

The role of contracts and the private sector in delivering Britain's 'employment first' welfare state

Dan Finn, Professor of Social Policy, University of Portsmouth

Introduction

In Britain the rise of 'contractualism' has led to radical changes in the relationship between the unemployed person and the state and in the organisation of the public Employment Service (ES). In 1986 individual 'action plans' were introduced for the long term unemployed and since 1996 all unemployed people have been required to enter a formal Jobseekers Agreement specifying the steps they will take to obtain the types of employment they qualify for. There has been controversy about the fairness of this new relationship and the utility of these 'agreements' in creating a more individualised service and in promoting transitions into employment (some of these issues are discussed in the Freedland and King chapter in this collection). This chapter, however, addresses the impact of the other dimension of contractualism. Over the past twenty years successive waves of 'market testing', 'contracting out' and privatisation have transformed a traditional bureaucracy into a 'purchaser' of services that contracts with a diverse 'mixed economy' of 'for profit' and 'not for profit' organisations. This process has intensified under 'New Labour' which has used private sector experiments to accelerate and bench mark the combined process of welfare state and public sector reform.

This chapter first assesses the institutional and programme legacy that New Labour inherited. Conservative Governments since 1979 had sought to transform the state by reducing its size and by injecting the disciplines of the market. After their re-election in 1987, they embarked on a large scale transformation of the public sector through the creation of 'executive agencies'. These changes had a major impact on the activities of the Department of Employment. The DE was given contractual responsibility for employer led Training and Enterprise Councils (TECs) through which the delivery of training programmes was privatised. The Department also became responsible for 'steering' a national Employment Service (ES) which was reconstituted as an executive agency. Significant elements of the ES were subsequently 'contracted out' and private sector techniques were used to transform the way in which the organisation operated.

Subsequently, the Labour Government introduced its own reforms. An array of New Deal employment programmes and low wage tax credits has been implemented. Legislation has increased the 'rights and responsibilities' of the unemployed and all working age benefit claimants must now attend periodic 'work focused interviews'. Responsibility for delivering the 'employment first' welfare state was given to a new Department for Work and Pensions and to Jobcentre Plus, a new executive agency made up of the ES Jobcentre network and what had been a separate Benefits Agency. A new front line service, staffed by personal advisers and benefit assessors, is now expected to deliver effective employment assistance and benefit administration. By 2006 Jobcentre Plus will have integrated the work of 90,000 staff, combining job search support and benefit payments

for over six million people in a network of some 1,000 district and local offices. The modernisation of Jobcentre Plus involves a significant outlay of public expenditure that is linked with major changes in working practices including the redesign of local offices and the extensive use of call centres, free telephone lines and other on line technologies.

This investment in a public sector agency has been matched by the Government's parallel commitment to use 'contestability' to harness the techniques and efficiency gains that might be offered by the private sector. Through advisory bodies and local partnerships many employers have contributed their expertise to the development of the new programmes, but the Government has also experimented by using the private sector to deliver a range of programmes, partly to put competitive pressure on the mainstream public agency. This paper describes in detail the most radical of these experiments, the area specific initiatives known as Employment Zones (EZs). Overall the article assesses the available evidence on the impact of these new private public partnerships and addresses some of the limits to private sector contractualism.

From Corporatism to Training and Enterprise Councils

The first major reform of the traditional British public employment service commenced in 1974. A tripartite Manpower Services Commission (MSC), with equal representation from employers and trade unions, was created. The MSC was given the task of modernising an inadequate industrial training system and a poorly regarded network of local labour exchanges that provided cash benefits for the unemployed. A national network of 'high street' Jobcentres were introduced to provide services for all job seekers and employers. The Commission was supported and staffed by civil servants and operated through a public sector network of regional, district and local offices. Following recession, and the election of the Conservative Government in 1979, the MSC increasingly became involved in the direct management of unemployment. The Commission was then to become one of the first significant public agencies to contract out the delivery of many programmes at local level, a process that accelerated dramatically as unemployment increased and as the organisation was required to develop successive large-scale employment programmes to short deadlines.

After the General Election in 1987 the Conservative Government changed its approach to the unemployed, to public sector reform, to economic development and to the tripartite MSC. Apparent economic success was matched by a new intellectual self-confidence and a belief in the power of 'market forces' and employer driven public policy. 'Think tanks', advisers and Government Ministers began to push forward a more radical agenda.

