



## Economic Affairs Committee

### Corrected oral evidence: Economic inactivity: welfare and long-term sickness

Tuesday 3 December 2024

3 pm

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Members present: Lord Bridges of Headley (The Chair); Lord Blackwell; Lord Burns; Lord Davies of Brixton; Lord Lamont of Lerwick; Lord Layard; Lord Londesborough; Lord Razzall; Lord Rooker; Lord Turnbull; Baroness Wolf of Dulwich.

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Questions 104 - 124

#### Witnesses

**I:** Alison McGovern MP, Minister for Employment, Department for Work and Pensions; Tom Younger, Deputy Director, Labour Market Analysis Division, Department for Work and Pensions; Shaun Butcher, Deputy Director, Disability Analysis Division at Department for Work and Pensions.

#### USE OF THE TRANSCRIPT

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## Examination of witnesses

Alison McGovern, Tom Younger and Shaun Butcher.

Q104 **The Chair:** Good afternoon and welcome to this hearing of the Economic Affairs Committee, where we are looking at inactivity and welfare. It is very timely today, given the publication from the ONS of LFS statistics this morning. Maybe before we go on we can get some introductions from our witnesses. Minister, would you like to introduce yourself and then your colleagues from your department?

**Alison McGovern:** Good afternoon, everybody. I am the Minister for Employment.

**Shaun Butcher:** Good afternoon. I am the lead analyst covering disability benefits.

**Tom Younger:** I am the chief economist and lead analyst for labour markets at the DWP.

**The Chair:** Thank you very much for coming in. Welcome, Minister. Is this your first time coming to give evidence in the Lords? I think it might be, or is it?

**Alison McGovern:** It is actually my second time in two weeks.

**The Chair:** We are very lucky. Thank you very much.

**Alison McGovern:** Last week I was lucky enough to give evidence alongside Baroness Smith, the Skills Minister, so that was a good opportunity to learn.

**The Chair:** You are very welcome. Thank you for sparing the time. There is a lot to get through. We will try to keep it to two hours as I am sure that you are busy. Can I start off with a big issue question? It flows from today's publication from ONS. We were chatting about this before you came in. The statistics around the Labour Force Survey seem to be in a complete mess. I am finding it very difficult to establish fact from fiction.

I note that the Resolution Foundation has put out a statement saying that the LFS "currently presents a misleading picture of UK labour market trends, and is not fit to be used for critical decisions like setting interest rates or making fiscal projections". It is right, is it not? We are navigating through a very difficult policy framework blind, are we not? I am trying to establish how you can make decisions, given the dodginess of these statistics.

**Alison McGovern:** It is very worrying. In a former life, I was lucky enough to serve on the House of Commons Treasury Select Committee. I thought then that we perhaps did not have the good enough range of statistics that we might want in an ideal world. Things have probably got worse, not better, since then. I would share the views of the Governor of the Bank of England and the OBR as to the things that we need to improve. I will ask Tom in a moment to talk about our approach to

working with the ONS, but I certainly think that this is not the situation that we want to be in.

I ask myself what the DWP can do, alongside working with our colleagues in the ONS. Alongside the *Get Britain Working* White Paper, we published some new data for the first time. That is operational data that we hold, which will help shed more light on what is happening with the labour market. While the Labour Force Survey is a very important source of information about the UK economy, it is not the only source of information that we have. I am anxious and enthusiastic that the Department for Work and Pensions uses its own operational data to inform discussions as much as we can. Alongside the White Paper, we published an evidence annexe, which listed some new measures that we have developed. I feel that we can do more ourselves to get underneath some of the problems that we have been experiencing.

**The Chair:** Can I ask something before you bring in any of your colleagues? The Resolution Foundation—and indeed Huw Pill, although Huw Pill was not quite where the Resolution Foundation is—was saying last week that the true rate of inactivity is considerably lower than in current estimates. Is that right? Do you share that view?

**Alison McGovern:** The Labour Force Survey is the official statistics. I have been looking at the revised numbers that it has put out this morning. I asked myself, “Is our strategy that we spelled out in the White Paper wrong?”, given the commentary, some of which you have mentioned, or revisions. I do not think that it is. The problems of inactivity and the consequences for the health of the nation’s economy are big, and our approach to try to tackle those and get underneath them is broadly still the right one. As ever with data, you are constantly trying to refine, understand and check back. Tom, is there anything else that you want to say?

**Tom Younger:** No, I do not think so. We would agree with the broad thrust of the Resolution Foundation report. We think that the LFS has been underestimating employment and therefore probably overestimating inactivity. I am not sure that we quite agree with the scale of the Resolution Foundation. It thinks that employment is underestimated by a million; we think that it is a little less than that. There may be some double counting in its work around self-employment and employment, for example.

The ONS stats that were released this morning have put the LFS much more in the ballpark of where we think it should be. There are still some questions about very recent trends around employment. We would read into the HMRC Pay As You Earn data that employment is probably falling in the country at the moment, whereas the LFS suggests that it is increasing. It is that cross-checking with admin data that we have been doing a lot more of recently, which is really important to us.

**The Chair:** It is not ideal that we are in a situation where they are saying this morning that it is not until 2027 that we are going to have the new—

**Alison McGovern:** It is not ideal. I would very much agree with it being not ideal. That information has just come to light. We will be having more conversations about it across government. Our job in the DWP is as Tom has described it, which is to try to use our own data to check and reflect, and for the analytical purpose that we need it for, which is to help check that policy strategy is the right one.

**The Chair:** Am I right that the Bank is conducting its own data analytics around all this to come up with its own view? I am trying to look at the different branches of the state. You are all having to make very big decisions that affect all our lives. I am trying to understand who is trying to get to the truth behind this in quick time. We cannot wait until 2027 for this to happen.

**Tom Younger:** We have a lot of conversations with Bank officials about what we are seeing in our data. They will have access to the HMRC data themselves. We talk to them a lot about what we are seeing within our universal credit data. The Minister has recently published a lot more of that, which will be helpful. I know that we have an ambition to publish even more in order to inform this public debate. We are joined up. The view that Bank officials take when they are advising the Monetary Policy Committee is very much the line that the ONS has put out in the public domain that the LFS at the moment, unfortunately, needs to be treated with a huge amount of caution. We are looking much more at these other admin data sources.

**The Chair:** I am sorry to interrupt you. Behind the scenes, is there a different sense of what is going on from what is being published this morning? Is there a dramatically different sense of what is going on or just a different sense? Are you all operating off a different set of data from that that is published and in the public domain?

**Tom Younger:** I would not say materially so, no.

**The Chair:** Is it a bit different?

**Tom Younger:** Yes, a little bit. Certainly before this morning's reweighting we probably were a little bit further away from where we are now. The work that the ONS has put out today is helpful. It needs to keep driving that response rate for the LFS. It has told us that it expects the LFS to be in much better shape by May 2025, next year. That is still six months off, so, as the Minister says, we are not happy about that. We are certainly trying to do everything we can to support the ONS to improve the Labour Force Survey as well as the transformed Labour Force Survey.

**The Chair:** Can we then start to zero in on inactivity, rather than the nightmare of the statistics, which we will probably circle round and come back to? In your view, what is the main driver of the number of people who say that they are economically inactive, given the statistics? What can we be sure about here?

**Alison McGovern:** We can be sure that we have a problem with economic inactivity. We definitely know that we have rising levels of ill health and it seems that the two are connected. Without getting back into the specifics of the LFS, we have more people who are economically inactive and it seems that there is a significant upward trend that is related to health.

There is another feature that is very important, which is geography. The pattern of ill health in the country seems to correlate with the patterns of economic inactivity. We know from lots of different aspects of the UK economy that different features tend to cluster geographically. That was why, in publishing the White Paper, we were keen to get underneath this. If you look at the pattern across the regions, you see that the difference within regions can be greater than the difference between regions.

Alongside the White Paper, we have published a typology of labour markets that we see across the country so that we can identify geographically where we have the most problematic pockets of inactivity. They are what I think of as poor-performing labour markets. That is clear because, whatever challenges we have with data, we have a lot of evidence over the geographic clusters where we have had economies that have not worked for a long time.

Those two things, health and geography, are clear. We may find out more as we get improved quality of data or use other datasets. In using those features in driving our strategy, on balance, those are the right causes to look at.

**The Chair:** We are going to come back to the points on the NHS in a moment.

Q105 **Lord Blackwell:** Minister, I would like to dig in a bit to some of the things you can identify from your department's data. One thing is that inactivity is rising. We know that it is very different if it is transient unemployment from when people are out of work for, say, two years, when it is much more difficult. Are you able to identify from the figures you have how much of that rise in inactivity is long-term inactivity, as opposed to people moving in and out? The figures seem to suggest that it is becoming more and more difficult for people to move back into the labour force.

**Alison McGovern:** Yes, that is right, and sadly so. At risk of sounding like a broken record this afternoon, it was why I was keen that we publish the groups of people on social security by work activity. We find that, where people are in the "limited capability for work-related activity" group—so in other words they are not working and not preparing for work—the pace at which they are moving out of that group is very slow. People are, largely, staying in that group. Our groups of people in the labour market are very sticky. That is a really important challenge to grapple with.

