

Realising Talent

A new framework for
devolved employment
and skills

An LGA report

March 2015

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Acknowledgements

The LGA is particularly grateful to Dave Simmonds OBE and Paul Bivand from the Centre for Economic and Social Inclusion for their ideas, research and analysis which feature in this report and the wider Realising Talent series developed since 2014.

The series of work involved a number of areas which include: Devon, Essex, Greater Lincolnshire, Greater Manchester, Lambeth, Lewisham & Southwark (community budget area), North East Combined Authority, Shropshire, Southampton & Portsmouth, Staffordshire, Surrey, and West Yorkshire Combined Authority.

Thanks also go to Jonathan Portes and Heather Rolfe from the National Institute of Economic and Social Research for providing independent analysis for local authority schemes to support people towards work.

Foreword

We in local government are ambitious for our places, and for the people who live and work in them. Enabling all of our communities to contribute to, and benefit from, local growth is crucial to national productivity. Fundamental to achieving this is a steady supply of skills and jobs, and effective support to help people get on in life.

In **'Realising Talent: a new framework for devolved employment and skills'**, the LGA proposes tangible local solutions to deliver improved outcomes, bringing together funding and policy, so local partners can efficiently plan investment across places, and ensure effective, integrated provision.

The recommendations set out in this report recognise all local areas believe much more can be done locally. Evidently this will mean different things for different places. It sets out our minimum expectation to improve services for all areas. It also creates the space for those who have already made great strides in devolved powers, and who wish to rightly go further.

Across the country, councils are joining up efforts across functional economic areas, working with businesses and local partners, to build on our unique and proven capacity to integrate services around the vulnerable, and anticipate and respond to local employer needs. We continue, however, to be constrained by the current approach to funding and commissioning for employment and skills activity.

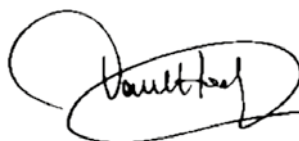
In **'Investing in our nation's future: the first 100 days of the next government'**, we called for powers, funding and responsibility to be devolved to local places. With increased scope to respond flexibly to local circumstances, we could halve the number of unemployed young people, reduce long-term unemployment by a third, and better serve local employers' current and future skills demands. For the most disadvantaged, much more is needed – good work experience, tackling health and housing problems, and other barriers they have to sustainable jobs.

We are pleased that all the major political parties are talking about local expertise and leadership being an essential component to delivering national ambitions for improved outcomes in employment, skills and welfare. Now is the time to turn the rhetoric into reality. This report begins to set out in more detail how we think this could be achieved.

We are committed and ready to work in partnership with an incoming Government to design the detail for what is needed to make the system more effective and easier to navigate. If the Government adopts our recommendations, our proposal represents a significant step forward. We look forward to this report being the foundation for reform.



Cllr Sir Richard Leese CBE
Chairman, LGA City Regions
Board



Cllr David Hodge
Chairman, LGA People
and Places Board



Cllr David Simmonds
Chairman, LGA Children
and Young People Board

Executive summary

To meet the anticipated employer demands of the future, the UK faces a significant task to up-skill our workforce and get more people back to work. Improving employability will lead to more growth and less spending on welfare, but to achieve this, we need to reclaim a lost generation of young people and deliver the benefits of local growth for long-term unemployed people.

There have been substantial changes to our welfare system over the last five years. Local government faces new challenges in providing support to the most vulnerable claimants – ensuring there is local support and opportunities for low income households to move out of poverty.

For the UK to meet its future economic and social challenges, the LGA believes a radical redesign is needed of English governance, and the way in which public services are delivered. We are calling for “One Place, One Budget” to be implemented in the longer term, giving democratically-elected local leaders devolved decision-making over a single budget for public services to improve economic growth, increase opportunities for local people and reduce poverty.

In this document, the LGA looks at what can be achieved in the next Parliament. We believe¹ it is **possible to reduce long-term unemployment and significantly reduce the number of young people out of work, and serve businesses better by more effectively matching local skills supply with current and future employer demand.**

This requires maximising opportunities for residents to increase their qualifications, re-train, progress in work and find the job they want. For the most disadvantaged, much more is needed – good work experience, tackling health problems, and confronting a range of barriers they have to sustainable jobs.

Two significant challenges to achieving this are:

1. a **better local skills match** between training and employer demand
2. **integrating employment, skills and health provision** at the local level – more effective and more efficient support.

¹ 'Investing in our Nation's Future: the first 100 days of the next Government', LGA

Summary of recommendations

Programmes and rules designed in Whitehall give insufficient freedom to local areas to meet local needs and ambitions. It is inefficient and ineffective and, as a country, we can ill afford it any more. Through more efficient use of hard-pressed national and local funds, we believe that economic growth can be stimulated and welfare budgets reduced by combining budgets and devolving responsibilities.

Local Labour Market Agreements

We recommend introducing long term Local Labour Market Agreements. These should set out the ambition and strategy for employment and skills for all ages. They will be the basis for a deal between local areas and central government on what is needed to get more people into work, help low paid people progress in work, and address the skills demand for achieving local growth. These and, where appropriate the funding agreements that underpin them, will need to be flexible to respond to changing labour market dynamics. Employer engagement will be an important dimension. A **National Employment and Skills Partnership** should be established to ensure a devolved, integrated approach is enabled and, through which, a constructive dialogue puts central government and local partners on a more equal footing.

In this report, by 'local area' we mean groups of councils which can work together at a wider spatial level². To facilitate such agreements, **we recommend the new government should review the complicated landscape of boundaries** including Local Enterprise Partnerships, Jobcentre Plus Districts, Work Programme areas and Skills Funding Agency regions. New boundaries

should be aligned with groupings of councils, which provide the economies of scale for devolved powers, and which consider ongoing transformation of public services and their governance. This requires significant and perhaps iterative changes, so a move towards it should not halt progress on moving the devolved employment and skills agenda forward.

Local Labour Market Agreements should set out the roles and responsibilities of local and national partners under three levels of involvement:

- **strategy:** the local labour market challenges and priorities which should be used to inform the commissioning of programmes
- **co-commissioning:** the role and powers of local areas to work with national government in the design and commissioning of programmes
- **financial:** any agreed transfer of programme finances and accountability, including the detailed terms for targets, outcomes, performance management, and any risk and reward payments.

The three levels of involvement in Local Labour Market Agreements (LLMAs) are designed to facilitate **differential devolution**. Jointly developed guidance will define each of the levels. Because LLMAs are flexible agreements reflecting each local area, **we recommend they should be introduced across England from 2016/17.**

Our minimum expectation is that these agreements would cover at least £2.7 billion of devolved or co-commissioned employment and skills funding per year.

² This would include areas such as Cornwall and the Isles of Scilly where the functional economic area is effectively covered by a single or a smaller make up of councils.

