,200 after employment has been sustained for 26 weeks, and further sustainment payments up to a total of £2,200. A customer on Employment and Support Allowance (ESA) who was previously on Incapacity Benefit will attract an attachment fee of £600, a job-outcome payment of £3,500 after employment has been sustained for 26 weeks, and further sustainment payments up to a total of £9,600.

The Work Programme has been introduced with the intention of it being a long-term programme. The current Work Programme provider contracts announced by the government will last five years (subject to meeting minimum performance and contractual arrangements). Work Programme pre-work support can last up to two years for each customer and payments for sustained jobs will continue for up to two years.

Welfare Reform Bill and Universal Credit

The government published the Welfare Reform Bill in February 2011, which included fundamental changes to the tax and benefits system, with the introduction of Universal Credit. These reforms are happening in tandem with the major reform of employment support that providers deliver through the Work Programme.

Currently, individuals moving from benefits into work are not always financially better-off and this can be a barrier for both entry into, and sustainment of, employment. The current UK government plans to address this issue through the introduction of a Universal Credit, the proposals for which aim to increase the financial rewards of entering and sustaining work for low earners.⁹ Universal Credit will consist of a restructuring of the benefits system to create one single income-replacement benefit for working-age adults. This will bring together the current system of means-tested out of work benefits, tax credits and support for housing. It will be introduced in October 2013, with a phased four-year roll-out.

There are a number of other measures introduced in the Welfare Reform Bill, many of which come into place before the introduction of Universal Credit. A new proposed benefit cap means that total weekly benefit payments will be limited to £500 for couple or lone-parent households, and £350 for single-person households.

⁹ DWP (2010) *Universal Credit: welfare that works*, Government White Paper CM 7957, the Stationery Office

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In relation to Housing Benefit (HB), plans to impose a 10 per cent HB cut for anyone unemployed for more than a year have been dropped, but the annual increase in HB expenditure will be restricted to a maximum of the consumer prices index rather than market rents, and size criteria will be introduced for working-age HB claimants living in the social-rented sector. Other changes in the Welfare Reform Bill affect areas including ESA, Disability Living Allowance, Child Maintenance, and sanctions and appeals. There will also be a new tougher system of conditionality and there will be tougher sanctions in place for people who refuse a job.

2.3 Skills

The coalition government introduced a new strategy for skills in November 2010, *Skills for Sustainable Growth*, accompanied by an investment strategy for further education and skills, *Investing in Skills for Sustainable Growth*.¹⁰

The new Skills Strategy summarises the government's vision for reform of the FE and skills system, and is firmly set against the backdrop of the October 2010 Spending Review (SR) which outlined an overall reduction, (over the period of the SR up to 2014-15), to the FE budget of 25 per cent.

Overall, the strategy sets out a shift in the strategic thinking on skills towards increased shared responsibility for skills, with employers and learners being asked to contribute to the costs. A significant part of this has been the curtailment of state-funded training, particularly for those over 25 and in work.

There are key reforms in Apprenticeships, entitlement to training, learner support and funding through loans, establishment of a new Growth and Innovation Fund, changes in support for small and medium enterprises (SMEs) and infrastructure changes.

Apprenticeships

Expansion of Apprenticeships is a key focus for the Skills Strategy. Key changes include:

- **expansion in the numbers of Adult Apprenticeships** available, by up to 75,000 by 2014–15 (over the previous government's provision), leading to more than 200,000 people starting an Apprenticeship each year. To fund this, investment in Apprenticeships will increase by up to £250 million over the SR period. There will be investment of £605 million in 2011–12 and an indicative budget of £648 million in 2012–13

¹⁰ BIS (2010) *Skills for Sustainable Growth*, BIS, London: the Stationery Office

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- **changing the Apprenticeships package** making level 3 (A Level equivalent) the level to achieve, and providing clearer progression pathways from level 3 to higher level skills, including level 4 Apprenticeships or higher education.

Entitlement to training

From 2011–12, the Skills Strategy is removing entitlement to free training for those on benefits other than JSA or the ESA work-related activity group (WRAG). From 2012–13, training for first and subsequent level 2 qualifications for those aged 24 years and over is due to be co-funded rather than fully funded and from 2013–14, those aged 24 years and over will need to take out a loan in order to secure their first and subsequent level 3 qualifications. The priority groups who receive full funding are:

- **young adults** aged from 19 up to 24 undertaking their first full level 2 (GCSE equivalent) or first level 3 qualification when they do not already have one
- **individuals who left school without basic reading, writing and mathematics** taking basic skills courses
- **people who are claiming active benefits** and could be helped to secure work through labour-market relevant training.

Information, advice and guidance

There will be establishment of a new All-age Careers Service that will build on the delivery of Next Step for adults and Connexions for young people from September 2011, and will be fully operational by April 2012. It will be delivered through a range of channels – online, telephone and in the community – with prioritised intensive face-to-face guidance.¹¹

The All-age Careers Service is to act as the centrepiece of a programme of reform for careers guidance. Schools and colleges will make informed decisions about careers guidance provision for their pupils and students, securing access to independent, impartial guidance, whether from the all-age service or other high-quality careers guidance services. Higher education establishments will continue to provide their own guidance to their students. Local authorities will provide wider personal support to those young people who are not in education, employment or training aged 13 to 19, and young adults with learning difficulties and disabilities up

¹¹ BIS (2010) *Skills for Sustainable Growth*, BIS, London: the Stationery Office

to the age of 25. The All-age Careers Service will work in partnership with Jobcentre Plus to help jobseekers improve their skills.¹²

Funding support for learners

There are a number of changes in funding support for learners, with a move towards funding being prioritised upon learners with very low level skills, young people aged 19 to 24 for first level 2 and 3 and basic skills. Key changes not outlined under the previous entitlement section include:

- introduction of a **lifelong learning account** for all adults from September 2011. The accounts will bring together information about funding and learning opportunities, and will be funded by a combination of fee subsidies for eligible learners, employer and learner contributions and, from 2013–14, underpinned by information on access to government-backed fee loans
- introducing a **government-backed loans facility**, which will remove grant funding by 2013–14, for learners aged 24 and over, undertaking level 3 or higher qualifications. The loan will be repaid by learners on an income-contingent basis in line with the recently announced approach for higher education fee loans
- **English for speakers of other languages (ESOL) support** for individuals on employment-related benefits will remain fully funded. Training for those who are settled here will become co-funded and ESOL delivered in the workplace will no longer be eligible for funding
- creation of an enhanced, **discretionary Learner Support Fund**
- replacement of **Train to Gain** with an SME-focused programme to help small employers train low-skilled staff. The government has prioritised co-funded level 2 provision in SMEs of up to 250 employees, as they often do not have the funding to support further learning of their workforce
- Introduction of **outcome incentive payments (OIPs)** for FE colleges and training organisations to incentivise delivery of training for people who are unemployed. In the 2011–12 academic year this approach will be trialled with the introduction of a job-outcome payment – using approximately £80 million to reward colleges and training organisations who work effectively with unemployed people on JSA or ESA-WRAG benefits to help them enter employment successfully. FE colleges and training organisations will be able to claim this in-year through the individual learner record.

¹² BIS (2010) *Skills for Sustainable Growth*, BIS, London: the Stationery Office

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Infrastructure changes

Changes to the skills infrastructure were outlined in the SR in 2010. These included:

- replacing Regional Development Agencies with Local Enterprise Partnerships (LEPs)
- transferring UK Skills into the Apprenticeship Service, part of the SFA
- transferring ownership of the Learning and Skills Improvement Service to the FE sector from April 2011
- working with the Institute for Learning so that it becomes a self-financing body by March 2013
- no longer publicly funding Standards and Verification UK by March 2011
- moving Ufi / learndirect out of the public sector
- abolishing British Educational Communications and Technology Agency and the Qualifications and Curriculum Development Agency.