**Lord Blackwell:** Are you, or is your department, able to put a number

on, out of the total unemployment, how many are unemployed for, say, over two years?

**Alison McGovern:** Yes, I am sure we can.

**Tom Younger:** We have published information in terms of those who are unemployed and in the "searching for work" group by duration. The Minister there was talking about people in the "no work-related requirements" group in universal credit. We have published information on that in the analytical annexe to the White Paper. That shows that 90% of those in that group are still there after six months. If you look at May of this year, 90% are still there now. I will find the figure in a moment for the duration of people on benefit. Just under 40% of people in that "searching for work" group have been there for a year or more. That is the more unemployed part of the UC case load.

**Lord Blackwell:** It is fair to say that the problem we are facing is one of more people out of work for a longer time.

**Alison McGovern:** That is right. We have people out of work for a long time. In some parts of the country, people are out of work for a long time and the place where they live has low demand for employment, so it is not a good position to be in.

**Lord Blackwell:** We also know, and you alluded to this, that a significant proportion of those people are now out of work because of long-term sickness.

**Alison McGovern:** That is right.

**Lord Blackwell:** I think that the number of people who are inactive because of long-term sickness has gone up from close to zero to 800,000 over the last five years.

**Alison McGovern:** Do you mean people who are economically inactive and long-term sick?

**Lord Blackwell:** Yes.

**Alison McGovern:** It is about 2.8 million. There has been an increase of about 700,000 economically inactive since the pandemic, but overall it is about 2.8 million.

**Lord Blackwell:** Do we know whether those are people who were working, became sick while they were working and moved on to sickness and then long-term sickness, or whether they were people who were unemployed or inactive and then became sick?

**Alison McGovern:** The majority of people were already inactive and are now sick, and face more than one barrier. It is not just a health barrier. It is other things too, such as educational qualifications. As I mentioned just a moment ago, it is also perhaps the state of the local labour market where they are. In dealing with this problem, it is no good just thinking

that there is a policy lever you can pull and, hey presto, it will be fixed. Some of these are very long-standing, ingrained problems in the British economy. There are definitely things that we can do to help make things better in a shorter timeframe, but we have to accept that some of the challenges and barriers that people are facing have been a long time in the making. We have to have a strategy to stick with this for the long term.

**Lord Blackwell:** If the majority of people are unemployed or otherwise inactive, and then move on to long-term sickness benefit, there are two possible causes of that. There may be others. One cause is that the period of unemployment causes or is a contributor to the sickness. The other contributing factor may be the fact that benefits are substantially higher if you claim sickness benefit than if you simply claim unemployment benefit. Do you have a view on which of those is the major contributor?

**Alison McGovern:** I do. Let me take the second one first, if that is okay. There is clearly a problem with the situation we are in now, with social security benefits and the changes over the past decade or so that have made it more likely for people to get into that stuck position. You will know that the OBR did some analysis of this. Shaun might want to come in, in a moment. It did some analysis of this problem, which we helped it with, but we should have our own analysis of this problem.

The idea behind universal credit was that it would facilitate people moving into work. I am not clear, from looking at the data, that that has happened sufficiently well. We will need to think about what we can change so that those things that have not worked in the way that perhaps they were intended or expected to can be looked at.

It is definitely the case that the gap between being in the old JSA unemployed bit of the system and the ill-health "limited capability for work-related activity" group has widened. There are a range of reasons for that, not least the decisions taken by a previous Administration on the value of social security overall, but we now have to address it. I will let Shaun say something on that in a moment.

On your other point about whether there are other things too, I mentioned some of those barriers that are really important, such as the skill level people have limiting their options. Something I hear from work coaches in jobcentres a lot is about digital skills and the need for them to help people with quite simple digital skills that are really wanted. People often come into jobcentres saying, "Can you help me get an email address?" It is really wanted to help people not just find work but also do other things in life. Basic barriers such as that are also really holding people back. None of these things is either/or. It is all together. It is a really significant challenge. Shaun, was there something you wanted to say on the analysis of that problem?

**Shaun Butcher:** In terms of the various factors that are influencing the growth in sickness benefits relative to other areas, it is very difficult to

unpick particular factors because everything is happening at the same time. There are very few situations we have ever had where one thing changes and you can identify, "There is an impact from that". In terms of financial incentives, we know they impact from changes made in 1995, but we have not done anything since where nothing else has changed.

The OBR and other witnesses to this committee have already talked about the financial incentives. There were two main things that changed. For the "limited capability for work" group, so those who are expected to undertake some work-related activity, the additional amount that they got was abolished in 2017, so they had no difference in benefit from unemployed jobseekers.

For those in the "limited capability for work-related activity" group, the equivalent of the support group in employment and support allowance, the simplification involved in universal credit effectively pushed up the amount available to some people and reduced it for others, with the effect of, nowadays, having an additional amount that is bigger than the basic amount available if you are just out of work and actively seeking work. Those incentives are quite powerful, as others have suggested, but you could not identify what the impact of that is, because it builds up along with a load of other factors that have influenced the rise in claims for health and disability benefits over the past five or so years.

**Q106 Lord Turnbull:** I would like your comment on the accusation that the policies and operations of the DWP itself are a major contributor to the problem and have made a lot of things worse. It runs a two-tier system. It has a low-benefit, high-conditionality system and then there is a more generous system with lower conditionality once you get on it, creating opportunities for arbitrage. In actions, it then tries to address this by tightening up the conditionality, thereby increasing the incentive to get out of that system on to the other one.

With increasing case numbers, it is going more and more to digital, non-personal contact ways of dealing with the problem when, in the long term, it may well be better to do exactly the opposite. In this way, the accusation against the department is that, as the circumstances have changed, it has not changed the way it operates the structure of benefits anything like quickly enough to cope with it and that, while that is going on, it is actually making things worse. That was not necessarily all on your watch.

**Alison McGovern:** I was going to say, Lord Turnbull, in so far as you say that it is the DWP that has done that, I feel like I am still just about within my time where I can blame the last lot, but not for much longer. Let me come to the substantive point, as much as the tribal politician in me is bursting to get out. On the first point, the point that you made is exactly the one that I was referring to with the bifurcation of groups of people and that hardening of the division and therefore making the situation worse. That is the question we were just discussing.



You also talk about, for those people who are in what is currently referred to as the intensive work search regime, whether that is also a problem. My opinion on that, particularly from talking to work coaches, is that appointments with an unemployed person that are largely there so that they go through the sausage machine of the process, rather than having a human interaction with somebody who is there to support them, are not really worth while. The change that we describe in the White Paper, building towards a national jobs and careers service, is designed to try to change that and do it differently.

This is where I would come to your second point about digital versus face to face. We know that the success of work coaching is the relationship between the person and the person who is coaching them. I have met work coaches in jobcentres who wanted to do that job because they had sat on the other side of the table. They know what it is like. They want to help other people. It is that person-to-person relationship that can really help with those people who have lost hope for a long time. It takes more than a 10-minute appointment and it needs to be more about that person, their thoughts, their ambitions and the real barriers they have faced, and less about box ticking for the sake of it.

On the digital approach, I do not think that the DWP at the moment is doing enough to provide a digital customer service. If I think about my own experience in getting the NHS app during the pandemic, or the HMRC app now, which is really not bad, we could do more for those people who are using digital all the time and who bank on their phone. We could do more to offer them a better quality of digital public service. In doing that, we can free the time so that we can spend more quality time with the people who will really benefit from face-to-face work coaching.

**Q107 The Chair:** Minister, can I jump in? I am so sorry. We are going to come back to this in a bit and we will give you a lot more time to talk more about it, because it is something we are very keen on coming to. Sorry, Lord Turnbull, but I wanted to stay on the data point. I definitely want to come back to that, so we will have time for it.

Before I turn over to Lord Burns, we have been talking for about half an hour. As we have been speaking about this subject over the last few weeks, there seem to be two main trains of thought about to explain what has been going on. One is that our health has got worse and the other is that the benefits system, as per Lord Turnbull, has been working against people or enabling something to happen to see this rise in incapacity benefit case load.

What I want to put to you is this. You have referenced the OBR. The data from the OBR shows that the rising case load since 2018-19 appears to be caused not by initial claims, as you would have thought it would be if it was caused by health getting worse, but by a falling drop-out rate and a rising approval rate. Does that not stand up to what I have just said—that it is not necessarily health, although health may be a factor here, but it is, as Lord Turnbull is saying, the process, be it in terms of the

structure of benefits or other things, that has led to this very sharp rise in the incapacity benefit case load?

**Alison McGovern:** The current system does not work. It does not work for anybody, for the reasons that I have mentioned already. Universal credit was supposed to be designed as a system that would strongly incentivise work and it has turned out not to do that. There is the headline rate issue and there are also some process issues.

**The Chair:** My point is not just why. It is "What is driving this?" It therefore would not necessarily be said to be health. It is something else.

**Alison McGovern:** I am going to bring Shaun in. I do not have any problems with the OBR analysis. It is really important and we want to address these issues as we move forward towards the health and disability Green Paper. We are thinking about these issues all the time and want to move forward on them. Because of these issues that we have with data, it is really important to me that we get it right. Do you want to comment on the structure of the problem and what we are going to do to get underneath exactly what it is?