Access to support

In future we recommend access to support should be based on a needs assessment rather than which benefit is being claimed.

We recommend that DWP and the LGA jointly research the extent and nature of potential demand from non-claimant unemployed people and explore pilots to test appropriate services.

Replacing the Work Programme

We recommend that the Work Programme is replaced by two programmes. One will deal with the current mainstream long-term JSA claimants. The other will be designed for disadvantaged claimants and will include Work Choice and Access to Work. Both programmes should be commissioned using the new local areas (and in London multi-borough areas), with expected performance levels adjusted to be appropriate for each area.

The programme for mainstream JSA claimants, should as a minimum be co-commissioned between DWP and local areas, with DWP taking responsibility for the commissioning process. **Under their LLMA, some areas may want to propose that this programme is fully devolved along with the disadvantaged claimants programme.**

The commissioning of the programme for disadvantaged claimants should be fully devolved to those areas which are ready to design, commission and be accountable for it. As an absolute minimum for all other areas, it should be co-designed and co-commissioned. The aim of the new programme is that local areas will develop new models for integrated support for people with disabilities and health problems, bringing together health, welfare benefits, housing, employment, skills and other specialist support. To enable this will require funding agreements which provide flexibility, upfront investment, and sharing in the rewards of success.

Short-term JSA

We recommend that Jobcentre Plus performance should be measured by off-flows to sustained employment, in the same way as Work Programme contractors. In the future, especially with the wider introduction of Universal Credit, there should be more emphasis on wage progression for those who are in work.

Jobcentre Plus currently uses 'Support Contracts' to increase capacity where needed and also has the Flexible Support Fund to commission projects at the local level.

We recommend that Support Contracts and the Flexible Support Fund are co-commissioned in line with local priorities.

Much more could be done by bringing resources together to provide a modern, well-informed, job brokerage offer to the unemployed. Local Jobcentre Plus performance should be shared and common delivery challenges identified for local partners. **We suggest that new local models of job brokerage should be explored combining the resources and labour market information from local partners, Jobcentre Plus and National Careers Service – working together to provide access to vacancies and careers, and referrals to skills.**

Post 16 education

Local government has the statutory duty to secure sufficient, suitable education and training provision for all young people aged 16 to 19. **We are therefore recommending that as part of the negotiations for the LLMA, the Department for Education devolve the post 16 education budget from the Education Funding Agency to those areas that are ready to design, commission and be accountable for 16 to 19 provision.** In other areas it should be co-designed and co-commissioned using the new groupings of councils.

Youth offer

Building on the LGA's previous proposal for a new youth transition service, **we recommend a new Youth offer enabling all 14 to 21 (or 24) year olds to access independent careers and employment advice and work experience while in education and training. Those in work would continue to benefit from independent careers advice. It would also guarantee every young person not learning or earning, support into training, an apprenticeship, or sustained employment.**

This national commitment would be achieved through a single youth offer organised and delivered locally, with Jobcentre Plus Districts, to:

- support the Raising of the Participation Age (RPA) by working with schools to provide all students with impartial advice, identifying and supporting those students at risk of disengaging, and requiring disengaged 16 to 18 year olds to participate in local re-engagement support
- maximise the amount of time 18 to 21 (or 24) year olds spend in employment and with appropriate training to improve qualifications, commissioning services for young people based on sustained employment, reducing 'churn', and substantially reducing the numbers not in employment or training
- guarantee a work placement or subsidised job for young people that are not in education, employment or training after six months, working with local employers to create appropriate opportunities.

Adult skills

As mentioned above, there remains a lack of integration between local employer demand for skills, post-16 education and training, employment programmes for the unemployed and adult skills training. More can be done to align education and skills funding to respond to skill gaps and shortages, the demand for higher skills, and to incentivise more in-work training – all essential for boosting growth and productivity.

We recommend that the Adult Skills Budget should be devolved to all local areas who will work with local employers, local authorities and training providers to ensure it is geared to the needs of employers and driven by securing job outcomes for workless people, especially young people. In addition to the Adult Skills Budget, the government should encourage local areas to explore how further flexibilities can improve local integration, such as how priorities for post-16 education are determined, how Apprenticeships can be further boosted, and by allowing local variations in the 24+ Advanced Learning Loans.

Universal Credit: local support

We recommend that local and central government work together to design a local service that provides personalised support to those UC claimants that need it, and which is fully integrated with our proposed programme for disadvantaged people.

Alongside this is a recommendation to significantly increase the extent of co-location of existing Jobcentre Plus services with other local services, leading to improved service harmonisation and major efficiencies in the use of premises. Underpinning this there need to be arrangements for more effective data-sharing.

We recommend DWP and local areas should jointly explore the effectiveness of services that will support the progression of people in low paid employment, with the aim of moving families out of poverty.

Risk and reward

We recommend that a new ‘risk and reward’ financial package is jointly explored, with proposals to be sent to Ministers by early 2016.

Potentially, this could be a powerful incentive for local partners to offer more services to ESA – and potentially long term JSA – claimants, rewarding local areas for stimulating more jobs and tackling disadvantage. Local areas could be increasingly ambitious if the level of reward was escalated according to impact. The more successful a local area is, the larger the reward. It is this sort of deal that is needed to kick-start reform.

Our challenge for change

To ensure the UK can meet its future economic and social challenges, the LGA believes a radical redesign of English governance and public service delivery is needed. We are calling for “One Place, One Budget” to be implemented in the longer term, giving democratically-elected local leaders devolved decision-making over a single budget for public services. This approach would deliver greater value for money, more democratic oversight over spending and better outcomes for residents.

This report makes firm recommendations for how employment and skills can be devolved in the next Parliament, based on the evidence from our previous reports. Over the last two years the LGA has highlighted the strengths and weaknesses of government support for young people and adults to find jobs and improve their skills. The ‘Hidden Talents’ campaign focused on young people (16-24 year olds) and the ‘Realising Talent’ series looked at the skills, employment and welfare reform challenges facing the country (see text boxes). Both recognised the real and significant challenges faced by local areas to improve their local economies and support residents, often frustrated by inflexible and fragmented national programmes.

To meet the anticipated employer demands of the future, the UK faces a significant task to up-skill our workforce and boost productivity. By 2022, a significant skills gap will emerge if we do not invest in skills. Failure to invest will result in a productivity shortfall of 16-25 per cent is expected across England – up to £374 billion³.

Improving employability will lead to more growth and less spending on welfare, but to achieve this, we need to re-claim a lost generation of young people and deliver the benefits of local growth for everyone.

There have been substantial changes to our welfare system over the last five years. Local government faces new challenges in providing support and opportunities for claimants – enabling low income households to move out of poverty.

Improving economic growth, increasing opportunities for local people and reducing poverty are all central to why reform is needed. These may be different problems but they require joined-up and local solutions – and ones which will be more effective and efficient.