Further to this, there will be a change of focus for the UK Commission for Employment and Skills and the SFA. The SFA will be smaller and more focused on dispensing funding, including Apprenticeships, calculated 16 to 19 grants on behalf of the Young People's Learning Agency (YPLA), and monitoring information. Through the FE data service, the agency will also have a role in providing information to others and enabling information to be shared efficiently and properly.

2.4 Integrated employment and skills

IES is a policy intent that pre-dates the current government. IES involves employers, individuals and providers, and is concerned with both those in and out of work. IES models and methods have been developed, trialled and delivered on a national, regional and local level over the past six years, but now, under the coalition government, things are set to shift again.

IES under the previous government

The thinking behind IES emerged mainly from the *Leitch Review of Skills*,¹³ which set out proposals for a new system that moved towards IES services in order to

¹³ Leitch, S (2006) *Prosperity for all in the global economy: world class skills*, London: the Stationery Office

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increase sustainable employment and opportunities for progression. The *Leitch Review* emphasised the need to improve the national skills base to facilitate growth in productivity, improve national economic competitiveness and increase individual social mobility. The *Review* recommended the creation of a new integrated employment and skills service, based upon existing structures, to increase sustainable employment and progression.

This new integrated employment and skills service was to draw together existing services, such as Jobcentre Plus and a new adult careers service that would offer universal access to work-focused careers advice, basic skills screening, job placement and links to in-work training. Whilst many of the recommendations were targeted at helping people get into work and progress, the impact of the development of the adult careers service and routing all adult vocational skills funding through Train to Gain and learner accounts was intended to be felt across all adults from workless people to low-skilled and skilled workers.

In 2007, the Labour government responded to the *Leitch Review* and committed to establishing an integrated system, and to improving the UK's position in the global economy by becoming a world leader in skills by 2020.¹⁴ The 2007 command paper set out some of the challenges for IES policy, underlining the need for a seamless, yet flexible, customer 'journey' through the system from benefits to training and into work.¹⁵ At the time, it was set out that it would require a major culture change involving individuals and employers, and modern and responsive services giving the right advice at the right time, identifying skills needs where they are a barrier and rapid help for the lowest skilled.

For those in work, the role of skills report¹⁶ outlined evidence which suggested that training provided whilst in employment was the most effective way of improving job retention and encouraging progression. The report suggested that there should be an increased emphasis on well-designed training for those with low-skills who are in work, to help them to move forward in their careers from public funds.

The further government paper *Ready for work, skilled for work*¹⁷ recommended that the government and businesses should work together to develop and deliver IES programmes in order to give employers the best skills-bases and improve individual

¹⁴ DIUS (2007) *World Class Skills: Implementing the Leitch Review of Skills in England*, London: the Stationery Office

¹⁵ DIUS & DWP (2007) *Opportunity, employment and progression: Making skills work*. London: the Stationery Office

¹⁶ DfES & DWP (2007) *A shared evidence base: The role of skills in the labour market*. London: the Stationery Office

¹⁷ DIUS & DWP (2008) *Ready for work, skilled for work: Unlocking Britain's talent*. London: the Stationery Office

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personal development. The government committed to shaping the employment and skills system to better meet employer needs and in return asked that employers open up opportunities, commit to investing in the development of their workforces and offer more Apprenticeships. It outlined the need for employers to play more of a role in linking employment and skills through participation in LEPs, and by using in-work skills programmes such as Train to Gain.

Soon after this publication, the Department for Innovation, Universities and Skills (DIUS) and the DWP published the *Work Skills* paper¹⁸ stressing the need for services to be delivered locally and by people close to the communities in which they work, because these people have local knowledge of business and clients. This meant devolving responsibility to collaborative partnerships, with employers at their centre. This was already happening through initiatives like the Working Neighbourhoods Fund, City Strategy Pathfinders (CSP) and multi-area agreements operating at the time. The paper set out how to build responsive services at a local level to tackle unemployment and improve skills levels through these initiatives.

Policy development under the Labour administration reflected the evidence presented in these publications. It made many different attempts to promote a system that addressed skills barriers as a means to moving into employment and that continued to place an emphasis on up-skilling in the work-place. This has often proved to be especially relevant for those with low skills levels or with multiple barriers to employment. Labour government initiatives included Flexible New Deal phases 1 and 2 for people claiming JSA for 12 months or more; Train to Gain, which gave employers help to meet the training needs of their workforce; and CSP, which was designed to tackle worklessness in local communities.

Lessons for IES from previous initiatives

The consideration of examples of IES in practice can offer some useful insights into what works and why. The following table outlines some key initiatives and the lessons that can be drawn from each.

¹⁸ DIUS & DWP (2008) *Work Skills*. London: the Stationery Office

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Initiative	When operated	What it did	Key lessons for IES	References
Employment Retention and Advancement (ERA) demonstration	Launched in 2003, ERA was aimed at three groups which were known to have difficulty sustaining full-time work and advancing to more secure and better-paid positions: long-term unemployed people aged over 25; unemployed lone parents; and lone parents working part-time.	The ERA model consisted of a combination of job coaching to support customers and financial incentives such as an in-work training bonus, designed to encourage job sustainment and take-up of training opportunities, all delivered during a two-year period post-employment.	Providing in-work support can significantly increase the take-up of training.	Hendra, R; Ray, K, Vegeris, S; Hevenstone, D and Hudson, M (2011) <i>Employment Retention and Advancement demonstration: Delivery, take-up, and outcomes of in-work training support for lone parents</i> , Research Report 727, DWP
			The role of advice and guidance was critical in ensuring training fitted into an advancement strategy.	
			Advisory support can encourage those with low skills to take up training, both for those out of work and for those who have moved into work.	
			A holistic package of training support is necessary to enable those in work to upgrade their skills and improve their long-term employment prospects.	
Skills coaching	Announced as part of New Deal for Skills in the 2004 budget, it operated from 2005 to 2007.	Skills coaching trialled an intensive guidance approach for Jobcentre Plus customers and included using a skills diagnostic, and joint working and co-location with Jobcentre Plus, as well as ongoing customer support.	Co-location (of employment and skills support) is important.	Learning and Skills Council (2007) <i>Evaluation of year 2 of the skills coaching trials and skills passports</i>
			An individual's barriers need to be dealt with holistically (rather than just focusing on skills).	
			Partnership working is important so that providers of employment support know who and how to refer to skills support (includes strong strategic leadership underpinned by good delivery arrangements)	

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Initiative	When operated	What it did	Key lessons for IES	References
			Roll-on, roll-off provision to which customers can be referred is important	
IES trials	Launched in 2008 to test key elements of the proposed IES service.	The IES trials combined an enhanced screening and referral process, which enabled Jobcentre Plus customers to access a range of services to help them address barriers and move into work. Under the trials, Jobcentre Plus customers that were identified as having skills gaps were referred to Next Step providers for a 'skills health check' and specialist information, advice and guidance. The co-location of Jobcentre Plus and Next Step services underpinned this approach.	<p>Those with low skills who cycled between work and benefits benefited from this integrated approach.</p> <p>Advisers' understanding the provision so that referrals are appropriate is important.</p> <p>Co-location (of employment and skills support) is important</p>	Levesley <i>et al.</i> (2009) <i>Qualitative evaluation of integrated employment and skills trials: Implementation report</i> , Research Report 618, Department for Work and Pensions