**The Chair:** What are the drivers of the problem?

**Shaun Butcher:** To pick up on health versus the system, the number of disabled people self-reported is up by about a quarter in the last five years and about half of that over the previous five years, for example. Those are stock figures. That is still consistent with a fairly constant flow of people into ill health. It is just that the flow out is always a lot lower. You see the same in the benefits system.

The measures we have in terms of universal credit, and employment and support allowance before it, are hampered, in a sense, by the fact that universal credit is very different and brings together six different benefits from the legacy system, so we measure things in different ways. Quite a lot of the increase in universal credit health is likely to be because we have brought on people with housing benefit, child tax credits and so on who, for one reason or another, may not have qualified for ESA due to, for example, partner's income, an occupational pension or other reasons such as that. We will be doing some work to try to unpick that and model that in our data to see how much that is contributing to the increase.

Others have mentioned demographic change and the ageing of particularly the 1960s baby boomers, which is quite straightforward to do. The population figures have recently been updated, which we can reflect. Then there is roughly 10% or so that comes from raising state pension age as well. When we identify what we can that comes out of the structure, we will then be left with something for which we can say, "This is the true growth".

**The Chair:** Is that data public, or could you send it to us?

**Shaun Butcher:** It is not finished. It is work in progress at the moment. The intention is to then publish.

**Alison McGovern:** I would be very happy to write to you when it is published. It is important to understand this. In shifting to universal credit, we have had some movements that are to do with the structure of benefits themselves. It is important to be specific about that in addition to the other problems, so I would be very happy to write to you.

**The Chair:** That would be very kind. Thank you very much.

**Lord Blackwell:** One critical analysis that might throw light on this would be if you could look at the percentage of those who are inactive who in a year move into long-term sickness, versus the percentage of those who are active who in a year move into long-term sickness. If it was a health problem, you would think that the proportion of people who got ill would be the same in the workforce as in the non-workforce. If it is a benefit-related thing, the proportion of people who become ill and claim illness benefits because they are inactive or while they are inactive will be much higher than for the workforce as a whole. The comparison of those two figures might be quite revealing.

**Alison McGovern:** We probably have that. I will send that information in writing, if that is okay.

**The Chair:** I am going to move on to Lord Burns. I think that we are going to pick up on what you were talking about, Shaun, in just a second.

Q108 **Lord Burns:** I would just like to follow up on some of this. I very much welcome the point that you made at the beginning about how far we might be able to use operational data to help answer some of these questions. The Chair has set out, in a way, the way that our thinking has moved as we have gone through this inquiry, with more emphasis on things such as the structure of benefits and the journey that people are going through in moving from being inactive or unemployed and then into the sickness benefits. How far do you think that there is data that can help throw light on this. By looking at the inflows and outflows to these different categories, what are the journeys that people are on as they move?

**Alison McGovern:** Perhaps I might make a slightly broader point first, if it is okay, Lord Burns. If we are thinking about this survey data versus operational data question, in a way this is quite an old debate in employment. The reason why we use the ILO measure of unemployment rather than the claimant count is that Governments can do lots of different things that affect the operational data and provision of social security benefits. That may or may not be directly related to an economic phenomenon that is happening at that point in time. That is exactly this question that we are just discussing and Lord Blackwell's question to me just a moment ago. To what extent is what we are seeing in the operational data a reflection of economic phenomena, or is it endogenous to the system of social security, if you like? This is an old debate, in a way.

As a politician, I would like both, please. You want really good-quality survey data, and we have real-time information as well now from HMRC to add to that picture. You want really good survey data so that you can judge what is going on and you want to be able to see what is going on very quickly in your social security system, which requires good analysis and good operational systems as well. We want both.

To what extent do I think we can add to it? We can, but we just need to be clear what it is for. You can have an abundance of data and no story about what it is telling you. My personal view on how we should approach this problem is that we know that, in parts of the United Kingdom economy, we have very long-standing areas of high economic inactivity, high ill health, poor functioning labour markets and low pay. That requires a plan to turn such a place around, which is why in our White Paper we suggest that we should have "get Britain working" plans, so that we can try, specifically for those places that have had really poor-performing labour markets for a long time, to figure out a way to address these barriers together. The data is crucial, but you cannot just have that. Do people say "analysis paralysis"? Forgive me if that is cheesy management-speak, but it is not just the data. It is the story that the data is telling you.

**Lord Burns:** When you say that it is the story that the data is telling you, it is then the conclusion that you reach from it.

**Alison McGovern:** Yes, and it is the action that you take.

**Lord Burns:** In one story, this is all a problem of ill health, and the emphasis is on the NHS and how we can improve people's health. If the story is about a dysfunctional incentive structure within the benefits system, the answer is a very different one. We now have this real-time data from HMRC. I was probing how far we can use real-time data from the benefits system to throw more light on which of these stories we should be concentrating on.

We are all hoping that there are going to be changes and improvements to the NHS. Is that really going to make a difference to the level of inactivity? It seems to me to be a major question in terms of how much emphasis we give to this. The OBR suggested that getting down waiting lists might not play much of a role, but nevertheless it is still quite an important part of NHS strategy.

**Alison McGovern:** I would make two points in response to that question. The first is that I do not think that it is entirely unrelated. I have already mentioned the clustering effect of ill health and poor economic outcomes that has existed for a long time. We also know that 33% of those who are of working age and economically inactive are waiting for NHS treatment, compared to 19% of those in employment. These are correlations. There is some connection there. In any case, the public appetite for the NHS to be doing better is quite high.

**The Chair:** I accept that. Minister, to be clear, the OBR is very precise. It

says, "We estimate that halving the NHS waiting list over five years ... would only reduce working-age inactivity by around 25,000". Do you accept that figure?

**Alison McGovern:** One of the analysts might want to comment on the specifics. I am not an analyst myself. The OBR has done the numbers.

**The Chair:** This is exactly what Lord Burns is getting at. It will have an impact on the health of the population, but in terms of this policy problem the OBR would say that it is at the margins.

**Alison McGovern:** On waiting lists, the point that I was making is that there are some correlations that make you think. I do not know what the particularities of that OBR analysis are. However, we know that there is some connection. In addition to that, it is not just waiting lists that are the problem. The referral-to-treatment waiting list—the thing that we count—is not the only thing that we need to help support people with in order to have better health. In our White Paper, one thing that we want to work on is how our jobcentre work coaches can work much more closely with primary care in GP surgeries to make sure that people have appropriate occupational health. You would not be on a waiting list for those sorts of things, but they are none the less important.

This is a complicated picture. There is the possibility of the health input as a problem. There are also broader cost of living issues that people have experienced very significantly over the past decade, which have played a role in people's ability to move on and do new things. We are having to tackle it all together. This is why we have established these trailblazers to examine the situation in reality and, over the next year, untangle some of these problems on the ground and come back with some further conclusions, not because we are not doing anything else other than the trailblazers but because we really want to try to get underneath this problem.

**Lord Burns:** The problem is well known about correlation. You never know which direction the correlation is working. You pointed out that inactivity and rising ill health go together.

**Alison McGovern:** They go in both directions.

**Lord Burns:** Is it the inactivity that is driving the ill health, or is it the ill health that is driving the inactivity? I do not want to pursue this too far. I understand the problem about paralysis of analysis, but we have found ourselves, as we have gone on with this inquiry, in a position where the story has become very difficult to unravel. I am looking to you as to how far the operational data can throw more light on this problem than we currently have.

**Alison McGovern:** It can. I keep asking those questions internally. My determination is that, when we have information that we believe is sufficiently good quality that it should be published, we ought to do so. I know that this committee previously, in your *Where Have All the Workers*

*Gone?* report, interrogated some of these questions. That was certainly very helpful to me in opposition in thinking about it. We all need to be up front about the challenge on what we know and what we do not know, but also trying to have transparency so that we can have a public debate about what is going on. The DWP can be a part of that and publish what we know.

Q109 **The Chair:** When you say in paragraph 10 of the White Paper that you are going to “Support the NHS to provide 40,000 extra elective appointments each week”, that is great. Then the OBR tells us that “The inability to look at UC work capability assessment (WCA) decisions or caseload data by primary health condition—the predominant condition a claimant first presents with—severely limits our ability to analyse trends in conditions over time”. Put those two facts together. How are you going to be allocating these resources to provide these elective appointments to get to this IB case load if you do not know what people are suffering from?

**Alison McGovern:** That is a really good point, which I am going to throw to Shaun, because it is to do with the way that the universal credit data is structured. Do you want to comment on that? I can say what we have done to try to get over that feature.

**The Chair:** Great, let us hear it.

**Shaun Butcher:** That is a feature of the universal credit system, and quite a frustrating one, although having all the conditions that people have is also very important, given that three-quarters have more than one. With the work capability assessment, while it continues, I think that that still allows us to identify a primary condition, because that is what the assessor will record. There are also things you can do with other data. It will not cover everybody, but we have personal independence payment as well, which has about a two-thirds overlap with the universal credit and ESA health people. You can use data in imaginative ways to help.