The LGA believes⁴ that far more can be achieved through a reformed, devolved and integrated system **to reduce long-term unemployment by a third, halve the number of young people out of work, and serve businesses better by more effectively matching local skills supply with current and future employer demand.**

This requires maximising opportunities for residents to increase their qualifications, re-train, progress in work and find the job they want. For the most disadvantaged it will mean much more – good work experience, tackling health problems, and confronting a range of barriers to sustainable employment.

3 ‘Realising Talent for Everyone’, LGA, March 2015

4 ‘Investing in our Nation’s Future: the first 100 days of the next Government’, LGA

In general the two significant challenges to achieving this are:

1. a **better local skills match** between training and employer demand
2. **integrating employment, skills and health provision** at the local level – more effective and more efficient support.

Devolution can bring gains to the local economy and local people, facilitate more integration of services, deliver more appropriate support to local people and be driven by the needs of local employers.

The quality of the local supply of labour is one of the key building blocks of any local economy. A skilled, motivated workforce is critical for economic growth and increased productivity but the levers to increase employability mostly reside with national government and national agencies. Programmes and rules designed in Whitehall give insufficient freedom to local areas to meet local needs and ambitions. It is inefficient and ineffective and, as a country, we can ill afford it any more.

Empowering local economies to boost productivity and growth needs decisions to be taken at the local level – investing in the right services to increase economic opportunity and reduce deprivation and disadvantage. Through more efficient use of hard-pressed national and local funds we believe that economic growth can be stimulated and welfare budgets reduced by combining budgets and devolving responsibilities.

The increasing ‘place leadership’ by local government, along with LEPs, shows the willingness to align funds, reform services, deliver improvements, and take on risks. The localism ‘offer’ has never been stronger or more compelling.

There are now substantial deals between local and central government being delivered on the ground. Whilst Greater Manchester has the most significant package of devolved

powers and budgets, many other cities, counties and Combined Authorities are forging ahead.

Equally important to re-vitalising local economies is the need to improve the support we give to the most disadvantaged young people and adults, often those with complex needs. Radical change is needed to overcome the national funding ‘silos’ and enable more personalised and integrated services.

This report deals with proposals for employment support and skills training, however **the LGA sees these as a step towards full place-based budgets where a wider range of funding can be integrated.** None of our proposals would preclude taking more radical steps in the future and would provide an essential building block for a new settlement between central and local government.

Guiding principles for employment and skills devolution

In developing these proposals we have been guided by the following principles:

- **subsidiarity:** in most instances the principle of subsidiarity should apply: responsibility for tackling social and economic problems should rest with the lowest level of governance that is generally agreed as appropriate
- **integration:** the design of a devolved framework should enable the transformation of public services by improving the integration, co-ordination and co-location of services
- **value added and leverage:** in addition to national funds, local areas should identify existing funds or new funds they will invest and/or incorporate in new local services, this will include employer contributions
- **sharing risk and reward:** any financial settlement will need to be based on an acceptable transfer of risk to local areas but also a sharing of the 'rewards' of lower welfare payments over a long period
- **capacity:** we recognise that local areas are different, which is why a new framework should incorporate differences in the pace of devolution
- **transparency and accountability:** local areas should be accountable for any devolved funding and performance through formal agreements with central government which are open for scrutiny
- **driving improvement:** any devolved system must be driven by minimising the inefficiencies of the current system and lead to improved impact.
- **tripartite commitments:** the framework should be based on local government, employers and central government combining their efforts and resources.

Realising Talent: employment and skills for the future

Key points

To meet anticipated employer demand for skilled labour is the equivalent of **increasing everyone from a current average of five GCSEs to an average of three 'A' levels** (or their equivalents) by 2022.

The consequence of **not meeting this challenge by 2022** will be:

- 9.2 million low skilled people chasing 3.7 million low skilled jobs – a surplus of 5.5 million low skilled workers with an increasing risk of unemployment
- 12.6 million people with intermediate skills will chase 10.2 million jobs – a surplus of 2.4 million people
- employers will struggle to recruit to the estimated 14.8 million high skilled jobs with only 11.9 million high skilled workers – a gap of 2.9 million.

If employers can't recruit the skills and capabilities they need by **2022, 16-25 per cent of growth could be lost by not investing in skills**. Achieving a higher skilled workforce is not possible by relying on ever better qualified young people – **adults already in the workforce will need to train**.

Local government's ability to address the local skills gaps and shortages, unemployment and growth challenges is constrained because it is continually bypassed when it comes to targeting the **£13 billion (2013/2014) spent by the Government on 28 national employment and skill schemes**.

The benefits of economic growth may not reach everyone. Delivering the benefits of local growth for local people will mean maximising opportunities for residents to upskill, re-train, progress in work and find the job they want. The issues which need to be addressed to achieve this are:

1. an **ageing workforce**, it will primarily be adults' skills and capabilities that will either deliver or constrain growth
2. re-claiming the **lost generation of young people by** providing better skills, improved guidance and new pathways to employment
3. a **better local skills match** between training and employer demand
4. further **improving the efficiency of the local labour market** by increasing information on jobs, education and training
5. make sure **the long-term unemployed** are not left behind
6. **integrating provision** locally – more effective and more efficient.

Realising Talent for everyone

Key points

The report focused on how **individuals and families** are affected by worklessness and welfare reform. On average, around **one in four households** claim some sort of working age benefit, and in some areas it is **one in two households**. Pen pictures illustrated how individuals can be too easily failed by our welfare system, and how greater co-operation could increase the quality of support people receive.

Whether the welfare system is working effectively will have a significant impact on the demand for local government services. When a claimant finds a job, **for every £1 of direct (cashable) savings, only 7p goes to the local authority**.

Too often national programmes work in isolation – **which is both financially inefficient and often ineffective for vulnerable individuals**. We calculated the performance of the Work Programme for all local authorities since it started. The average job outcome performance for Great Britain is 23 per cent. For JSA claimants, it is 26 per cent and for ESA, it is 7 per cent. However, there is a **wide variation in Work Programme performance at the local authority level, from 28 per cent below the average, to 44 per cent above**.

Responding to the differences between local economies is a challenge for local services and national programmes. The consequence of not integrating can lead to skills mismatches, ineffective programmes for the unemployed, and the most vulnerable or disadvantaged not receiving the support they need.

Central government has taken steps to test devolution, but many local authorities want to go further.

In general the report concluded that:

- **The replacement for the Work Programme and Work Choice should be planned with local government.**
- **Jobcentre Plus support for the short-term unemployed should be better aligned to the needs of the local economy.**
- **The Adult Skills Budget should be devolved.**
- **Young people making the transition from school to work should be supported by a single careers and employment support offer.**
- **Local government should develop a new model for integrated support for people with disabilities and health problems. One of the most significant areas for innovation is in how health and employment support can work together.**

Improving outcomes

Local government wants a high-performing supply-side infrastructure that can deliver good opportunities for all young people, claimants, workless people and those with low skills the opportunity to progress. This means effective skills providers in tune with local employers, and employment support that can improve the employability of local people. Together this will lead to more efficient local labour markets, increased productivity, and reduced benefits expenditure.