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Initiative	When operated	What it did	Key lessons for IES	References
Advancement Network Prototypes	Prototypes for the Adult Advancement and Careers Service which was due to launch in autumn 2010, the prototypes were commissioned in 2008.	The prototypes tested a broad range of approaches to delivering the services offered through a range of channels centring on face-to-face services enhanced in some cases by web resources and telephone lines.	A wrap-around service that offers support to customers at all points in their journey, from unemployment to work or learning, is important.	Learning and Skills Council (2010) <i>Evaluation of the advancement network prototypes: Second interim report</i> , Learning Skills Council
			A networked approach to partnership could link customers to local organisations for support with other aspects of their lives that need addressing before entering employment.	
Employment focused training offer for unemployed people in FE colleges	Offers operated from 2008 to 2010 to encourage colleges to support those who were out of work to gain (sustainable) employment.	National voluntary training pilot, the training offer for those unemployed for six months, the adult learner responsive pilot, and the sector employability toolkits pilot	Training offers by FE colleges must be tailored to local labour markets.	Learning and Skills Council (2009) <i>A qualitative assessment of the introduction of employment focused training offer for unemployed people in FE colleges</i> , Learning Skills Council
			Partnership-working between Jobcentre Plus and FE colleges is important.	

IES under the coalition government

Although funding for many of the initiatives that were brought forward under the previous administration has either finished or is not being continued, the coalition government has indicated that it is keen that the skills and employment systems should complement each other in order to help achieve sustainable job outcomes. The government has committed to, for example, additional investment in Apprenticeships, which can be regarded as a key way of developing employment opportunities with formal skills development.

In the *Skills for Growth* white paper the coalition government stated that it was abolishing the *Leitch Review* ambitions. However, it asserts that the black-box approach afforded to Work Programme providers will enable them to deliver the right kinds of training needed in their local areas. It is projected in the strategy document that a 'responsive and dynamic system' will be created, through the flexibility of delivery, in meeting local needs for both learners and employers.¹⁹ As part of the drive to reduce public spending, the government will also place a greater emphasis on employers and individuals to invest in skills, and it remains to be seen whether this will work in alignment or opposition with the IES agenda.

¹⁹ BIS (2010) *Skills for sustainable growth: Strategy document*, the Stationery Office

3 Why IES matters

3.1 The importance of sustainable employment

The focus of welfare to work programmes in the UK has traditionally been on job placement with limited, if any, focus on in-work support to help customers sustain and advance in work. Although many job placements for the long-term unemployed have been into low-wage jobs, the 'work-first' policies adopted were based upon an assumption that once in work, individuals would gain experience and skills, and use their initial low-wage jobs as a temporary platform to improved employment and greater earnings.

The work-first approach of moving people into work as quickly as possible has been an important first step for many in getting back into work. In the past decade, however, there has been increasing concern about the sustainability of the low-income jobs that long-term unemployed people often take, and the potential for income growth and progression from such jobs.

The National Audit Office (NAO) (2007)²⁰ found that of the 2.4 million new JSA claims each year, around two thirds are repeat claims and around two fifths of JSA claimants who move into work will make another claim for JSA within six months. **The NAO estimates that if it were possible to improve job sustainability and reduce the time that repeat claimants spend on benefit by 50 per cent it would save the Exchequer £520 million a year.**

Improving the sustainability of work is important in reducing the likelihood of a person repeating this cycle between low-paid work and benefits – 'the low-pay no-pay cycle'. A recent report by the Joseph Rowntree Foundation (2010)²¹ drew on data from the ongoing evaluation of a government programme promoting work sustainability: the ERA demonstration.²² The report examined work, poverty and benefit cycling and found that some people in the study had struggled to retain work, with close to one-third of the ERA participants having lost their jobs and spent some time out of work within a two-year timeframe (despite the in-work financial and non-financial support offered by the programme).

²⁰ NAO (2007) *Sustainable employment: supporting people to stay in work and advance*, the Stationery Office

²¹ Ray, K, Hoggart, L, Vegeris, S and Taylor, R (2010) *Better Off Working? Work, poverty and benefit cycling*. Joseph Rowntree Foundation

²² ERA was a randomised social policy trial launched in autumn 2003 designed to test the effectiveness of a programme to improve the labour market prospects of low-paid workers and long-term unemployed people.

There is of course a natural rate of churn within the job market. People return to benefits for many different reasons, for example, as a result of moving between jobs or moving from a temporary job. However, there are a range of factors that can make it difficult for people to gain and retain jobs, such as local labour market conditions, family and caring responsibilities, health care needs, low skills, low job earnings, transport, and psychological, cultural and demographic factors. Job retention, therefore, appears to be more of a challenge to some groups (including those with low skills and qualifications) than others.

The sustainability of jobs has become an issue of focus in the new welfare to work landscape. A strong element of the newly introduced Work Programme is helping people into sustained jobs, with providers receiving in-work sustainment payments for up to two years. This is a much longer-term sustainability measure than previous programmes, some of which classified a job as sustained at just 13 weeks. The increasing focus on sustainability has, therefore, led to a greater consideration of the ways in which, and the extent to which, different factors support or prevent sustainability. One such factor is skills development.

3.2 The impact of skills development on job outcomes and sustainability

There is a strong body of evidence which shows that skills development has a positive effect on job outcomes and sustainable employment.

Comparisons of employment levels and qualification levels show that individuals with no or lower-level qualifications have a strongly decreased likelihood of being in employment.^{23 24} Quantitative analysis²⁵ shows that individuals with low qualifications and skills are 13 per cent more likely to be unemployed, and that individuals with no qualifications are four times more likely to be unemployed than individuals with a degree-level qualification.

As well as evidence showing a link between skills and employment, there is evidence showing a link between skills and sustainable employment. Analysis of the British Household Panel Survey in 2010²⁶ found that the receipt of training while unemployed, or while being on a government training scheme, was associated with

²³ Green, F (2009) *Job Quality in Britain*, UK Commission for Employment and Skills

²⁴ Garrett, R, Campbell, M and Mason, G (2010) *The Value of Skills: An Evidence Review*, UK Commission for Employment and Skills

²⁵ Berthoud, R (2003) *Multiple Disadvantage in Employment: A Quantitative Analysis*, Joseph Rowntree Foundation

²⁶ Cheung, S Y and McKay, S (2010) *Training and Progression in the Labour Market*, Research Report 680, DWP

an increased likelihood of returning to paid work. **Training also significantly reduced the risk of exiting employment into either unemployment or economic inactivity.**

Newly published research²⁷ aimed to measure the economic value of government-funded qualifications provided by the post-19 FE sector, including Apprenticeships, national vocational qualifications undertaken in college and workplace settings and basic skills qualifications. This research found that **qualifications increase the probability of an individual being in employment over the course of their lifetime, and increase the wages they earn in employment. Apprenticeships in particular were found to add the most value on average.**

Research using the European Community Household Panel (1995–2001) suggests that on the job training and high levels of general education reduce the risk of being in low pay and increase the probability of escaping from low paid to better paid jobs.²⁸ In the United States, the Sectoral Employment Impact Study found that participation in sector-focused training programmes leads to better jobs with benefits, higher wages and more stability (Maguire *et al.*, 2009).

3.3 Meaningful skills development: what works best?

Whilst the evidence detailed in section 3.2 clearly shows that skills development can make a meaningful contribution to moving people into work and helping them to stay there, this does not mean that all skills development will result in, or even support, sustainable job outcomes. There is a need to recognise that different types and methods of skills development have varying effects on sustainable employment, with some having no effect at all.