**The Chair:** I am sorry to interrupt you, Shaun. I am conscious of time. If you are looking at, say, the top NHS trust by inactivity, are you able to say, “We now have these case loads for those who are inactive in that NHS trust area. We know that their primary condition is musculoskeletal so we are going to spend a lot more on physiotherapy in that NHS trust”? Can you do that?

**Shaun Butcher:** Not at the moment, no.

**The Chair:** How are you going to allocate this money?

**Shaun Butcher:** The advantage of universal credit is that it picks up every condition, or a wide range of conditions, that people might have. If you look at ESA data, from a few years ago admittedly, about half of the people had a mental health condition as a primary condition and I think that it is about 12% had musculoskeletal. If you wind that forward to universal credit now you find that, where it is recorded, I think that 85%

have mental health issues and around half have musculoskeletal. You are picking up a lot more of the barriers that people might face.

**The Chair:** I hear that. It would be very good to get any more data. I do not want to labour the point; I am just trying to understand. It is very clear in this paragraph that you are going to be targeting 20 NHS trusts.

**Alison McGovern:** Can I just come back really quickly on that? How health spending is allocated and the clinical decisions are for the NHS. We have tried to work very closely with our Department of Health and Social Care colleagues, to show them where we know we have the biggest problems in economic inactivity and to work with them to help them shape what they are doing. We are at the beginning of this journey. We have more to do and we have the trailblazers there to try to test how this works in practice. The NHS decisions are for the NHS.

Q110 **Lord Londesborough:** Following up on the issue of the role of the NHS in relation to reducing inactivity and these regional trailblazers that are mentioned in the White Paper, I see that there are three regions that are going to get £45 million of extra NHS funding. I am wondering whether any thought has been given to targeting NHS resources towards the fastest-growing group of inactivity in terms of long-term sickness, which is the 16-to-24 age cohort. That is a national, not just regional, issue.

That is particularly in terms of ROI, because the cost of having someone long-term unemployed from that age group, if they remain out of work for 40 years, which, sadly, a lot of them do, is £2 million per person over their lifetime journey. Has any thought, aside from this regional targeting, been given to directing NHS resources towards the group where, arguably, you get greatest economic impact? In that area, I think that mental health is about 70% of the cause of that rise.

**Alison McGovern:** It is a very important point. The situation, as you describe it, in relation to young people is bleak because of that, partly because you know that the cost echoes down the years. If somebody has a period of inactivity or unemployment at the beginning of their career, it does not look good from there on in. That is why young people have been a priority in the White Paper and are a priority for the department.

On the question you ask about NHS funding, forgive me, but it is the same answer that I gave to the Chair just one moment ago. The clinical decisions that the NHS takes are for the NHS. We are on a journey. The previous Administration had created a joint work and health unit across the Department of Health and Social Care and the Department for Work and Pensions, which was a good thing to do. We will be continuing with that joint policy work in the hope and ambition that we can try to get some more co-ordination between the two departments.

If I may just add one point, Japan, which has the highest G7 employment, has a joint work and health ministry. I am not supposing that we would do that, but, given that it is ahead of us in some of the demographic trends, I found that interesting to note.

Q111 **Lord Davies of Brixton:** I apologise for being late. We have talked about the different parameters. Can I ask you specifically about targets, such as the 80% figure, which is long hallowed? It is not clear exactly where it comes from, but it is better than we are doing now, so we will push in the right direction. Is that the sole target as to whether these policies are going to be a success, or are there other targets perhaps on flows rather than stocks, about people entering and leaving? What are the criteria by which you would judge that these policies have been successful?

**Alison McGovern:** I would call the 80% an ambition and not a target. The reason for that ambition is that, if you look across developed economies, there are places that have achieved that and are at or slightly above 80%, including the Netherlands. I mentioned Japan a moment ago. It is at 79%. The reason for having that ambition is that it would be a good thing, as our country and economy age, to keep people working and active, for economic and well-being reasons, as well as people having a sense of purpose in life.

If you look at the UK economy, there are some places in the United Kingdom where we are already above 80%. That is not the problem. The problem is that in some parts of our country we are well below it, and they are well below the national average and have been behind for far too long. The approach that we are going to take is to build plans around those places. We will work with local leaders. We now have combined authorities with mayors in some places and not in others. In the Department for Work and Pensions, we will need to do different things in different places, because we will have different ranges of local partners. While the devolution Bill will come forward, we are working with the partners that we have and we will do that to set out a plan to try to move forward.

On a personal note, my goal is that we focus on those places most of all that have been too far behind for too long. If we are thinking about the problem that we were discussing just a moment ago of stickiness and the fact that, once you get into a situation where you are not working, it is harder and harder to get out of it, it is really important to work collectively and hand in hand with people in those places where that has been a problem for far too long. It means thinking about the whole labour market, not just the supply side.

**Lord Davies of Brixton:** One of the oddities about the 80% ambition is that classically it has been based on up to age 65, but now, with a rising state retirement age and a general trend towards more people working, is there a need to reassess quite how that works?

**Alison McGovern:** It is something that we are thinking about. I do not have a hard and fast view on it. There are standard accepted ways internationally of measuring things. The point you make about how you handle the rising state pension age is an important one. I have definitely given it some thought. Tom, I do not know whether you want to say, from an analytical point of view, how you think about it.



**Tom Younger:** The only thing I will add is that the Ministers at the DWP have asked Paul Gregg, who chairs the Labour Market Advisory Board, to look at the definition of that 80% employment and which group we should be looking at. That will be arriving with us soon.

Q112 **Lord Rooker:** Thanks for coming. It is very interesting to listen to your grappling with it. On this point about making people less sticky, there is an appeals system, is there not? Who is running the appeals system? I understand that it consists of part-timers and maybe ex-medical professionals. Are they on board for being less sticky or not? It seems to be me that there is this issue of saying, "We cannot touch that. It is quasi-legal" and all that sort of thing. That is how the system has got into the state it is in now. Unless you cut through, I cannot see how it is going to work and change.

**Alison McGovern:** I think I have understood the question, Lord Rooker, which is basically about how the system does not work to help people move back into work. I would accept that point. We are going to have a Green Paper on health and disability in the new year. The way that the system supports people to keep in touch with the world of work is one of the big challenges that we need to embrace.

**The Chair:** Apart from the 80% ambition, what targets have you set yourself for what success looks like in this White Paper?

**Alison McGovern:** The White Paper establishes the ambition not just to get towards 80% but to properly reform the public employment service and build a new national jobs and careers service.

**The Chair:** I will rephrase my question. I mean specific numerical targets. What targets have you set? Take the 20 NHS trusts with the highest levels of inactivity. What would you like the inactivity to be by the end of the Parliament in those 20 NHS trusts?

**Alison McGovern:** I would like it to be coming down and in the right direction.

**The Chair:** You have not set—

**Alison McGovern:** If I can be blunt, we have talked about some of the problems with data. This is just my personal view. At this moment, I do not think we would want to be like, "We think that it should move from that to that". You can jump in and correct me if I am wrong about this, but in my reading, particularly if you look at the worst affected areas, because you are talking about a smaller sample size anyway, you have quite a bit of variation that is possible. I do not think that I would want to go down that road. This White Paper is the first step of building a new system. The trailblazers are for a year and they will report back. As we go, we will be able to see what is possible and understand some of the mechanisms that Lord Burns—

**The Chair:** If you had more robust data, would you be more comfortable about setting targets?

**Alison McGovern:** That is a hypothetical question.

**The Chair:** It is, yes.

**Alison McGovern:** I would want the right targets. There was one thing that a work coach said to me in a jobcentre that I thought was really wise: "Please don't give us a target that's about making you happy". Too often, people are told, "We've got this employment scheme. You need to get people on it because the Minister wants to be able to say they've got thousands of people on this employment scheme". That would be the wrong kind of target. That is why we want to be a bit more careful, think about the places that are worst affected and try to think about the journey that they ought to go on.

**The Chair:** I am sorry. I have been asking too many questions.

Q113 **Baroness Wolf of Dulwich:** This follows on from that a bit, so I am going to stay slightly with not particularly overarching targets but what success rates you expect. We have talked a lot about the fact that we are not very clear about inactivity rates. We are pretty clear about people who are actually on benefits. One thing that has been very clear is that the OBR, on current trends, expects continuing increases in health-related benefits in this Parliament and has this cheery figure of £100 billion. I am not going to ask, "Is that fine with you?", because presumably it is not or you would not have written the White Paper.

I want to come back to this question of what it is you think is doable. You have the bit about health and we have agreed that this is important but it is only a part of it. You have talked a number of times about work coaches and the fact that they can be very effective. As several witnesses have said to us, including witnesses who are very keen on work coaches, this is an expensive and very labour-intensive option. We have had quite a lot of work coaches hired in the last few years, so we have some data on what they can do.

I would like to press you a bit. What do you expect an additional work coach to achieve in terms of impact on these health benefits, just generally? Looking at Connect to Work, you have talked about supporting up to 100,000 people per year. At what point and on what basis would you conclude that this is really successful and you can see a significant fall in the benefit bill by the end of the Parliament? At what point would you say, "Honestly, this isn't really working"? You must have some sort of underlying cost-benefit there.