Some of this infrastructure is already working relatively well, but improvements can still be made. However, local government believes other parts of the infrastructure require more radical reform to deliver the improvements that are necessary for local economies to deliver higher growth and increased employment.

The main areas of service improvement are needed for:

- services to Employment and Support Allowance claimants in their journey back to work
- people with severe disadvantages who relate to multiple public services
- young people who are NEET for more than six months
- people with low or no qualifications where combined employment and skills support is needed
- those people needing support in the transition to Universal Credit
- support to those in low pay to increase their earnings.
- disadvantaged people who are currently eligible for the Work Programme

Local government believes it can deliver improvements for all of these groups of people, compared to current central government programmes.

Those parts of the infrastructure that are performing relatively better (but where improvements can be made) are:

- the highest performing groups on the Work Programme – young people and adults on JSA
- the short-term unemployed who find a job within 12 months with support from Jobcentre Plus
- the stimulation of greater numbers of Apprenticeships for all ages.

In summary, significant improvements are needed for those people who are the most disadvantaged. However, services for those who have higher levels of employability and qualifications have in general been more effective.

The scale of these two broad groups should be kept in perspective. The ‘disadvantaged’ group amounts to around 2.55 million people, whilst the group closest to the labour market is 597,300.

The size of the ‘disadvantaged’ group is primarily driven by the number of ESA claimants, which outnumbers JSA claimants by two to one.

In general, we are recommending:

1. **boosting the influence of local employer demand on skills and employability**
2. **a shift in national resources to focus on the disadvantaged**
3. **integration of some existing budgets and services to create new, more effective, local support services.**

The Local Government offer

Local government is confident that Work Programme performance and the impact of skills provision can be improved, especially for the most disadvantaged people.⁵ In general, local government can offer: local resources; integration of local services; and processes which will increase accountability. It is able to work collaboratively with partners to identify residents that need help and bring together services to meet their needs including health, housing and skills, which are key barriers that need to be overcome to secure sustained job outcomes.

The potential for improvement lies in local government's:

Knowledge of the local economy

- knowledge of the local economy, vacancies and the supply-side challenges
- membership and joint work with Local Enterprise Partnerships to drive economic development and regeneration
- links with employers small and large, and forward knowledge of changes in the volume and nature of employer demand, including through Section 106
- reach to work with and link services for disadvantaged groups including through the voluntary and community sector.

Existing responsibilities

- relevant statutory responsibilities where they overlap or adjoin age groups (such as NEETs, care leavers) and the supply of opportunities for the Raising of the Participation Age which could be planned with 18-24 provision
- support for parents (particularly lone parents) through the Family Information Service, childcare support, and other relevant services
- public health responsibilities and local links with health provision

- operational experience in delivering a successful, and expanding, Troubled Families programme, using case workers and co-location, which has the potential to bring health and employment support together.
- planning and delivery of Universal Support Delivered Locally (USDL) services and integration of existing local advice services
- intelligence from administering Housing Benefit and utilisation of HB staff capacity.

Ability to integrate

- in some areas, the added value of integrating locally commissioned employment provision
- as social landlords and/or knowledge of local social landlords where they are currently running provision for workless tenants
- engagement with skills providers through Further Education and adult and family education
- procurement expertise that currently commissions far larger volumes of services than the value of the Work Programme.

This is, potentially, a substantial offer. The challenge is to harness these resources and expertise to confidently lead to an increase in jobs for workless people, improved skills matches for employers, and a more efficient local labour market. Local government is already doing much⁶ but the potential is far greater.

5 Realising Talent for Everyone, LGA, March 2015

6 Local authority schemes supporting people towards work' NIESR, January 2015

What do we mean by 'local'?

It is clear that all major political parties considering English devolution are preparing to devolve to groupings of councils. **In this report, by 'local area' we mean groups of councils which can work together at a wider spatial level.**

Currently there is a complicated landscape of boundaries, including Local Enterprise Partnership (LEPs), Combined Authorities (CAs), 'multi-borough areas', Work Programme areas, Jobcentre Plus Districts and Skills Funding Agency regions. It is now widely accepted that wider functional economic areas are the most appropriate level at which local economic planning should best take place, with local government as the democratic, accountable body.

We recommend that the new government should review LEP areas, aligning with new groupings of councils (such as Combined Authorities) to provide the economies of scale for devolved powers, and which consider ongoing transformation of public services and their governance.⁷ **At the same time central government should review Jobcentre Plus districts, Work Programme contract areas, and Skills Funding Agency regions to align with new boundaries.** This requires significant and perhaps iterative changes, so a move towards it should not halt progress on moving the devolved employment and skills agenda forward.

⁷ Recommended by the Independent Commission on Economic Growth and the Future of Public Services in Non-Metropolitan England, March 2015

Local Labour Market Agreements

Under our proposals all local areas will have the responsibility for drawing up and negotiating long term **Local Labour Market Agreements**. These should set out the ambition and strategy for the local area's employment and skills for all ages, and be the basis for a deal between local areas and central government on what is needed to get more people into work, help low paid people progress in work, and address employers skills demands for achieving local growth. These will set out the roles and responsibilities of local and national partners under three levels of involvement:

- **strategy**: setting out local labour market challenges and priorities which should be used to inform commissioning of programmes
- **co-commissioning**: the role and powers of local areas to work with national government in the design and commissioning of programmes
- **financial**: any agreed transfer of programme finances and accountability, including the detailed terms for targets, outcomes, performance management, and any risk and reward payments.

The three levels of involvement in Local Labour Market Agreements (LLMAs) are designed to facilitate **differential devolution**. This enables some areas to negotiate radical financial steps, other areas will have a co-commissioning role, while some may choose a strategic one. Local areas should be able to negotiate with central Government the scope of LLMAs for their area. With any new responsibilities should come adequate resources to achieve them. These and, where appropriate the funding agreements that underpin them, will need flexibility to respond to changing labour market dynamics. Employer engagement will also be an important dimension in developing the LLMA – ensuring it is informed by the latest employer needs and labour market

intelligence. An illustrative example of how procurement would work under each level is highlighted below.

A **National Employment and Skills**

Partnership should be established to ensure a devolved and integrated approach is enabled, and through which a constructive dialogue puts central government and local partners on a more equal footing. Both BIS and DWP already have various consultative forums (such as the Universal Credit Programme Board) and these should be consolidated into a single national Partnership to drive forward reform. It should include central and local government, business, voluntary and community sector and other stakeholders. Part of that partnership should include a Performance Task Group which should determine and set the metrics, payment models, and standards for measuring past performance, and assessing future performance gains, which can be used for determining performance and financial benchmarks. Jointly developed guidance will define each of the levels, and the capability required of each.