There are a number of features of effective skills development. Skills development needs to: be linked to local labour market needs, involve employers in its design to meet their requirements, give people the opportunity to put skills into practice within work placements, deliver work readiness and basic skills alongside more technical skills training, be accessible to those in work, and focus on the qualifications that have shown to have the greatest positive impact on individual's circumstances.

²⁷ BIS (2011) *Measuring the Economic Impact of Further Education*, Research Paper Number 38, Department for Business, Innovation and Skills

²⁸ Cuesta, M B and Salverda, W (2009) 'Low-Wage Employment and the Role of Education and On-the-Job Training', *Labour*, vol. 23, No. s1, pp 5-35

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A number of features of effective skills development have been identified in the literature and were collated by *Inclusion* as part of an evidence review of sustainability and progression factors.²⁹ Skills development appears to be most effective when it is 'linked to local labour market and employer requirements' and less effective when it is 'unrelated to specific jobs or employment sectors'.³⁰ Research also suggests that training programmes should be focused on industry-specific needs involving employers in their design and implementation³¹. It can be particularly beneficial to tailor training to the needs of growing sectors and occupations. The impact of training programmes on sustainable employment is also improved where they are accompanied by the opportunity to put skills gained into practice in real jobs.³²

Skills development programmes need to match not only 'the needs of employers to ensure continued funding and use', but also 'the needs of employees to ensure that the training is an effective use of their time and that they continue to participate'.³³ Successful employer engagement will help welfare to work and learning providers to understand and meet the needs of employers when brokering training. To meet the needs of employees, evidence suggests that it is best to offer training as part of individual case management services, and to consider the need for training on work readiness and basic skills alongside technical training.³⁴

Alongside content, the timing and location of training delivery is also an important consideration when ensuring skills development programmes meet the needs of employees. Training and development needs to be provided in the workplace or outside standard workplace hours, in order to be accessible to those already in employment.³⁵

The importance of industry focused training, which involves employers in its design and delivery and is provided as an integrated part of employment or flexibly around this, points to the significant role Apprenticeships can play in skills development leading to sustainable employment.

²⁹ Foster, S and Purvis, A (2011) *Career Advancement, Remploy*

³⁰ Kellard, K and Mitchell, L (2006) *In-work support and job sustainability: a brief review*, in Kellard, K, Francis, J and Mitchell, L (2007) *An evaluation of the Wise Group 'next steps' and One Plus 'sustainable employment' projects*, Scottish Executive

³¹ Maguire, S, Freely, J, Clymer, C and Conway, M (2009) 'Job training that works: findings from the sectoral employment impact study', *In Brief*, Issue 7 May 2009, Public/Private Ventures

³² Eurofound (2010a) *2009 Yearbook: Living and Working in Europe*, European Foundation for the Improvement of Living and Working Conditions

³³ Kellard, K, Adelman, L, Cebulla, A and Heaven, C (2002) *From job seekers to job keepers: job retention, advancement and the role of in-work support programmes*, Research Report 170, DWP

³⁴ Maguire *et al.*, (2009) (as above)

³⁵ Kellard *et al.*, (2002) (as above)

The type of training programme or qualification also makes a difference when considering what works. In the United Kingdom, NVQ2, and City and Guilds qualifications have been found to have no impact on wages, whilst some other level 2 vocational qualifications, such as BTECs, have been found to provide a substantial wage return.^{36 37} Apprenticeships have been found to provide even higher wage returns, with data for 2004–05 identifying a wage return of 16 per cent at level 2 and 18 per cent at level 3.

Skills development does not always need to be delivered through formal training. In a review of 'what works' for benefit claimants, work placements were identified as key elements of the job placement and sustainment service for customers requiring longer-term support.³⁸ Work placements are a useful method for developing skills during the pre-employment stage that will benefit individuals post-employment. Once in employment, workplace mentoring can be used not only to help new entrants with the transition into the workplace but also to encourage the development of skills required for job sustainment and progression.³⁹

3.4 Work first versus skills in achieving sustainability

Skills development is not the only factor which has an influence on job outcomes and sustainable employment. The movement off benefits and into work, and the likelihood of job retention are affected by many factors. These include demand-side factors (such as job availability and employers' skill requirements), spatial factors (such as transport, housing and childcare availability) and personal factors (such as skill levels, experience, health and motivation). The factors that are relevant and those that are most influential will vary from individual to individual.

The relative importance of skills as a factor varies not only between individuals but also dependent on whether the focus is on job outcomes or sustainable employment. DWP and BIS reviewed the evidence on the role of skills in helping move people off benefits and into work in 2007⁴⁰ and found that employment-focused programmes were the most effective at getting people into work, but the

³⁶ Jenkins, A, Greenwood, C and Vignoles, A (2007) *The Returns to Qualifications in England: Updating the Evidence Base on level 2 and level 3 Vocational Qualifications*, CEE Discussion Paper 89, Centre for the Economics of Education, London School of Economics and Political Science

³⁷ Page, R (2007) 'The Impact of Gaining an NVQ level 2: Will the Leitch Review Recommendations Address the Low Returns?', *Local Economy*, vol. 22, no. 2, pp 138-147

³⁸ Hasluck, C and Green, A (2007) *What works for whom? A review of evidence and meta-analysis for the Department for Work and Pensions*, Research Report 407, DWP

³⁹ Kellard, K and Mitchell, L (2006) 'In-work support and job sustainability: a brief review', in Kellard, K, Francis, J and Mitchell, L (2007) *An evaluation of the Wise Group 'next steps' and One Plus 'sustainable employment' projects*, Scottish Executive

⁴⁰ Department for Employment and Skills & DWP (2007) *A shared evidence base: The role of skills in the labour market*

jobs they entered tended to be low skilled and low paid (and therefore less likely to be sustained). **For low-skilled people the best approach for sustainable employment was seen to be a combined one, where less job-ready people were given training and others were assigned to job-search activities.**

Studies have found that job-search support, sanctions and other work-first services have a more immediate (and cost-effective) effect on job outcomes than training and other skills development in the short-term.^{41 42 43} However, **consideration of longer-term impacts and job sustainability provides a different picture, with the effect of training on sustainability, progression and earnings increasing over a period of five years and more.**

*'Those who have entered employment after a period of training seem to have better rates of job retention than those who have entered from work-first provision, probably because they are better able to match the skill requirements of the jobs they are doing.'*⁴⁴

It is also worth noting that many of the evaluations have examined the benefits of skills development on employment without considering the costs.⁴⁵ Such considerations are of increasing importance set against the context of heavy reductions in public spending. It would be useful for further work to be done to consider the relative costs of skills development versus other interventions.

⁴¹ Kluve, J (2006) *The Effectiveness of European Active Labor Market Policy*, IZA Discussion Paper No. 2018, Institute for the Study of Labor

⁴² Meadows, P (2006) *What Works with Tackling Worklessness?* London Development Agency

⁴³ Meager, N (2008) *The Role of Training and Skills Development in Active Labour Market Policies*. IES Working Paper WP15, Institute for Employment Studies

⁴⁴ Meadows, P (2006) (as above)

⁴⁵ Card, D; Kluve J; and Weber, A. (2010) 'Active Labour Market Policy Evaluations: a Meta-Analysis', in *Economic Journal*, vol. 120, no. 548, pp F452-F477

4 Recommendations

4.1 Sustainability and progression outcome payments

There is a need to improve provider focus on IES through appropriate and aligned outcome payments for both welfare to work and skills providers.