**Alison McGovern:** We do. We have published the into-work rate for the first time, so people can see what is actually happening with the performance of the public employment service, which fell from 10% of people month on month in 2021 to 8% in 2023, at the end of the measuring period. Apart from when we are thinking about the performance of individual schemes or the contracted employment support model, where we can see that, for X amount, the success rate of sustained employment tends to be Y and therefore we can track that

through, we are going to get into some of the measurement issues that are associated with the Labour Force Survey. In the end, that is how we would look forward to what the consequences might be, what a continued upward trend in inactivity might mean for benefits and so on.

The success I have in my mind is thinking about, in a particular place, how many people we are able to be in touch with, what our success of people moving into work is and whether we are doing that on a regular basis. We also have quite a number of people who are in work but are not progressing in work. People are not progressing quickly enough from low pay.

I have in mind a few measures as to what success looks like. The point of going through this process and having the *Get Britain Working* White Paper and then the plans that come from it is to get specific with people in those places about what they think the detail of that looks like for them.

**Baroness Wolf of Dulwich:** Can I push you a bit harder on this? We have this figure that we are moving up to: £100 billion. You have some measures in mind. A good part of this is about getting people back into work and managing their health conditions while doing so. When you were choosing what your main policy recommendations and decisions were going to be, you had data on work coaches up to now. When you were making the case to Treasury, bluntly, what sort of drop in health-related benefits did you think you were going to get from expanding work coaches?

**Alison McGovern:** I will bring Tom in. The thing that I would add in response to that question is that this is not the end of the process. We were just talking about the challenges with work capability assessment and some of the challenges that are now inherent in universal credit versus the old system. We now are moving forward towards a Green Paper on health and disability benefits. That challenge will be progressed in that Green Paper as well, so we have further choices to make.

The thing that we were considering in the White Paper is what sort of public employment service is likely to be able to move people into work. For that, we have our own data and information, some of which we published. We will be able to do more of that. Also, we have international examples and so on. That is how we made the case and took the decision. Is there anything you want to add?

**Tom Younger:** Active labour market policies, as we call them, tend to have a relatively marginal impact in terms of employment. Typically, from schemes you might expect to see 40% to 50% of people in employment after six months or a year, depending on the people on the scheme and the types of interventions. Your additional impact, so how many people found work due to that scheme, which we try to assess through counterfactual evaluations, might be in a range of five to 10 percentage points. That is the scale of the impact. We have evidence from previous schemes in the UK, but we also draw on international

evidence of the impacts of these types of things. As the Minister says, that is why it is an ongoing process. You need to continue chipping into this problem and developing new solutions on an ongoing basis.

**The Chair:** I am sorry; I am going to interrupt you. Lord Layard, do you have a quick question?

Q114 **Lord Layard:** It is not that quick. I think this is the biggest question. Is it the case that the people who go on to the least invasive, longest-term health-related benefits have no caseworker? If it is, is this really a sensible system? Should everybody who is drawing benefits at the taxpayer's expense not have some public official who has them on a list for some sort of review? That seems to me to be the most basic system. This is a question that has emerged, in my judgment, in the evidence we have been taking.

If one thinks that that needs to happen, the issue is the ratio. That is the issue that is being raised. As I understand it, from the individual placement and support programmes that have been operated in many countries, on which what I think was called universal support for a short period before you renamed it was based, in our calculations that pays for itself to the state in five years. I do not know whether that is a number that you would accept.

**Tom Younger:** We would say that it was value for money, yes. I could not tell you over what exact period.

**Lord Layard:** That is a very interesting number around which to conduct this debate. Rather than covering, as I think that system is currently going to, about 4% or 5% of the case load, should it not be covering 50% or something like that?

**Alison McGovern:** Lord Layard is asking two questions there. On value for money, yes, clearly. You make a good point. In response to your first question, can I quote from the White Paper? The White Paper, as I said, reforms the employment system, but it has a section on these health and disability benefits. I am on page 31, paragraph 89, which describes the problems that we currently have: "designed around gateways to benefits, not conversations about goals or access to support"; "rigidly categorises people as either able or unable to work", which is the problem we were talking about before; and, crucially, "leaves people judged unable to work without further support or engagement". That is the point you just made, Lord Layard: it leaves people without engagement.

At the moment, disabled people who engage with the DWP often do so quite fearfully. I do not think that we have always had the best quality of relationship with people who are unwell or have a disability. We need to improve that and work on it, but we cannot leave people on the scrapheap. We cannot do that.

**The Chair:** We are coming back to this in a moment with Lord Londesborough. We may want to pick up on what Lord Layard is saying about caseworkers, which is a very important point. But we will first turn

to Lord Lamont.

**Q115 Lord Lamont of Lerwick:** My question is about conditionality in the welfare system. We have already touched on it a bit with the replies from Shaun and you, but it is whether it needs tightening around health-related benefits. No one is saying that the structure of benefits is the only motive. We accept a lot of what you have said about the increase in mental health illness. There is the simple fact that the health-related benefits offer a higher rate of support with less conditionality. Has that not had some impact? Do you have any estimate of the number of people who are economically inactive because of the widening gap between jobseeker's allowance and incapacity benefit? Is it possible to make such an estimate?

**Alison McGovern:** It is a question that we have been discussing. As you rightly describe the situation, no one would say that that is the only thing that has gone wrong in our labour market or broader economy. You can see what happened. Various decisions that were taken throughout the last decade or so have meant that we have had, as I described it before, this bifurcation effect between the two groups of people: the out of work and unwell, and the technically unemployed and actively seeking work. That has not helped the situation. The OBR has done some analysis, which we have assisted it with. We would like to know more and will, I hope, write to you, as a committee, when we have data of good enough quality that we are happy to share it.

**Shaun Butcher:** I said earlier that the specific question about the financial incentives and the differences there vis-à-vis conditionality and so on, because all these factors are happening at the same time, is impossible to unpick. The OBR did not try to unpick it. It mentioned a number of factors, as have other witnesses. We are all in a similar space with the different causes, but I do not think that anybody has worked out a way to separate things that are all running along in tandem.

**Lord Lamont of Lerwick:** On page 31 of the White Paper, which you were referring to earlier, it says that the work capability assessment needs to be reformed or replaced. What sorts of ideas would you be considering for reform, or is it just the sorts of things you were saying to Lord Layard in the last question? If it were to be abolished, what on earth would it be replaced by?

**Alison McGovern:** I am afraid that I have to say that all that will come in the Green Paper. The point I was making to Lord Layard was about this issue of engagement and the fact that surely we cannot have a system that leaves people on their own. That does not seem right to me. When it comes to doing the job that the work capability assessment currently does, there is a lot of thinking going on at the moment and we will have more to say about it in the Green Paper.

**Lord Lamont of Lerwick:** I do not know whether last night you managed to see the Fraser Nelson programme, "Dispatches", which had a lot of very interesting material. A point was made by one person he was

interviewing that coincided with some of the evidence that we have had. People who come off a health-related benefit and are thinking about going into the labour market are worried about the gamble they are taking and the odds that, if they lose their job, they might not be able to come back to the same level of benefit that they had before, but would go back to a basic ESA employment support. Could you not give a guarantee to people that they would actually have the original benefits preserved?

**Alison McGovern:** In opposition, we argued for people not to have to go and have another work capability assessment precisely because we want to try to derisk the choice to move into work. That is an interesting suggestion and we will think about it as part of the White Paper process. The overall analysis about derisking work is very important. It applies not just to the question of health and disability benefits. It also relates to things such as childcare. If you are unsure that you will be able to make sufficient childcare arrangements, it can make the choice of moving into work seem risky. As a department, the DWP should be about smoothing the path into work, taking risks away and making the steps into work closer together. That has to be our overall strategy. Some of those things that we are able to do to make that happen we have set out in the White Paper, but we have a lot more to do on that.

**The Chair:** In light of this, at paragraph 91 it says your ambition is a system where people "do not need to demonstrate they are too sick to work to access financial support". Can you just clarify what that means? What does that actually mean?

**Alison McGovern:** Did you say paragraph 91?

**The Chair:** Yes, it is about WCA. I am characterising here. Some people would say, as Lord Lamont has been saying, there are too many conditions that deter people from going from benefit into work. Others would say the system is very soft and enables people to essentially not work when they should be encouraged to work. I am trying to gauge where you feel we are in terms of the system overall.

**Alison McGovern:** Forgive me for repeating myself, but basically we have ended up with a system with very hard and high walls between the two categories. That in the end is not helping us. This is why we need to have much more engagement with people. We need to lower those barriers and try to create a system that does not place people in a binary category that it is unlikely that they will escape from.

Q116 **Lord Layard:** Are fit notes fit for purpose? I believe that only a quarter of them have a diagnosis, for example. That does not seem to be very informative for the DWP. Are there ways in which you want to improve the fit note, or do you have some alternative approach altogether in mind?

**Alison McGovern:** This has been the subject of public discussion for quite a while. There was a consultation under the last Government, which

we have had responses to and will look at. The process element of this is that we will move forward with it as part of the Green Paper.