The City Growth Commission called for “... a process through which the UK’s major metros can benefit from new powers and flexibilities that match their capability and ambition.” Also adding that “There is no reason why county-based variants of metro devolution could not occur.”

Local Labour Market Agreements would provide that process.

Three levels of involvement

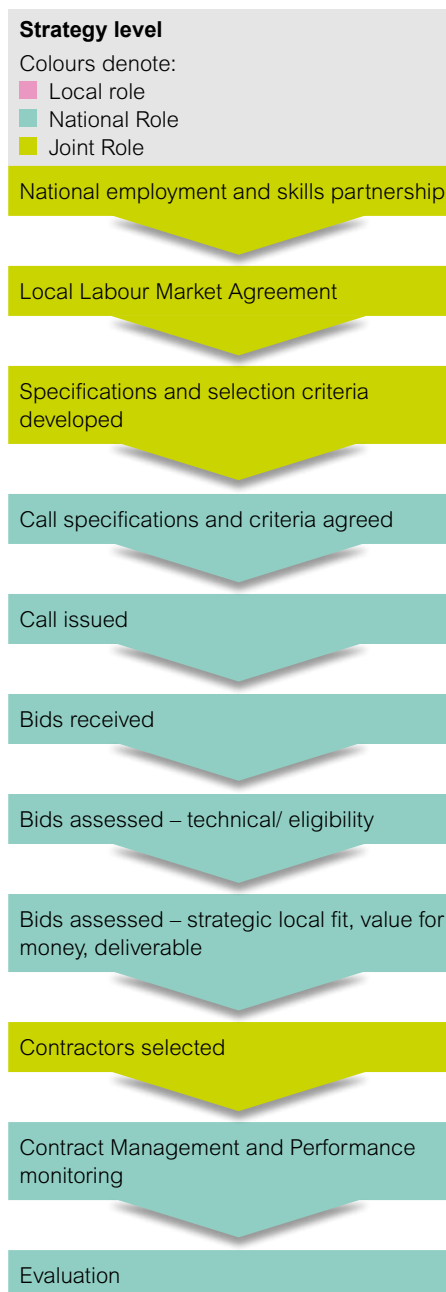
We recognise not all local areas are at the same stage of development in their ability to adopt new responsibilities, initially therefore LLMA's would vary considerably. Central government will determine the criteria for how local areas move across the three levels, taking in to account their governance, capacity and capability. We recognise that groups of councils will need to demonstrate strong accountability to achieve this.

Strategy level

Each area would set out its local labour market challenges and priorities after consulting and working with employers, Job Centre Plus, providers and other stakeholders. These can then be used to inform the commissioning of provision and guide successful providers on the expectations of local partners.

All areas should have a strategic role given much of the detailed work has already been undertaken by LEPs. Growth Plans have set out their priorities for infrastructure investment, and ESIF plans for 2014-2020 have established their priorities for the EU funding of skills and employment projects.

The LLMA takes this a step further by describing the more detailed priorities for labour markets within the new areas determined by our recommended review of boundaries. The strategies would describe the specific local supply-side challenges within the context of actual and anticipated employer demand.

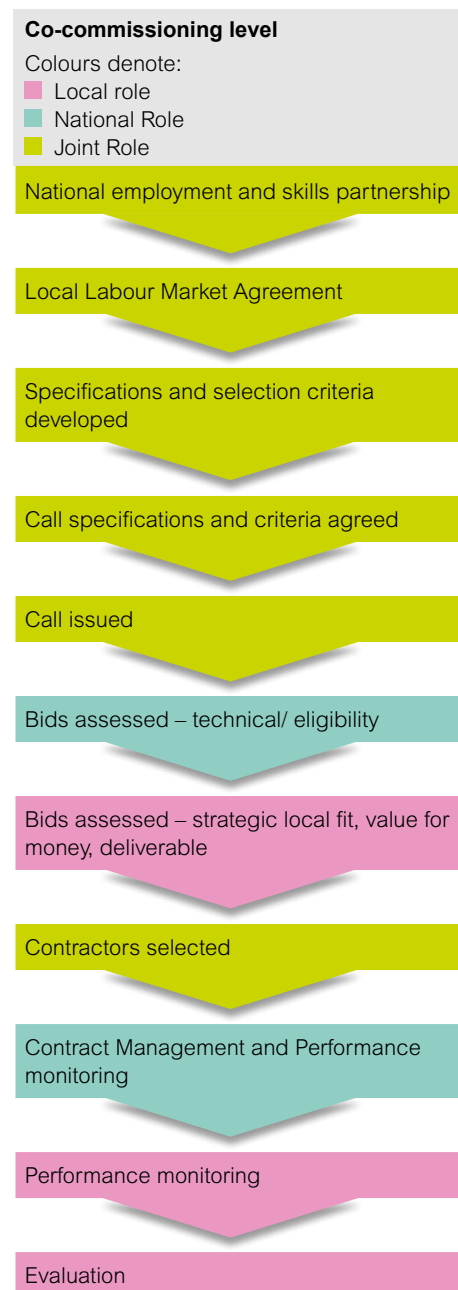


Co-commissioning

This level would establish the influence, role and powers of local areas in the design and commissioning of programmes. National government would retain the budgets and accountability but would formally involve local areas in the design, commissioning and performance management of provision. Local areas would be bringing to the table the local knowledge, resources and services that could be integrated with national programmes.

Specifically, we envisage local areas:

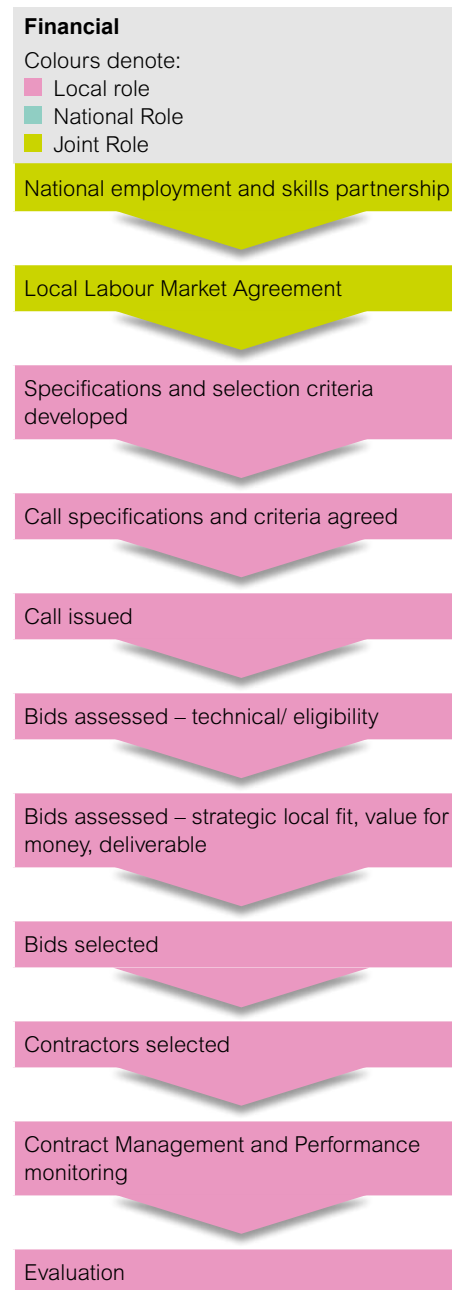
1) involvement in the design of programmes but commissioning remains at the national level; 2) providing labour market analysis, information and local priorities for developing the ITT specifications; 3) active involvement in the evaluation and scoring of bids; 4) providing local accountability within the performance management framework.