4.1.1 Introduce outcome payments for skills providers for job outcomes and sustainability

The Work Programme provides an excellent incentive for an increased focus on IES by welfare to work providers. As noted in chapter 3, skills development has a limited impact on immediate job outcomes compared with other mechanisms, but its relative importance grows when considering the longer-term sustainability of individuals placed into employment. The Work Programme's emphasis on sustainable job outcomes should, therefore, increase the openness of welfare to work providers to consider and incorporate skills services into their employment services offer. For example, JHP Employability (part of JHP) works with employers that donate equipment, such as tills and headsets, so they can run retail and customer service pre-employment training. No funding is available upfront for such courses but JHP finds that the costs are offset by the increase in sustainable job outcomes obtained by their customers who attend the training, and the subsequent payments JHP receives from the DWP.

To date, however, targets and funding for skills providers have been focused on skills and qualification acquisition as the final goal, rather than as a means of helping people obtain and keep rewarding employment. For example, skills providers are penalised if a learner leaves a training programme for a job. Whilst skills providers are measured primarily on qualification outcomes and not on the impact of achievement of those qualifications on sustainable employment, the incentive for them to consider and integrate their offer with that of employment providers will be weak. In addition, a focus on qualifications as an end outcome, rather than as a means for employment sustainability and progression, does not incentivise skills providers to ensure the qualifications they are providing are employment-relevant and sufficiently up-skilling individuals to the appropriate level. During the employer research conducted for this report, the employers we spoke to suggested that softer employability skills were highly valuable but often lacking in their employees. Some employers also reported issues when taking on new employees who had just completed level 2 qualifications but were not then displaying level 2 skills in the workplace.

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There are some promising signs that the SFA is starting to broaden its outcomes to consider employment and we welcome plans to introduce OIPs in order to incentivise and reward the FE sector to deliver wider economic outcomes.⁴⁶

We recommend that **payment for skills provision to the unemployed should be linked to job outcomes. The proposed OIPs are welcome and need to be aligned with Work Programme outcome payments.** A proportion of the funding for unemployed learners could be provided at the point of delivery (similar to the upfront attachment fee paid to Work Programme providers but with fee levels tied to guided learning hours). Additional funding is then released for a job outcome after the learner has been in work for 26 weeks and further sustainment payments due after this date if the learner continues to maintain employment. Consideration will need to be given to whether it is appropriate to reduce the upfront guided-learning hour fee over time so that all payments will ultimately be earned by results (as is the case with the Work Programme attachment fee) or whether it is appropriate to maintain the combined approach of attachment and outcome payments.

The use of targets and funding mechanisms for learning providers based on sustainable employment outcomes would ensure focus on and demonstration of this. Ultimately this is the best way to ensure that the right skills development, training and qualifications are delivered for individuals, employers and the economy as a whole.

Sustainability outcome payments will also ensure skills providers focus on delivering the skills that employers need their staff to have, and therefore the skills that learners will need to sustain employment. Outcome payments will also drive up quality standards, as payments will be based on the outcome, and therefore the quality of the training and/or qualifications achieved and not the training and/or qualification completion alone.

If skills providers receive funding via OIPs for unemployed learners, but are able to secure all funding for in-work learners upfront from employers, there is a risk that they may focus on in-work learners to the detriment of unemployed learners, as these carry less financial risk. Therefore, we recommend that **once the OIP scheme is running successfully, consideration should be given to advancing the scheme to in-work learners who are being funded by their employer.** Employers could be asked to provide only a proportion of the funding to providers upfront, with the remaining funding provided after the employee has maintained employment for 26 weeks after the course end date and beyond.

⁴⁶ SFA (2010) *Skills Funding Agency: Guidance Note 6 – Version 2*

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This could also help incentivise employers to invest in training, as risk is reduced, and could help increase collection of employer contributions, as a significant proportion of the contribution will only be requested once an outcome from the training and/or qualification has been experienced.

4.1.2 Introduce outcome payments for Work Programme providers for career progression

The goal of IES should not just be employment sustainment but also progression where appropriate. Progression helps reduce in-work poverty, reduces the likelihood of cycling between employment and benefits, and increases skill utilisation. We therefore recommend that **outcome payments for Work Programme providers should be provided for not only employment sustainability but also for progression**. An appropriate, measurable proxy measure for progression would need to be determined.

A focus on, and incentive payments for, progression will encourage Work Programme providers to continue to invest in relevant and appropriate skills development for individuals they have moved from benefits to employment during the critical early stages of employment.

4.1.3 Use a differential payments model for skills-provider outcome payments

There is a need to prevent parking of disadvantaged groups, such as people with learner difficulties and/or disabilities and people with health conditions, and creaming of those nearest to the labour market and most able to undertake learning opportunities.

We therefore recommend that **differential attachment and outcome payments are made according to customer type in order to compensate for the different levels of support different customers will need to complete training and/or qualifications and move into sustained employment**.

Differential payments have already been introduced as part of the Work Programme outcome payments and will need to be introduced as part of the OIP scheme for skills providers, and any progression outcome payments scheme considered.

It will be important to **ensure alignment in the differential payments paid to Work Programme and skills providers**. At present, the Work Programme differential payments provide less funding for job outcomes for young people compared with those aged 25 years and over, whereas the SFA currently provides greater funding for skills provision for young people aged under 25. Such

inconsistencies are a barrier to integration between Work Programme and skills providers and need to be addressed.

4.2 Revised skills funding priority areas and mechanisms

There is a need to revisit priority areas and introduce more sophisticated mechanisms to ensure funding is based on need and affordability.

4.2.1 Introduce a new priority group designation for those newly employed following a period of unemployment

One of the key lessons of previous research on sustainability support is that it needs to be provided consistently throughout pre-employment, early employment and beyond.⁴⁷ Government policy and funding has ensured there is a natural progression route and skills escalator for young people, and the opportunity to support them with employment and skills services from unemployment through the first six months of employment, and during longer-term sustained employment.

However, for older long-term unemployed individuals, funding is less integrated and more disjointed. Pre-employment support and funding is available through the Work Programme and through the SFA fee remission for those on JSA or in the ESA WRAG. Once in employment, however, individuals aged 25 years and over only attract funding for a first level 2 qualification (or second level 2 qualifications if employed in a company with fewer than 250 employees). The expectation is that employers and individuals themselves will make the required funding investment rather than the government.

Against the backdrop of a 25 per cent budget reduction for FE for adults, which has seen the removal of funding streams accessible to employers, such as Train to Gain, there is a need for shared responsibility for skills development and correspondingly for increased contributions from employers and individuals. However, there is a need to be realistic about when employers and individuals will be willing and able to share responsibility. Our interviews with employers found that many are reluctant to make a financial investment in skills development during the 26 weeks of an employee's probationary period. Likewise, individuals themselves are unlikely to want to make a financial investment in training until they have successfully passed their probation and therefore have some job security.

⁴⁷ Foster, S. and Purvis, A. (2011) *Career Advancement: A review of career advancement services and their role in supporting job sustainability*, Remploy

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This is a sizeable barrier to IES, as the probationary period coincides with the period during which the newly employed are most at risk of leaving employment and returning to benefits. There is a risk that only individuals who demonstrate the ability to sustain employment will undertake intensive skills development options, such as Apprenticeships, and that those in most need of skills development will not be able to access it, for example, those who are cycling between low-paid work and benefits, and those who are unable to secure employment with 'good' employers who provide permanent positions and investment in staff.