If I could give my view on it, we saw some reforms, for example the digitisation of fit notes, but it was not nearly enough. I feel quite strongly that the diagnosis point is one aspect of that, but the reason for a diagnosis is to try to help the person. The question I ask myself is where the occupational health is, so that, if somebody gets advice about how work is impacting their health, they get advice about how to work in a way that supports their good health. Occupational health specialists are really good at that. In an ideal world, I would have much more access to occupational health support.

In addition to that, I would also like our work coaches from jobcentres to be available in GPs' offices and other places. I imagine it is quite frustrating as a GP sometimes if somebody comes in with a whole load of problems, some of which you are not the right person to deal with. I would like them to be able to have a much closer relationship with us in the DWP so we can try to help with the person's broad sweep of problems. Some people in the health system might call that social prescribing, but actually it is a real frustration for a lot of our work coaches that they would like to work much more closely with GPs to try to help them get that person good advice. It should not just be a fit note and nothing else.

**The Chair:** Just so I am clear, this came up in Fraser Nelson's documentary last night. As Lord Lamont was saying, it was very interesting. There was one point that struck me, and I would be interested to know your view. GPs are seen as the gatekeepers for welfare. Do you think that is right in principle?

**Alison McGovern:** That is an age-old problem. If you look into the history of incapacity benefits and other things, you see at times—

**The Chair:** I know it is an age-old problem. What is your view on it? Do you think it is right?

**Alison McGovern:** When we are talking about social security today, the work capability assessment is the gateway, in that sense. The challenge is that a fit note is just a fit note and is not going to help that person or, crucially, their employer understand how to help them. If you think about a mental health condition, for example, that somebody might have been experiencing, these days a lot of employers would want to be running a business that supported good mental health. There is a real aspiration to do that. We need to enable them to get advice and know how they can help that person, so it is not just about saying, "Here is my fit note".

**The Chair:** A lot of work has been done on this, as you say, under the previous Government, some of which you may or may not agree with, but you seem to be speaking very eloquently. You have a clear analysis on it. Why are you hanging around? Why do you not just get on and do something on this, rather than have a Green Paper and do everything

else?

**Alison McGovern:** I want to get on with it. We will and we are.

**The Chair:** It seems to be taking time. I am sorry, Minister. I am only pressing you because we all know; in this room, many of us have been in government. You have Green Papers and White Papers. This is obviously an urgent problem, so I am just questioning why you are not pressing the accelerator rather than having your foot on the clutch.

**Alison McGovern:** We have a big job to do. In the overall picture with employment support, universal credit and moving people into work, you have to look at the numbers and say, "What we have been doing has not worked". We needed to take a whole new approach with fresh thinking. Some of the work that I have described has already started. In jobcentres or in some health centres they are already getting on with the things we describe. That is why we think it will work. When it comes to the fit note reform, watch this space.

**The Chair:** We will, very much so.

Q117 **Lord Londesborough:** Could you come back to this thorny subject of benefit assessments? I know in the White Paper you have four priority areas and one of them, crucially, is this pledge to reform the system of health and disability benefits to promote employment. I know you cannot give us the details. We are going to have to wait for the Green Paper, but we would like to get your view on the effectiveness and fairness of the benefit assessments under the current system, particularly on work capability, from the perspective of the individual and of the state.

**Alison McGovern:** When you say fairness, do you mean how effective they are in taking the correct decision under the rules as they are at the current time?

**Lord Londesborough:** Yes, and, coming back to this journey, this very important aspect of reassessment, which we have understood from previous sessions for many individuals does not actually happen, and for which there is no data.

**Alison McGovern:** On reassessment, it is a really important point, and we will have more to say on that. It would be a question for the previous Government as to why that situation has come about of the reassessments not being done, but we will have more to say on it. When it comes to the effectiveness of the decisions, I might write to the committee, if that is okay, because I am not sure I have the effectiveness data with me, unless you have, Shaun. It comes back to Lord Rooker's point earlier. In the work capability assessment process, often the decisions are overturned and we are not taking the right decision the first time.

If it is okay with you as a committee, I might write to you with the data on that, because we say in the White Paper that it is not well designed, and there is evidence behind that.



**Lord Londesborough:** One aspect that is clearly measured is that we have soaring approval rates and actually, as we learned from the Channel 4 documentary yesterday, some of these assessments are outsourced to the private sector. The assessors are incentivised on productivity bonuses if they can exceed their daily assessment quotas, which strikes me as muddying the waters further in terms of trying to get truly objective data. Really, what is behind my question is this. In order to bring forward effective new policy interventions, which is what you are planning to do, you need to have a decent grip on the reality, whoever's fault it is, and this is largely a historic problem. To understand individuals' journeys and how they, very often, get stuck in the welfare trap requires some pretty important data analysis, particularly on reassessments. I wonder how you are going about that.

**Alison McGovern:** Lord Londesborough, you describe the situation very well there. We do have data on some of the ineffective aspects of the current system, which I think it would be helpful for the committee to have. We have set out our principles for change in the current White Paper, but we have to get to a situation where people are able to think about work and a journey back into work. We have to get to that situation. Shaun, do you want to say something about the incentives issue, because I definitely do not have the data?

**Shaun Butcher:** I do not deal with the providers myself. Most of them are outsourced to the private sector. We now have four providers that started in September. Previously there was one for WCA. It is too early to say what the new providers are like, although they will have just transferred over most if not all of the staff. It is worth noting that the outcomes of work capability assessments have pretty much been flat over the past three or four years now. They are not going in that consistently upward direction that they were before.

The other thing worth noting in terms of effectiveness and fairness is that this is not a numbers-based game. It is not like where we can assess universal credit entitlement on the basis of number of children, your rent, your income and all those sorts of factors. Somebody writes down their situation in a form and talks to an assessor about it; then the assessor is making a judgment. Reasonable people might make slightly different judgments on the same information. It is only the people who are dissatisfied with their outcome who will go through the subsequent stages of the process. What is fairness is not really an objective decision, so I cannot comment on that.

Arguably, there may be incentives for WCA providers to curtail assessments and, once they have said, "Yes, we think you go in the 'limited capability for work and work-related activity' group", not to carry on. It is certainly not getting any worse, but I would not say there was not that perverse incentive.

**Lord Londesborough:** Can I just ask a quick supplementary? Looking forward, mindful of the ambition, not target, of getting 2 million people out of welfare and into work, what assessment has been made of the

resources required to offer the long-term sick personal appraisal, employment support and coaching?

**Alison McGovern:** On your first point, Lord Londesborough, you said “out of welfare and into work”. Under the old system, people used to be on jobseeker’s allowance or employment support allowance, and then they would move into work, and they might receive tax credits to ensure that they were better off in work. On universal credit, you might stay on universal credit. That is the design of the social security benefit. I have personally found it extraordinarily frustrating to hear people talking about coming off benefits and into work.

Simply because of the change in universal credit, you cannot see that data and you could not see that happening at all, which is why when we published the White Paper I was determined that we would publish the into-work rate, showing that measure for the country, so that we can see how we are doing at moving people into work.

As part of the process of operationalising the White Paper, we will now be going through and reviewing work coach activity. We have quite a large number of jobcentres that have trialled different approaches. We are not starting from a blank piece of paper at all. Local innovations have happened to try different approaches and to quantify the effectiveness, such as using phone or video conference rather than face-to-face contact, to reduce failure-to-attend rates. We will now have a process of reviewing that and bringing forward a new plan. That is how we will quantify it. Forgive me, because that question of how we measure people moving into work has frustrated me for an awfully long time.

Q118 **Baroness Wolf of Dulwich:** This is a very quick question, which definitely is for writing back with afterwards. As you say, there have been a number of people doing different things over the last few years. It is not as if nobody has ever tried any of this. I assume the department has, in fact, evaluated these. I wondered whether you would be able to just let us know where, among the published evidence and research reports, we could find those data.

**Alison McGovern:** We can do. One thing that we did in coming into government was to go through the evidence that the DWP had and had not published. The Secretary of State published 31 of our existing reports. We will certainly follow up.

**The Chair:** Just to clarify, there are two things I wanted to nail down. First of all, it would be very good if you could write to us with the points about the private providers’ KPIs. I am very interested to know two things in that: first, what KPIs the department sets the private providers and, secondly, what the private providers are setting their own assessors, if that makes sense. There are two categories there.

Secondly, on this point of the modality of the assessments, if you could tell us the most recent and up-to-date figures for how WCAs are conducted, by paper, face to face or online, that would be very good.

The third is a question for you, Minister. I was looking at the WCA adviser guidance. I find very odd the way in which these assessments become just so different, for obvious reasons, in terms of the face-to-face assessment approach and the video assessment approach. For example, it tells the adviser that they should be able, when face to face, to say, "He walked 25 metres to the assessment room at a slow pace without stopping or apparent breathlessness". Then when it is a video assessment the adviser could write, "He was able to raise his left hand up to his face to adjust his glasses".

These are two very different things in terms of mobility and ability to be healthy and participate in the workplace. I can take my glasses off like that and show you that I am able to do that, but that is totally different from walking 25 metres to the assessment room at a slow pace. Are you comfortable with this kind of approach?