Financial level

Delivering improved performance will be central to the full devolution of budgets. Local areas will be able to propose the devolution of skills and employment budgets along with full accountability. Deals will be negotiated that lead to agreed transfers of programme finances, and which will include the detailed terms for targets, outcomes, performance management, and any risk and reward payments.

Areas to which budgets are devolved will be wholly responsible for the design and commissioning of programmes. However, there is already a strong willingness for areas to collaborate in how this can be done efficiently.



LLMAs and individual local authorities

For LLMAs to achieve the benefits of localisation, **individual local authorities** will need to be clear about their responsibilities under any Agreement. At a **minimum** this would be:

- communicating their labour market analysis and priorities
- detailing existing relevant locally funded services delivered by local partners
- partnership arrangements that increase service integration, including co-location
- the preferred local specifications for nationally commissioned programmes.

But much more could be delivered within this framework. Those local areas who wish to propose direct responsibility for any programme or budget would also need to set out and consult on the role of individual authorities. This will open up wide-ranging discussions at the local level on the potential re-design of local services.

Because LLMAs are flexible agreements reflecting each local area, **we recommend they should be introduced across England from 2016/17**. This will mean that every local area can have a direct voice in the commissioning of the replacement of the Work Programme and Work Choice. At the same time, LLMAs will enable those areas that want to go further and faster to enter into detailed discussions with central government.

The ethos in central government will also need to change. Too often devolution founders on central government departments wanting ‘proof’ that local areas can do better than centralised systems. By definition this is virtually impossible to evidence by individual areas. Instead central government needs to be actively creating the conditions that enable local areas to take more responsibility.

Access to support and advice

There are a number of different customer groups which are currently covered by the programmes identified above. The eligibility for DWP programmes are generally determined by the out-of-work benefit people are on and how long they have been claiming. Skills Funding Agency eligibility is mainly based on age, level of qualification, and other specialist training requirements.

The LGA believes there needs to be a fundamental change in how people can access support. Our aim is to make support more personalised. **In future we recommend access to support should be based on a needs assessment rather than which benefit is being claimed.**

The anchor of this new approach is **an assessment interview using a diagnostic tool**, which will personalise both the support to be given and the requirements on claimants. DWP is currently developing a diagnostic tool, similar to that used in other countries such as the Republic of Ireland and Australia. A single diagnostic tool should be used throughout England to ensure equity in how services can be accessed.

The outcomes of these assessments will quickly feed into local planning processes for local services – providing information on the extent and nature of demand. The most important assessment is when someone claims a benefit for the first time. This is particularly true for young people for whom more time should be devoted for the assessments.

The assessment will determine the extent of support that people might need to find work. Some people will require no support and will quickly find employment of their own accord. At the other extreme, there will be people with complex health and social problems that may mean that employment is a distant ambition. Those who are assessed as having sufficient levels of disadvantage will be referred to the new locally-led programme for disadvantaged people.

Finally, there is the question about access to services for workless non-claimants. This group has grown significantly in the past decade, so that now only half those that say they are unemployed are claiming JSA. Little is known about why people are not claiming benefits but say they are unemployed. The LGA's concern is that there will be people who could benefit from help to find work but are not eligible for it.

We recommend that BIS, DWP and the LGA jointly research the extent and nature of potential demand from non-claimant unemployed people and explore pilots to test appropriate services.

What services and programmes should be localised?

Our proposals will need to be considered in the light of the employment and skills proposals of the new government, however our starting point is that local areas should have the lead responsibility for support to the most disadvantaged claimants:

- all ESA claimants, both the Support Group and the Work-related Activity Group
- JSA 'early entry' – those judged to benefit from early eligibility to the Work Programme
- ex-offenders
- those families with multiple problems (including lone parents).

To make this work in practice requires deep changes as to how central government determines resources for this group and radical service reform at the local level. Critical to success will be how health-related funding can work together with back-to-work support, in particular for mental health.

In addition, we are recommending a new gateway to support is introduced based on an early assessment of need (see Access to Support). This would shift eligibility for support from which benefit is being claimed to one where individual circumstances are paramount.

Replacement for the Work Programme and Work Choice

There is a strong and growing commitment within local government to improve programmes for unemployed people. As we have argued, new groupings of councils are well placed to provide a new impetus across employment and skills provision and, ultimately, local areas want to have the freedom to determine the programmes best suited to their local economies.

As a first step local government wants to focus on where it can bring the most added value and demonstrate that improvements can be delivered.

We are recommending that the annual £620 million Work Programme budget⁸ is replaced by two programmes.

- **One for those who are mainstream long-term JSA claimants. This should as a minimum be co-commissioned between DWP and local areas.**
- **The other for disadvantaged JSA and ESA claimants to incorporate Work Choice and Access to Work. It should be fully devolved to those areas that are ready to design, commission and be accountable. As an absolute minimum, in other areas it should be co-designed and co-commissioned.**

Both programmes should be commissioned using the new groupings of councils, with expected performance levels adjusted to be appropriate for each area.

We must also ensure there is a strong provider market for employment and skills provision, and one that can face the future challenges of more integrated services, especially in health. There is considerable opportunity for providers to work more closely with local areas to improve performance.

⁸ Average annual cost since 2011. See 'The Work Programme', National Audit Office, 2014. Work Programme costs will vary according to the numbers joining and the level of job outcome payments.

Successful providers must be able to demonstrate their: depth of expertise in supporting disadvantaged people (especially those with health problems); strong supply chains (if relevant); and willingness to adapt to the needs of local areas through local accountability.

We also recognise that providers need some certainty and consistency in commissioning. This is one reason why more collaboration between areas is needed, not just on commissioning but also on labour market analysis and service reform.

Long-term JSA programme

This programme will cover the two largest payment groups on the Work Programme – 18-24 and 25+ JSA. Performance for both groups has been considerably more successful than ESA participants on the Work Programme. 31 per cent of JSA young people and 25 per cent of adults had a job outcome compared to 10 per cent of all ESA claimants.