The newly employed, therefore, need to be recognised as different from the long-term employed if we want to help prevent 'cycling'. We recommend that **the newly employed, i.e. those in their first six months of employment after being on benefits, should be designated as a specific priority group and provided with the same skills funding access and entitlement as unemployed people.**

The newly employed designation would allow providers who have helped an individual gain employment to continue to working toward up-skilling them, as appropriate, in the first critical months of their employment. This would help to increase the likelihood of their sustaining employment. The designation would incentivise employers to consider employing individuals who show potential but who do not yet hold the qualifications they need. The designation would also remove the current disincentive to move off benefits and into work for unemployed individuals undertaking learning, as they could continue to receive funding for this during the first six months of employment.

4.2.2 Refine current skills-fee remissions relating to employer size

The SFA's skills investment strategy includes funding support for the training needs of SMEs. This includes co-funding for second level 2 qualifications for employees in SMEs. We welcome this policy of providing funding support for SMEs. With the increasing requirement for employers and individuals to fund skills development, it is right that support is given to employers who want or need to up-skill staff but who find it more difficult to afford to do so.

The current mechanism for determining support to employers is too simplistic, however. The SFA defines an SME as a company with fewer than 250 employees: companies defined as an SME receive funding support and those outside the definition receive none. This singular rather than stepped employer-size criterion disproportionately affects employers with just over 249 employees, however. In addition, the level of funding support available should be based on affordability but employee numbers do not necessarily correlate with profit. Many employers of

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varying sizes are currently looking to make efficiency savings and so may struggle at present to take on an increased financial responsibility for training employees.

We therefore recommend that **the current funding criteria of fewer than 250 employees should be replaced with a more sophisticated mechanism. This should consist of a tapered approach, with employer contributions to training costs increasing on a sliding scale, proportionate to both profit levels and size.**

This would ensure that the funding available to support employers to up-skill their staff is correctly routed just to those employers who would otherwise be unable to make such an investment, and thus have the maximum impact.

4.2.3 Revise current skills-fee remissions relating to age and previous qualifications

With limited public funds available for skills development, this scarce resource cannot be made available to all. We agree that it is right that employers and individuals should make financial contributions to training where this is affordable and where they will realise the benefits. However, it is important that decisions on who is asked to contribute to training are made fairly and appropriately.

The SFA has clear priorities in funding for those aged up to 24. There is a problem with young people not in education, employment and training, which the government is clearly hoping to tackle with such funding priorities. However, age criteria will be detrimental to the large numbers of long-term unemployed individuals currently on inactive benefits and due to be reassessed. Many of these individuals will have limited, obsolete or degenerated skills and no recent work experience. These individuals will not just require skills development before employment but also, once in work, they will require help to maintain and progress in employment. Yet evidence suggests that people with the lowest skills are historically the least likely to be trained by their employers⁴⁸ and, whilst the government is introducing individual learning accounts, people with low skills and limited work experience are often less likely to access them, despite being the target audience, owing to their already precarious financial circumstances.

Under the current proposed entitlements for 2013–14 (see table that follows) there are some strong inequalities in access to training funding. An individual aged below 24 will be able to receive co-funding for a second level 3 qualification but an individual aged 24 years and over will not receive funding for a first level 3

⁴⁸ Feinstein, L, Galindo-Rueda, F and Vignoles, A (2004) *The labour market impact of adult education and training: a cohort analysis*, CEP Discussion Paper, London School of Economics

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qualification, and will have to take out a loan. Individuals aged below 24 will be able to receive co-funding for a level 4 qualification, but individuals in this age bracket who choose to undertake a university course will have to take out a loan.

The following table shows current proposed entitlements for 2013–14.

Learning Level	<i>Priority population groups and government subsidy for learning they can expect</i>		
	Individuals aged from 19 up to 24	Individuals aged 24+	Individuals who are unemployed and on active benefits
Basic skills	Fully funded	Fully funded	Fully funded
Level 2 (first)	Fully funded	Co-funded	Fully funded, targeted provision for learners with skills barriers to employment aged 23 and under and/or training below level 3. Loans for those aged 24+ on courses at level 3 and above.
Level 2 (retraining)	Co-funded	Co-funded	
Level 3 (first)	Fully funded	Loans	
Level 3 (retraining)	Co-funded	Loans	
Level 4 (any)	Co-funded	Loans	

Funding should be based on the needs of the individual instead of the current arbitrary age criteria. In addition, decisions on whether to provide funding for a second qualification at any particular level should be based not on the learner's age but on how recent the previous qualification was. We therefore recommend that **access to funding support should be prioritised for those with the lowest levels of current (i.e. in the past five years) work experience and skills, and not based on age.**

We suggest that the following revisions to entitlements are considered:

Learning Level	<i>Priority population groups and government subsidy for learning they can expect</i>	
	In-work individuals aged 19+	Individuals who are unemployed and on active benefits
Basic skills	Fully funded	Fully funded
Level 2 (first)	Fully funded	Fully funded
Level 2 (retraining, with previous level 2 achieved over 5 years ago)	Fully funded	Fully funded
Level 2 (retraining, with previous level 2 achieved in last 5 years)	Loans	Fully funded
Level 3 (first)	Co-funded	Fully funded
Level 3 (retraining, with previous level 3 achieved over 5 years ago)	Co-funded	Fully funded
Level 3 (retraining, with previous level 3 achieved in last 5 years)	Loans	Loans
Level 4 (any)	Loans	Loans

4.2.4 Revisit changes to funding eligibility for those on inactive benefits

From 2011–12, the SFA guidance states that the following groups will no longer be able to use the following benefits to claim fee remission, those in receipt of:

- Council Tax Benefit
- HB
- Income Support (IS)
- Working Tax Credit
- Pension Credit
- contribution-based ESA (unless in the WRAG)

and the unwaged dependents of those listed above.

Funding is available for those on active benefits and the intention to focus limited funding on those who are actively seeking work is a sound one. However, the decision to remove funding eligibility to the above groups will be detrimental to those who are currently on inactive benefits but who are due to move onto active benefits. One such group is lone parents, who are eligible to IS until their youngest child reaches the age of five but who are then required to move onto an active benefit and seek work. Denying such individuals access to funding for training until they move onto an active benefit is likely to increase the period of time they remain on an active benefit before moving into work, increasing the welfare cost to the taxpayer. We recommend, therefore, that **lone parents on IS with a youngest child aged under five, and others who are temporarily on inactive benefits and expected to move onto active benefits, should have the same access to funding for training as those on JSA and ESA-WRAG.**

Ultimately, funding should not only be based on need (as argued previously and in section 4.2.3) but also on affordability. As with our suggestions for the need for a tapered approach to employer contributions based on affordability (see 4.2.2), we recommend that **longer-term consideration should be given to a tapered approach to individual contributions to training costs, increasing on a sliding scale, proportionate to income levels. This could be linked to, and introduced alongside, Universal Credit.**

4.3 Black-box approach to delivery

There is a need to allow providers the flexibility of a 'black-box' approach to delivery and reduce funding, policy and institutional barriers to IES.

4.3.1 Extend the black-box approach used within the Work Programme to skills providers

Training and other interventions need to be delivered in a flexible client-centred way. In all cases the best outcome for an individual is a sustained job with progression opportunities, but the type of job and the methods used to help an individual achieve this should be tailored. The evaluation of the Advancement Network Prototypes supported this need for individual wrap-around support. Likewise, in their search for 'what works', Hasluck and Green (2007) concluded that there is a need for individualised, holistic support. Providing tailored support is particularly important when working with the most disadvantaged customers.