**Alison McGovern:** I do not think that the current system works. We have set that out in the White Paper.

**The Chair:** Is this kind of video conferencing going to be scrapped?

**Alison McGovern:** On the points that you have raised, we should write to you. I mentioned keeping in touch with people when we are doing work coaching, which is a totally separate thing. We will write to you on that point, if that is okay, because you are asking me a detailed question about the WCA process. Unless one of my colleagues wants to interject, I do not know the detail of that and the process that we have gone through to assess what we have asked the companies to do. When I say "we", I obviously do not mean me, because it was not me. It was the previous Administration.

**The Chair:** That is a good get-out-of-jail clause. Taking a step back, you have been in post for a few months. You have been looking at this, I am sure, for much longer than that. Are you comfortable with these assessments being done by video?

**Alison McGovern:** I am not comfortable with the current system. I am not going to get into the detail of what we have asked the private companies to do, because I am not in the weeds on that.

**The Chair:** I am interested in the principle. Me sitting at home and you interviewing me on a video link is very different from me coming in.

**Alison McGovern:** I do not know. It depends what that person was looking for. I am not going to pass judgment without looking at the detail of it.

**The Chair:** Let us move on then.

Q119 **Lord Razzall:** Irrespective of concerns about the reliability of data, it is a given that we are not performing as well in this area since Covid as our major economic competitors. That is accepted, irrespective of the data. There is enough data to demonstrate that. Have you had a chance to

have a look at any reasons why our competitors are doing better? Are the assessment systems different? Do they have an assessment system under which they are measuring the Chair's ability to remove his glasses? You have touched on what you like in Japan. You touched on earlier something they were doing there in merging the two activities. Have you had a chance to look at what is happening in those other countries? Is there any way in which they assess that is better than what we do and that we can learn from?

**Alison McGovern:** I would just separate out economic inactivity from those receiving incapacity-type benefits in different countries. From the point of view of economic inactivity, that is where we are doing less well than all of our nearby neighbours in the economic sense.

**Lord Razzall:** That includes Japan, obviously.

**Alison McGovern:** Yes, it includes pretty much all the G7 countries and most developed countries. We are doing less well. The structure of our economy is different and one of the big flaws, which is different in the UK economy, is this issue of having some places that really have now grown or developed as economies for too long.

**Lord Razzall:** It is the regional point you were making earlier.

**Alison McGovern:** Yes, we need to grasp the nettle on that one. We also are in touch with other countries on their public employment service. Countries such as Australia and France have experimented with different ways of running a public employment service, using many more digital approaches and other things to try to improve the contact with people. We are trying to learn from nearby countries.

With regards to the incapacity benefits system part, you will have to forgive me, because I am not the specific Minister for that, so I am not as close to our interaction with other countries. However, I would imagine it is the sort of thing that we are doing, because the DWP is part of a network of countries that have social security systems with some similarities. I am sure we will be doing that to try to compare ourselves against our nearby competitors.

**Lord Razzall:** Does either of you want to comment?

**Shaun Butcher:** All I would add is that most of the data on the social security side is quite old. Organisations such as the OECD are looking at 2020 or 2021, if you are lucky, to do comparative information.

**Lord Razzall:** That is not post Covid.

**Shaun Butcher:** They take a long while to catch up for comparative information. The systems tend to often be very different. There are very wide tax and benefit system differences, with the obligations placed on employers, whether it is social insurance or not, and so on. It is a lot more difficult to compare social security systems and the effectiveness of them as opposed to, say, a public employment service, I would say.

**Alison McGovern:** Yes, the International Labour Organization over many years has done comparative analysis of active labour market policies, showing where a particular type of employment support has had an effect in a specific circumstance. It has been doing that for a long time, so it is possible to see more transparently what has succeeded.

**Shaun Butcher:** I can confirm that we do look at other countries' systems when considering whether and how we should make changes.

Q120 **Lord Rooker:** I have a question about the employment rate of 80%, but I am not really bothered about that. I declare that I saw only the first 25 minutes of "Dispatches" last night. There was one example where the person concerned would require a very substantial salary to maintain the level of income that she was on. It was a female. Therefore, the risk of leaving the benefits system was massive. People work it out. You make a judgment.

On two occasions, you have said that universal credit is not working as planned. It is certainly not the fault of the present Government, because I remember Iain Duncan Smith complaining about being short-changed by the Treasury at the last minute when it was set up.

You also spoke about checking people to make sure that they were better off in work, which was really what I want to ask about. It is a long time since I left the Commons in 2001. You lose constituents, so you do not keep up to date. I was convinced that at one time we got to the point where, more or less for the majority, you could say they were better off working than not working. I realise that is a broad issue. Is that part of the objective?

We have this massive asset of people whose capacity to work is not being used. It is an asset the country is losing. Therefore, coming round to the employers, which at the end of the day have to employ these people, are they likely to do that following the hike in the national insurance contribution of employers? There has to be a factor there. At some point, you are going to have to really, if you like, break the system to make changes. You will not say that now. You will talk about the White Paper or the Green Paper. To be honest, tinkering about with odd changes, looking at odd groups of people, is not going to solve this problem, is it?

**Alison McGovern:** In the first speech that I gave as Employment Minister, I said that we should stop pretending that tweaks to social security would get people into work, when we had tested that theory and it has not worked. I do maintain that tweaks to social security are not the whole answer. We have spent a long time talking about the current system we have inherited, what works about that and what perhaps does not work. Actually, Lord Rooker, you made a fundamental point there, which is that people have to be better off in work. We used to really look at that. The last time my party was in government, when you were serving in the Commons and part of that Government, we looked at that very closely.

**Lord Rooker:** I was in your department at one time.

**Alison McGovern:** As you will probably remember, people used to do better-off calculations and things of that nature. That is very important. Some of our approach here is about making sure that we get people into jobs where they will be better off in work, because we know from new analysis we have done that, of people on low pay, 60% between 2017 and 2023 did not leave low pay. People were not getting into work, moving up in work and then feeling that benefit of being in work. They were just staying in low pay. People have to be better off in work and able to secure a better quality of life for their family because they are able to do that. That is the thrust of all of our policies as a Government.

We also have the "make work pay" legislation, which the committee will be aware does other things to try to make sure that people are better off in work. One of the worst conversations I have had since becoming the Employment Minister was with a youth work coach in a jobcentre, who told me that she was a bit unsure when helping young people whether she should advise them to take a zero hours contract when it was not entirely clear what actual hours they would get. The committee will understand why it is important that we proceed with that legislation, to try to curtail some of the ways in which people have had an uncertain income because of the quality of work.

I just want to answer directly the point that you raise, not unreasonably at all, about the employers' national insurance contributions. I have spoken to a number of employers and employers' organisations since the Budget. I am not immune to the argument that people make there about the challenges. The approach we have tried to take in the White Paper and the approach that I want the DWP to take is to try to serve employers better because, while all businesses have challenges and, as I say, I am not stupid and I understand the challenges that businesses have, I think I am right in saying that our survey of employers showed only one in six of our businesses thinking about using the jobcentre.

That not only means that a lot of people coming into the jobcentre do not have a choice of a full range of jobs, which they should have, but it also means that the DWP is not doing enough for businesses. We still have over 800,000 vacancies in the economy. We ought to be helping businesses identify how they can fill those vacancies. Once we engage with people better and we get people into jobcentres, we can really serve local employers.

**The Chair:** I understand all this, but the question from Lord Rooker was about national insurance, which seems to be going in the reverse direction to the White Paper. The OBR says the increase in employer national insurance "reduces the participation rate by 0.1% from 2025-26 onwards". You can quibble over the 0.1%, but it is sending a signal that one thing is going in one direction and the other thing in another.

**Alison McGovern:** That is a fair enough comment.

**The Chair:** What is your response?

**Alison McGovern:** It is to make sure that the Department for Work and Pensions does everything that it can to help businesses to recruit, because vacancies have come down a bit recently. We would have expected that because of the big spike post Covid, but we still have a significant number of vacancies in the economy. A third of them are due to skills. We have to be smart in the way that we work with our colleagues in DfE in tackling the skills challenge and the skills shortage that we have, at the same time as getting people into work. That is probably the subject of a whole other committee hearing. In places that are growing quickly, Greater Manchester for example, it is even higher. It is about half of vacancies that are due to skills.

The DWP really needs to improve how it helps employers find those people and helps those people get the technical skills that they need to get into the better jobs that we are creating in the economy.

Q121 **The Chair:** Can I just put to you two final questions? I do not know whether others have questions. We have a few minutes left, so I am going to use your time, sorry, Minister. Just taking a step back, it has been put to us and others have written, including Fraser Nelson, that over the last 15 or 20 years in this country we have seen a rapid and steady rise in immigration, in particular us attracting low-skilled migrant workers, which often has been fuelling our growth, at the same time as this steady and, in recent years, very dramatic rise in labour market inactivity.

To what extent do you see those two issues as being linked? Given where we are, we seem to be very much dependent on low-skilled workers. We can actually reduce that in relatively quick order without creating even more problems in terms of shortages within our labour market.

**Alison McGovern:** That is a really important and big question, which I will try to answer. Tom, you might want to comment on this. Just from a numbers perspective, in the existing UK population, the problem with inactivity is there. The rate of inactivity is slightly lower for people who have come here to work. You would expect that. So that problem is there anyway of inactivity.