However, performance can and should be improved, and local areas working collaboratively with DWP contractors can increase job outcomes. DWP could remain responsible for the commissioning of the programme for long-term JSA claimants but within a co-commissioned framework between DWP and local areas. DWP would take responsibility for the commissioning process. Local areas would provide input to the specifications and be involved in the assessment of bids and the appointment of contractors.

Some areas may want to propose, under their LLMA, that this programme is fully devolved along with the disadvantaged claimants programme (see below).

Savings can also be made with lower costs to deliver the programme and more JSA claimants leaving and staying off benefits for longer.

Many will still leave the programme without a job and, for some, it will be appropriate that they move onto the locally-led programme for disadvantaged claimants.

Disadvantaged claimants programme

It should be fully devolved to areas that are ready to design, commission and be accountable. As an absolute minimum, in other areas it should be co-designed and co-commissioned. The design of this programme should be firmly focused on how we increase outcomes for the most disadvantaged claimants, particularly ESA claimants. It should be designed to draw fully on existing provision with a strong emphasis on integrating health services. Including how health services, in particular mental health, can support the journey back to work for ESA claimants. This means that central government will also need to change.

The aim of the new programme is that local partners and national government will work together to develop new models for integrated support for people with disabilities and health problems, bringing together health, welfare benefits, housing, employment, skills and other specialist support. The expanded Troubled Families programme with 400,000 eligible families, demonstrates how local authorities, Jobcentre Plus and other partners can work together to deliver results.

Local areas would identify a ‘match’ contribution to the national budget – this does not necessarily mean financial – making transparent the contribution of local resources, which could include integrating services. A national framework for contract specifications should be agreed between local government and central government. This would set out the minimum service requirements that government expects and be agreed by the National Partnership. The LLMA then details the performance expectations and the financial deal, but with each local area having the freedom to design provision according to local circumstances – in much the same way that a Work Programme provider has the freedom to design provision. To enable this will require funding agreements which provide flexibility, upfront investment, and sharing in the rewards of success.

Short-term JSA

Jobcentre Plus (JCP) should continue to administer the mandatory regime for short-term JSA claimants but be better aligned to the needs of the local economy and employers. This should involve stronger partnership arrangements between local areas and Jobcentre Plus districts on the exchange of labour market information and job opportunities in the local labour market.

In general, job brokerage services delivered locally by JCP need to be reformed to improve how workless people (irrespective of whether they are a claimant) can find work and progress in employment. The level of information on local vacancies and improved job brokerage is central to an effective labour market, but too often JCP functions are now dominated by benefit administration.

JCP and local areas should have a joint responsibility to explore how job brokerage can be improved in their areas and to drive this. Local JCP performance should be shared and common delivery challenges identified for local partners. **We recommend that JCP performance should be measured by off-flows to sustained employment, in the same way as Work Programme contractors. In the future, especially with the wider introduction of Universal Credit, there should be more emphasis on wage progression for those who are in work.**

JCP currently uses 'Support Contracts' to increase capacity where needed and also has the Flexible Support Fund to commission projects at the local level. **We recommend that the Flexible Support Fund (which amounts to around £100 million per annum⁹) and Support Contracts are co-commissioned in line with local priorities ensuring that spending meets employer and claimant needs and delivers capacity where it is most needed.**

This collaboration could form the basis for a wider and deeper co-operation in how

job brokerage services are delivered at the local level. Many local areas have already experimented with co-location and, for example, JCP staff working with Troubled Families teams. Much more could be done by bringing resources together to provide a modern, well-informed, job brokerage offer to the unemployed.

We suggest that new local models of job brokerage should be explored combining the resources and labour market information from local partners, JCP and National Careers Service – working together to provide access to vacancies and careers, and referrals to skills.

Post 16 education

There is political consensus to deliver the ambitions of Raising of the Participation Age (RPA), and while local government has helped support a welcome increase in 16 to 19 year old engagement, there are concerns that post 16 education can do more to prepare more students for future learning or employment, preventing future disengagement.

Local government has the statutory duty to secure sufficient suitable education and training provision for all young people aged 16 to 19. **We are therefore recommending that as part of the negotiations for the LLMA, the Department for Education devolves the post 16 education budget from the Education Funding Agency to those areas that are ready to design, commission and be accountable for 16 to 19 provision.** In other areas it should be co-designed and co-commissioned using the new groupings of councils.

Completing the transfer of post 16 commissioning to local partnerships, as was the original intention of the Apprenticeship, Skills, Children and Learning Act, would enable local areas to address a number of challenges identified by Ofsted and others.

In particular it would resolve the implications of lacking local accountability to ensure the availability of locally suitable provision for young people, and the difficulties for

⁹ The latest published figure is £106 million for 2013/14 in response to a Parliamentary question.

individual schools and colleges to coherently engage local employers.

There is a considerable opportunity for councils to enable a strong provider market while supporting collaboration to meet employer need across an economy, and to deliver longer-term ambitions for young people increasingly using destination measures.

In combination with the local Youth offer, partners across local areas will be able to collectively ensure young people are presented with course and learning options and impartial advice and guidance to make positive choices for themselves, and employers.

Youth offer

There is increasing cross-party agreement that reform is needed for young people's benefits and support. Our proposal for a new offer to young people is based on the introduction of a new Youth Allowance for 18-21 year olds (or 24 depending on the decisions of the new Government), ending their entitlement to Jobseekers Allowance.

The detailed design of a new Youth Allowance will be an early task for the new government, however our assumption is that it will be conditional on participation in education, training and/or employment programmes.

As a basic principle of the design we recommend that the objectives, administration and payment of a Youth Allowance be set and managed nationally, but support for individual young people is planned and delivered locally by local areas and JCP.

This is why we recommend a new Youth offer enabling all 14 to 21 (or 24) year olds to access independent careers and employment advice and work experience while in education and training. Those in work would continue to benefit from independent careers advice. It would also guarantee every young person not learning or earning, support into training, an apprenticeship, or sustained employment.

This national commitment would be achieved through a single youth offer organised locally to:

- support the Raising of the Participation Age (RPA) by working with schools to provide all students with impartial advice and work experience, identifying and supporting those students at risk of disengaging, and requiring disengaged 16 to 18 year olds to participate in local re-engagement support
- maximise the amount of time young people spend in employment and with appropriate training to improve qualifications, commissioning services for young people based on sustained employment, reducing 'churn', and substantially reducing the numbers not in employment or training
- guarantee a work placement or subsidised job for young people that are not in education, employment or training after six months, working with local employers to create appropriate opportunities.

All those working with young people (particularly councils, schools, colleges, learning providers and the voluntary sector) would form a partnership to deliver the local youth offer. The youth offer would be negotiated through Local Labour Market Agreements, with funding and responsibility devolved to local areas and JCP Districts to achieve an agreed set of outcomes.