The Work Programme specification has focused on desired outcomes with providers free to determine the best processes and services to achieve those outcomes. It is hoped that this will enable innovation and best practice and will allow for flexible client-centred provision. The coalition government has indicated that it is 'committed

to removing central controls over the FE sector, in order to create a truly demand-led skills system'⁴⁹ - we welcome this and recommend that, alongside outcome based targets and payments (see 4.1), **skills providers should be given the freedom to choose the most appropriate training methods and courses to achieve sustainable job outcomes, in a black-box approach equivalent to that experienced by Work Programme providers.**

The government should detail and incentivise desired outcomes through the setting of appropriate outcome payments and allow providers the freedom and flexibility to operate as they see fit to achieve those outcomes.

4.3.2 Simplify funding structures

To achieve the flexibility required for a black-box approach to delivery (see 4.3.1), the funding available to providers needs to be flexible and free of operational requirements.

There has been increased flexibility from the SFA in terms of how providers can deliver training, but also the consolidation of various funding streams, i.e. Adult Learner Responsive, Train to Gain and Apprenticeships, into a single adult skills budget is welcome. We welcome and encourage a move towards more universal and flexible funding streams from the SFA, which should enable providers to offer a range of learning and training that meets the needs of learners and employers. There are still a number of SFA funding streams that have not been consolidated, however, including Adult Safeguarded Learning, Additional Learner Support and Formal First Steps. We therefore recommend that **all SFA funding streams should be consolidated, with variable outcome payments and shadow learner targets used to ensure disadvantaged and priority groups are not being excluded.**

In addition, skills providers should have a single relationship for all their funding but currently three agencies (SFA, YPLA and the DWP) all provide some skills-related funding, and each has different conditions, priorities and requirements. This sometimes results in a lack of clarity for providers on how funding can be used and can prove a barrier to integrated approaches. Work Programme providers may look to lever in SFA money, to up-skill unemployed individuals for example, but there could be fears about double funding, which may lead to a reluctance to access funding to provide integrated pre-employment and skills services. Whilst there are different agencies setting funding priorities and requirements, priorities will only be set within the limitations of that particular agency's focus (young people,

⁴⁹ Skills Funding Agency (2010) *Skills Funding Agency: Guidance Note 6 – Version 2*

unemployed people, etc) and not across the board in an integrated way. We recommend, therefore, that **consideration should be given to merging the procurement activities and funding streams of the SFA, YPLA and the DWP. In the meantime, the three agencies should work together to streamline their funding conditions, priorities and requirements, and release guidance for providers, addressing double funding concerns.** This will allow providers to utilise funding streams as appropriate to their customers and employers.

4.3.3 Revise the minimum levels of performance mechanism

One way in which the SFA has monitored and ensured training provider standards is through minimum levels of performance. Minimum levels of performance are thresholds set by the SFA for provider qualification success rates. Providers are required to exceed these thresholds to guarantee continued funding. The agency has indicated that it plans to continue to use minimum levels of performance to remove funding from poor quality provision.

Minimum levels of performance have been extremely successful at driving up standards but are not particularly conducive to working with disadvantaged groups. The current system is a quite crude instrument and a more sophisticated system now needs to be developed that takes into account the background and circumstances of the learners involved. This will be extremely important as the re-assessment of current Incapacity Benefit claimants will increase the proportion of long-term unemployed individuals with multiple barriers to learning and employment who are claiming active benefits.

We therefore recommend that **minimum levels of performance should be adjusted for disadvantaged learners. In keeping with the call for integration, the new variable minimum levels of performance mechanism should link into the mechanism used to classify Work Programme and skills customers for the purposes of differential payments** (see 4.1.3).

By adjusting expected performance levels based on the learners involved, learning providers could be encouraged to engage with more disadvantaged learners, considered to be at a higher risk of not successfully completing a course, without potential penalisation.

4.3.4 Support efforts to offer and deliver flexible and innovative training

Apprenticeships have a key role to play in work-based skills development and the achievement of sustainable employment. In the 2011 budget, the government

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announced £180 million for an additional 50,000 Apprenticeship places over the next four years, declaring there will be 75,000 more adults starting an Apprenticeship by the end of this parliament. Apprenticeships are an excellent example of IES in practice and have demonstrable results, however, Apprenticeships require individuals to obtain employment (or a sponsoring employer) first and so have access limitations.

There is a need to address the gap created by the removal of Programme Led Apprenticeships for individuals not yet in employment, which ended in April 2011. Whilst these had limited value in some more generic roles, such as business administration, they have been extremely beneficial in certain sectors. Childcare nurseries, for example, are required to meet ratios of trained staff to children and such headcounts cannot include part-qualified employees. Many such employers have previously linked into Programme Led Apprenticeships and taken on new members of staff from the graduates of such courses, as at this point they can be counted in their ratios. There is, therefore, a need for a replacement to Programme Led Apprenticeships, which builds upon their advantages for smaller specialist employers, who find it difficult to afford to employ an untrained member of staff and overcomes their limitations in terms of lack of work experience for learners. Apprenticeship Training Associations (ATAs) could be a promising replacement.

Case Study: The Logistics Apprenticeship Training Academy

The Logistics Apprenticeship Training Academy (LATA), based in the West Midlands, was established through the joint partnership of two recognised and established skills providers, JHP Training and Targeted Training Projects. LATA later became one of the 12 companies to bid successfully for a share of £7 million of government funding to establish dynamic apprentice models called ATAs. LATA aims to remove the barriers to taking on apprentices for companies of all sizes, enabling Apprenticeships in a flexible way to meet their needs and still get the benefits from taking on young, dynamic local people. LATA achieves this by employing apprentices directly and training them to meet employers' needs. These apprentices are then hired out to organisations using an employment agency model. This has been found to work well for the logistics sector, where employers often need temporary staff and so would not be able to commit to training them themselves. The model encourages sustainability, however, by requiring employers who take on one of the apprentices for eight months to then take over the direct employment of them. This model has been extremely successful, with over 300 individuals having gone through LATA. Based on the success of LATA, JHP has set up a Childcare Apprenticeship Training Academy, which has been running since January 2011. The feasibility of a Retail Apprenticeship Training Academy is also currently being investigated.

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ATAs have an obvious win-win alignment with Work Programme providers, who can provide an appropriate supply of learners and who themselves will achieve employment outcomes by doing so. However, capital investment for infrastructure is required for the set up of ATAs. LATA was a pilot and so obtained pump priming but whilst ATAs were originally expected to be rolled out after the pilot, phase 2 did not go ahead. We therefore recommend that **the government should support development of appropriate ATA consortia and set aside some funding which consortia can bid for to support them with initial set up costs.** We also recommend that **consideration should be given to possible links between the new Service Academy scheme and ATAs to help establish which individuals are right for the ATA programmes.**

Work-based learning is the most appropriate route for those who have a skill-set sufficient to enable them to get their foot on the employment ladder and sustain this whilst growing their skills further. However, it must be recognised that for some individuals, there is a need for a skill-first, not work-first approach. This is particularly important in the current economic climate, when demand for employment outstrips demand for employees. It is important to ensure that the time individuals spend out of work is productive and helps prepare them for appropriate employment once the job market improves. We therefore welcome plans for rolling out Service Academies, which will combine work placements with pre-employment training, leading to guaranteed interviews with employers. We recommend that **the government should involve both Work Programme and skills providers, alongside Jobcentre Plus and employers, in development of the Service Academy scheme.**