**The Chair:** Just to be clear, you are saying that labour market inactivity is a UK-born worker issue. One would expect it to be so.

**Alison McGovern:** What I just said was that the rate of inactivity is higher for UK residents. Let me just get Tom in.

**The Chair:** Do you have the figures for that?

**Tom Younger:** If it is helpful for the committee, yes, 22.2% inactivity rate for UK-born nationals and 19.1% for non-UK.

**Alison McGovern:** It is not a huge thing. We could talk for a long time about why we have ended up with this rapidly increasing allocation of

visas, particularly in health and social care, post Brexit. Most of those questions, if I might say, Chair, are probably for the previous set of Ministers. My approach is to work with those sectors and businesses that have had such shortages to try to help fill them, particularly thinking about those people either who are unemployed and are therefore coming into jobcentres on a regular basis, or who are completely out of the labour market, and to build a path so that people are able to go and fill some of those vacancies. That is the right thing to do.

What happens with the immigration system is important. We want the DWP and the Home Office to be talking to each other, working together and taking account of it, but it is not specifically my responsibility.

**The Chair:** I am sorry to bring you back to your previous answer, but those sectors, especially in social care, are the ones that have been complaining most about the rise in employer national insurance.

**Alison McGovern:** They have, and I understand that. The social care sector needs to change quite a lot, I would say, because we have a very highly skilled workforce with some of the lowest-paid people in the country. I question whether that is the right thing to do when it is such an important job, especially for a country with an ageing population. The DWP can do far more to try to fill those vacancies, particularly for the health service, where we know that working in the NHS, for a lot of people who have been out of work, is a really strong ambition.

Our policies, whether it is using sector-based work academies in tandem with the NHS or health and social care, or the things I have talked about in jobcentres, are designed to try to fill those vacancies. It will be good for the country, but it will be fantastic for somebody who has perhaps given up work because of ill health to then have the opportunity to work in the NHS. That is the sort of ambition that we really want to have.

Q122 **Lord Blackwell:** Going back to the earlier discussion, Minister, during the afternoon you have identified quite a lot of defects in both the structure and the processes of the benefits system. We are looking forward to the Green Paper with all the solutions. One of the key points you made was the benefit of having caseworkers who can help people who become unemployed or inactive find their route back in and stop them getting into this cycle of ill health and depression. You have said in response to Lord Layard that those pay for themselves in terms of the savings. Do you have an estimate, assuming a reasonable case load, of how many people you would need to deal with the current flow of inactivity? Is there a realistic prospect of putting that in place?

**Alison McGovern:** Forgive me, Lord Blackwell. When you say "the current flow of inactivity", do you mean to stop the current number of people becoming inactive who are, or are you asking whether we have an estimate of the work coach capacity we would need if we were going to address everybody who is out of work because they are unwell at the moment?



**Lord Blackwell:** Ideally, you would do both. The first would be when people first become inactive. That is the point you can catch them. Secondly, there is then the backlog of people who are already inactive.

**Alison McGovern:** As part of operationalising the White Paper, we are going through a process to understand the capacity we have and how we want to use it in the future. There is probably more helpful information that we could give the committee, but it is probably best if we write to you on that, if that is okay. I will take those questions.

Q123 **Lord Davies of Brixton:** Based on the earlier discussions, I am sure there will be some agreement on this committee. We are drafting next week. Unfortunately, I cannot be here. On this idea of personal support, including job coaches in particular, although it is much wider than that, we are all agreed that they are cost effective, but the Treasury works on an entirely different timescale from the rest of the world. We can all be agreed, but if the Treasury does not feel that the short-term figures work it is not going to happen. Can you give us some assurance that that institutional blockage will be overcome?

**Alison McGovern:** We have a very good working relationship with the Treasury. You would expect me to say that, but we do. There is good understanding of the importance of active labour market policy in the Treasury. If I may suggest, the difference this time is that we really understand how active labour market policy works in a crash situation, in an acute situation where the economy is getting into a bad way and we need to ramp up how we are responding to make sure that we do not experience the scarring effects of unemployment, which are more expensive in the end.

Now we are trying to deal with a chronic problem. We are trying to deal with a very long-standing issue. That is where we are going to need to move forward in our analysis and our thinking about active labour market policy. I know that Treasury colleagues are just as seized with that challenge as I am.

Q124 **Lord Burns:** I know that Lord Rooker did not want to raise the question of the 80%, but I do worry about this particular ambition. Given the really substantial difference between different regions of the UK, where the differences are actually very predictable in terms of the people and the areas that are furthest away from this, does it make sense to have an overall figure for the whole country, rather than to spend more time looking at the differences between different parts of the country? It is the industrial areas that have the high inactivity, and it is the south-east and the south-west that have the low inactivity.

I just worry that in a sense it is a rod for your own back by presenting this on a national basis when there is such a difference between different parts of the country, much of which can be easily identified as due to background reasons that have nothing to do with health.

**Alison McGovern:** It is nice to be criticised for being too tough on ourselves. The labour market is quite dynamic. The problems that we

have that you have just alluded to, Lord Burns, are not as simple as a north-south divide. Ought we not to just focus on getting one area to be more like the other? People move around the country as well and growth happens for different reasons in different places. We have tried to get underneath that, and we have created these typologies of labour markets, so we can see where we have similar problems and where similar solutions might be applicable. That should hopefully target those areas that are furthest away. I grew up in Merseyside. I have a personal interest in this, as you know.

**Lord Burns:** My case is simply that that is, in a sense, a more interesting narrative for many people than the notion of trying to get to this 80%.

**Alison McGovern:** The point of getting to 80% is that it should be about everywhere in the country. We want the whole country to progress. It is dynamic within that. People will move to different places, but we know that the effective thing to do will be to focus on those places that are furthest behind. I see the point that you are making, but having that overall goal is an important unifying thing.

**Lord Turnbull:** I have an observation. About 20 years ago, I was in the Treasury and Gordon Brown was the Chancellor. I worked on a project called GIDA—Government Intervention in Deprived Areas. The key concept was that you may have an overall target for something, but you always had a floor target. The aim was to make sure that, whether it was in education or whatever area you were working in, the most deprived areas were expected to make the largest improvements. Rather than 80%, maybe you should look at the GIDA papers again.

**Alison McGovern:** I would call it progressive universalism. You have something that is about everybody and the progress we all want to make, but within that we are thinking about lifting those who are furthest away.

**The Chair:** Let me just end with two quick questions. Thinking ahead to your Green Paper, I am just interested in your mindset as you look at all this. I see in paragraph 92 of the White Paper you say: "It is also vital to ensure that the system is financially sustainable in the long term". This is the welfare system. When you look at the welfare system in the long term, do you think it is financially sustainable on its current course?

**Alison McGovern:** It is obvious that it is not. More than that is probably a question for my Treasury colleagues. The problems are pretty clear.

**The Chair:** I completely agree. We just did a report, which you may have seen, on debt sustainability where we were raising a very big red flag over this issue—pardon the phrase "red flag". Given that we see it as such an issue, can you just tell us the timeframe for us getting the Green Paper and then seeing action on everything we have been talking about this afternoon? Are we likely to see changes next year, the year after that or when?

**Alison McGovern:** Chair, forgive me, but I am definitely not going to be able to announce the date here at the committee. I do not want to give an irritating politician's answer—"around the middle of next year" or something like that. Perhaps I might come back with other ministerial colleagues who can talk about it.

**The Chair:** I am just interested. This is a mission-led Government, and this is mission critical, so I am just interested in the time.

**Alison McGovern:** You make a fair point. It is just that one thing that I have learned in the nearly five months that I have been a Minister is that precise dates are never quite what you think they are. It is published when it is published. I do not want to stray into that territory, but the committee's interest in this issue has been long-standing and very important, so perhaps we might be in touch with further details of when. It would be great to come back to the committee and talk about the Green Paper.

**The Chair:** I am sure you will be welcomed back warmly. Sadly, I will not be here.

**Lord Burns:** I was taught at an early age never to make a forecast and a date.

**Alison McGovern:** Who am I not to take your advice, Lord Burns?

**The Chair:** Thank you very much. You have made a number of very kind offers to send us data. If your team can send us the data as soon as possible, not allowing the best to become the enemy of the good, that would be extremely good because we are trying to have a discussion about this next Tuesday privately. If there is anything that you can provide us before then, and then in due course after that, that is great. Obviously, I do not wish to get data that you are uncomfortable providing us.

**Alison McGovern:** The only problem will be speed versus quality. If that is the choice, what I would suggest is that we set out to the committee what those challenges are. Then you can take your own judgments about how we are handling it. We do not want to put poor-quality data out into the world.

**The Chair:** I understand that.

**Alison McGovern:** I am totally with you. No one wants it more than me.

**The Chair:** Exactly, if there is data that you are comfortable with and that is on the shelf, we would love it now. If you then set out the challenges you are facing about other bits of data, that would also be very interesting.

**Alison McGovern:** That may be informative in and of itself.

**The Chair:** Yes, thank you very much. Thank you, Minister. Thank you to

both your officials, Mr Butcher and Mr Younger, very much. It was an incredibly good session. We have gone over time, which is my fault entirely. With that, we will end. Thank you very much.