The youth offer would be branded and delivered independently of the adult welfare system and each area could choose to brand their services differently. The new local youth offer partnership would gather information (building on existing Individual Learning Records) on each young person's education, training, employment and wider circumstances, using it as a basis for investment decisions.

It would be funded from existing budgets for under 21s, including a proportion of JCP, the Work Programme, the Adult Skills Budget, apprenticeships, and national youth re-engagement programmes.

The partnership would also co-ordinate the planning of provision for disadvantaged students, such as that funded by the pupil premium and bursary fund.

Building on the learning of existing local initiatives, such as Greater Ipswich MyGo Programme¹⁰, new partnerships can quickly be up and running incorporating the strengths and resources of the public, private and voluntary sectors.

Adult skills

There remains a lack of integration between local employer demand for skills, post-16 education and training, employment programmes for the unemployed and adult skills training. More can be done to align education and skills funding to respond to skill gaps and shortages, the demand for higher skills, and incentivising more in-work training – all essential for boosting growth and productivity.

Current funding for the Skills Funding Agency 'Adult Skills Budget' has been criticised for not being sufficiently focused on job outcomes for learners. The Adult Skills Budget covers all those over 19 years old. Consequently, with the introduction of the Youth Allowance, there may need to be some re-alignment of priorities and funding mechanisms.

As part of the negotiations for the Local Labour Market Agreement (LLMA), **we are recommending that the £2 billion¹¹ Adult Skills Budget should be devolved to local areas** who will work with local employers, local authorities and local training providers to ensure it is geared to the needs of employers and driven by securing job outcomes and progression for workless people, especially young people.

The Adult Skills Budget for 2015/16 has seen a 25 per cent reduction with potentially significant implications for colleges, training providers and learners – making it all the more important that the budget is highly targeted on the needs of local employers and learners.

There are potentially considerable gains from a devolved budget:

- it can be fully aligned with current priorities for skills training
- more influence by local businesses to help shape the provision of training
- it can be planned alongside ESF skills training provision
- a locally appropriate balance between training for young people on Youth Allowance and those above the eligible age range
- payments for training can be geared to local targets for securing sustainable employment and not just qualifications.

The planning of local integration of employment support and skills training can bring more efficiency and effectiveness to both budgets – improving outcomes for workless people and improving the impact on the local economy.

In addition to the Adult Skills Budget, the government should encourage local areas to explore how further flexibilities can improve local integration, such as how priorities for post-16 education are determined, how Apprenticeships can be further boosted, and by allowing local variations in the 24+ Advanced Learning Loans.

¹⁰ See www.its-mygo.co.uk

¹¹ See Secretary of State grant funding letter for 2015/16 to the Skills Funding Agency

Universal Credit: local support

The 'Universal Support delivered locally' pilots are currently exploring the effectiveness of locally planned and delivered support for money management and digital capability. Both of these are critical for claimants to cope with two of the main changes introduced with Universal Credit – housing costs paid to the claimant and most claimant processes on-line.

However, local authorities have also had to respond to the impact of wider welfare reforms. In simple terms, the majority of the reforms have entailed a reduction in the welfare payments, founded on an assumption that households will make up the shortfall through employment. Local responses have involved both an understanding of the impacts in their local areas and also putting in place appropriate policies, advice and support. The continuing impact and further welfare reform will mean a consistent need for local support. This will particularly be the case for those claimants who are at risk of multiple welfare changes or who are in crisis for whatever reason.

The overarching aims of Universal Credit (improved employment incentives, simplification of the benefits system, and supporting self-reliance) are about delivering improved outcomes for claimants, not just about administering a new benefit. To achieve these aims for the most vulnerable will require an on-going framework of local support to help people find work and progress in work.

Local services which provide advice, referrals, housing and emergency financial support will continue to be needed and are best provided at the local authority level. However, many of these services have a direct impact on people's ability to sustain and progress in employment or training, and are pertinent to how employment and skills support is also delivered. Indeed, with Universal Credit there should be no distinction between how claimants are supported in their claim and the main message of 'making work pay'.

Significantly increasing the extent of co-location of existing Jobcentre Plus services and local services would lead to improved harmonisation and major efficiencies in the use of premises.

Underpinning this there need to be arrangements for more effective data-sharing.

Encouraging progression in work is also part of the aim of introducing Universal Credit. UC is intended to incentivise those who are in low paid work and receiving UC to increase their hours of work and/or increase their pay by moving to a better job. Increasing progression in the labour market cannot just be left to the individual – some will need support if they are to benefit and move out of poverty. This will require re-thinking how some existing services to unemployed people are delivered and their eligibility.

We recommend that local and central government work together to design a local service that provides personalised support to those UC claimants that need it and which is fully integrated with our proposed programme for disadvantaged people.

We recommend that DWP and local areas jointly explore the effectiveness of services that will support the progression of people in low paid employment, with the aim of moving families out of poverty.

Risk and reward

Even if local areas are successful at reducing the number of claimants, only 7p in every £1 saved is retained locally. This provides little incentive for local government to invest, reform services or improve performance of local partners. A direct financial incentive could make a significant difference, but local government also recognises that 'risk' must be shared as well as 'reward'.

Any 'risk and reward' settlement will need to be kept simple and transparent. As a starting point a deal should only apply to ESA claimants, as there is a much clearer connection between what is done locally and changes in the number of ESA claimants. It could also be explored for long term JSA claimants – rewarding local areas for stimulating more jobs and tackling disadvantage.

At its most basic we envisage each local area agreeing with DWP (as part of its LLMA) the baseline position of ESA and where it would expect to be in 12 months time. If the numbers are less at the end of 12 months then the benefit savings are shared 50:50. If the numbers are greater, then the additional benefit costs are also shared but with local partner investments taken into account (to prevent any disincentive to invest).

Potentially, this could be a powerful incentive for local partners to offer more services to all ESA claimants, and not just for new ESA claimants as is currently the case. Local areas could be increasingly ambitious if the level of reward was escalated according to impact. The more successful a local area is, the larger the reward. It is this sort of deal that is needed to kick-start reform in the support we give to people with disabilities and health problems on ESA. As such, this deal should be open to all local areas that wish to commit to ambitious reform.

We recommend that a new 'risk and reward' financial package is jointly explored, with proposals to be sent to Ministers by early 2016.

Next steps

We, central and local government, have a unique opportunity to make the employment and skills landscape more effective and easier to understand.

The recommendations set out in this report represent the foundation for reform, and recognise all local areas believe much more can be done locally. Evidently this will mean different things for different places. It sets out our minimum expectation to improve services for all areas and also creates the space for those who have already made great strides in devolved powers, and who wish to rightly go further.

We want the Government to give this serious consideration. If it adopts our recommendations, our proposal represents a significant step forward to improving economic growth, increasing opportunities for local people and reducing poverty. Our offer is clear. Local government is committed and ready to work in partnership with an incoming Government to design the detail for what is needed to achieve this.



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