With in-work training funding streams all either abolished or redirected into Apprenticeship training, there is a risk that training offered to employees could become increasingly uniform, as many shorter in-work training programmes have become streamlined and 'packaged' into Apprenticeships. There are some benefits to this in that it becomes easier for individuals and employers to understand and navigate what is available and in that, Apprenticeships have a proven track record and so individuals can be assured they will have a positive impact. Such rationalisation does not sit comfortably, however, with evidence pointing to the need for skills development to be delivered in a tailored, client-centred way. Young people who have not worked before, or older people who have been on benefit and out of work for many years, may find starting and maintaining work a huge step. Whilst skills development may be beneficial for such individuals, a full Apprenticeship may not be something they feel comfortable taking on while they are first adjusting to employment. This is particularly the case for those very individuals most in need of skills development – those with low skills, previously bad experiences of learning and/or barriers to learning. From August 2011, skills providers will be able to use the

single adult skills budget to deliver units from the qualification and credit framework to the unemployed on JSA and ESA-WRAG. We welcome this flexibility and recommend that **the government should continue to support efforts from providers to develop flexible stand-alone training options that can also be used as route-ways onto Apprenticeships.**

4.3.5 Support efforts to co-locate services and share information

The different cultures, perspectives, language, and goals of the welfare to work and skills arenas have previously acted as a barrier to the IES. Progress has been made but there is still a way to go to improve the understanding and awareness of provider staff on 'each side of the fence' of the goals, constraints and services each have. The trade associations for the welfare to work industry and learning providers, the Employment Related Services Association and the Association of Learning Providers (ALP) can, and are, both playing an important role in bringing its members together and educating them to understand each other. Conferences and networking events bringing members of both organisations together have been growing in number and are an extremely useful forum for forging IES links. Adding to this cross-pollination of knowledge is the increasing number of organisations, such as JHP, that provide both employment and skill services, and that are members of both trade associations. Eight of the current top 10 DWP welfare to work providers are already members of ALP and at least 80 of ALP's current members hold welfare to work contracts.

Some Work Programme providers new to the market are yet to possess all the necessary knowledge, or have the ability to conduct skills assessments and make appropriate referrals. On the learning provider side, many trainers are used to working purely with voluntary learners but with the introduction of the Work Programme and skills conditionality there will be a need for trainers to utilise new methods and skill-sets to ensure learner motivation and engagement with mandated clients.

Other government changes may also have an impact on the possible effect of IES and there is a need to take integration beyond employment and skills and include consideration of other contributory factors to sustainable employment. Job availability and quality, health conditions and disabilities, housing and transport, childcare and many other factors also affect the likelihood of an individual finding suitable employment and retaining this. For example, Shelter has argued that the government's plans to remove the link between HB and the housing costs people pay, as announced in the Welfare Reform Bill, will push those seeking work or in low-paid work out of their homes and into areas with fewer job opportunities.

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The identification of skills need (skills health checks and other skills assessments) should be embedded in the appropriate places and carried out at the right times, with suitable actions taken to address the needs identified. Previous initiatives, including skills coaching and the IES trials, all point to the benefits of co-locating. There is also a need to ensure that employment service providers are aware of all the training service options available and are signposting appropriately, and co-location can help with this.

We therefore recommend that **government should encourage and support efforts to co-locate services and work in partnership. Co-location and close working relationships are recommended between Work Programme providers, skills providers, Jobcentre Plus, local authorities and the All-age Career Service advisers.** This will help ensure interventions focus on employability and/or skills at the same time as wider support.

The government should also consider the role Enterprise Zones can play in co-location and localised holistic IES. As part of the 2011 budget, the government announced its intention to introduce 21 Enterprise Zones across the Local Enterprise Partnership areas of England. Enterprise Zones will help to create new jobs in the local economies that need them most. Enterprise Zones should also provide an opportunity to enhance local skills and create jobs for local unemployed people. In order to achieve this, further measures will be needed to ensure that local unemployed people benefit from the new jobs, and IES has a clear role here. Improving the skills and employability of local workforces should be a joint task for skills providers, Work Programme contractors and local authorities.

We recommend that **LEPs should be tasked with supporting the co-ordination and integration of services from skills providers, Work Programme providers and local authorities to improve the skills and employability of local workforces.** New workforce measures should be considered for Enterprise Zones, which would increase the chances of the local unemployed people getting the new jobs, for example, by linking the incentives provided in Enterprise Zones to the training and employment of the local workforce and focusing efforts to increase Apprenticeships linked to Enterprise Zones activity. Enterprise Zones are rightly focused on creating the conditions for growth, but would also become focused on delivering fairness for local unemployed and newly employed people.

4.3.6 Utilise information advice and guidance to create informed customers and employers

There is a need to educate individuals and employers about the benefits of gaining skills. This is particularly important in the context of the increased expectation on individuals and employers to fund or part-fund their own skills development.

Access to skills development needs to be provided alongside clear and unbiased information, advice and guidance and career coaching to ensure that individuals are able to develop the right skills and are supported in ensuring these are utilised to their fullest. There is also a need to build on the success of Apprenticeships and the additional funding committed by the government by encouraging more employers to take on apprentices through the provision of clear advice on their availability and benefits.

The All-age Career Service is an obvious location for such functions and careful thought needs to be given to how this will be delivered and how people will access it. The lessons from previous 'what works' research on the need for personalised delivery of such services, and for delivery to be accessible in terms of times and location is particularly important here. We recommend that **the All-age Career Service is used to support both learners and employers to make informed decisions about skills development.**

5 Conclusion: how to maximise the contribution of IES to sustainable employment

Sustainable employment is important, and skills have an important role to play in the achievement of this. With major reform introduced by the coalition government and a need to achieve more, but with less funding, this report has considered what more needs to be done to enable employment and skills providers to integrate services to help achieve sustainable employment.

Our report calls for change in three areas:

1. Outcome payments

There is a need to improve provider focus on IES through appropriate and aligned outcome payments for both welfare to work and skills providers.

2. Skills priorities

There is a need to revisit priority areas and introduce more sophisticated mechanisms to ensure funding is based on need and affordability.

3. Delivery

There is a need to allow providers the flexibility of a black-box approach to delivery and reduce funding, policy and institutional barriers to IES.

Our recommendations in relation to these three areas, and their expected impact, have been discussed in detail in the previous chapter and are summarised in the final table.

We hope this report will stimulate debate and help take the IES agenda forward.

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What	How	Impact
Outcome payments	<ul style="list-style-type: none"> ■ Introduce outcome payments for skills providers for job outcomes and sustainability. ■ Introduce outcome payments for Work Programme providers for career progression. ■ Use a differential payments model for skills-provider outcome payments. 	<p>This would ensure that Work Programme and skills providers are both focused on ensuring that the right skills development, training and qualifications are delivered for individuals, employers and the economy as a whole.</p>
Skills priorities	<ul style="list-style-type: none"> ■ Introduce a new priority group designation for those newly employed following a period of unemployment. ■ Refine current skills fee remissions relating to employer size. ■ Revise current skills fee remissions relating to age and previous qualifications. ■ Revisit changes to funding eligibility for those on inactive benefits. 	<p>This would ensure that outcomes from limited government funding for skills development are maximised and co-funding from employers and individuals is based on appropriate and fair criteria linked to need and affordability.</p>
Delivery	<ul style="list-style-type: none"> ■ Extend the black-box approach used within the Work Programme to skills providers. ■ Simplify funding structures. ■ Revise the minimum levels of performance mechanism. ■ Support efforts to offer and deliver flexible and innovative training. ■ Support efforts to co-locate services and share information. ■ Utilise information, advice and guidance to create informed customers and employers. 	<p>This would ensure that training and other interventions can be delivered in a flexible client-centred way that best meets the needs of the individual learner and employer.</p>