One major change involved reform to the machinery of Government leading, amongst other things, to the demise of the MSC. In October 1987 the new Employment Service Executive Agency was created with the task of integrating the previously separate network of Jobcentres and Unemployment Benefit Offices. Shortly afterwards the MSCs training responsibilities were transferred to a national network of private companies that gave employers a dominant role in the local design and delivery of training and enterprise programmes. This 'privatisation' was part of more general reforms that effectively

transferred control of local economic development from public sector authorities to employer led bodies (Haughton et al, 1997). A national network of 82 TECs in England and Wales, and 22 Local Enterprise Companies in Scotland, was established within three years.

TECs were allocated budgets according to historical patterns and contemporary needs. They could also compete for other resources, such as those available through the European Social Fund. TECs rarely, however, provided direct services and they contracted out their programmes to other organisations many of which had previously delivered MSC programmes.

These new 'private sector led' organisations soon experienced a contradiction between their apparent mission, to reform 'in-work training', and their contractual obligation to deliver programmes for the unemployed (Bennett et al, 1994, p.167). TECs were soon enmeshed in contractual negotiations and obligations and they emerged with fewer flexibilities than had originally seemed to be on offer. They did, however, have the freedom to reinvest any surpluses generated on their unemployment contracts into other activities they prioritised. TEC executives could maximise this transfer of funding through the 'surpluses' generated via the performance related contracts to which they and their providers were to become subject. These performance related contracts were modelled on experience from the USA and replaced arrangements that had given providers little apparent incentive to place their clients into jobs. It soon became clear that while the new approach focused contractor attention on ensuring that employment programmes got people qualifications or jobs they also increased pressure on providers to work with the most 'job ready' and not those with greater labour market barriers (Meager and Honey, 1993).

By the time that Labour was elected in 1997 TECs were under political pressure. They had accumulated trading surpluses from their contracts for the long-term unemployed, and had reinvested the resources in cash reserves and other initiatives. Some made controversial property investments. One collapsed spectacularly as it struggled to generate the required outcomes in a high unemployment inner city area. It was suggested that the employer-led boards that controlled TECs lacked accountability and had failed the long term unemployed. After consultation the Labour Government abolished the TECs, replacing them with broader partnerships, called Learning and Skills Councils. These are firmly based in the public sector and responsible for distributing funding for all post compulsory school age education and training (apart from Universities). Unlike TECs, LSCs are more directly accountable and have little capacity to accumulate surpluses. Like TECs, however, the LSCs deliver their programmes by contracting with a diverse range of public, private and voluntary sector organisations.

The Employment Service

After abolishing the MSC the Conservative Government reconstituted the ES as a 'Next Steps' executive agency, the administrative form it was using across Government to inject a more business-like culture and secure efficiency gains. As an executive agency

the aims and objectives of the ES were determined in a three year Framework Document agreed with Government. More detailed performance agreements and targets were negotiated annually. A Chief Executive and Board were given operational freedom to deliver the targets and the power to contract out agreed services. Jobcentre Plus inherited this relationship and each year it now agrees its budget and detailed performance targets with the Secretary of State for Work and Pensions.

During the 1990s the role of the ES, its aims and objectives and activities changed significantly. The first trend was the emphasis on reinforcing work incentives and maximising and monitoring the job seeking behaviour of the unemployed. This was underpinned by what became known as the 'stricter benefit regime'. The second trend was the shift towards a 'work first' system marked by greater use of low cost measures aimed at immediate job search and job entry. The third trend was a performance targets regime that increasingly was geared to immediate job entry, benefits policing and the imposition of sanctions.

From its creation the ES was required to achieve annual efficiency savings over and above general changes in their funding. Senior managers secured these 'gains' through a combination of market testing, contracting out, cost reviews and other techniques such as business process re-engineering (Fletcher, 1996, p.174). This challenged traditional bureaucratic practices and absorbed the energies of senior ES managers. In developing market tests, for example, managers had to draw up detailed contract specifications, often for the first time, and had to differentiate between groups of staff who acted as contract managers and others who became service providers. These 'Chinese walls' were erected to ensure fair competition but they also created barriers to communication (Price, 2000, p. 305).

In practice, the ES was successful in many of these 'contracting out' exercises and retained control of advisory interviews, job broking and vacancy placement and some elements of benefit administration. By 1996, however, the ES had withdrawn from most direct programme provision and, through its Regional Offices, contracted out its employment programmes via competitive tendering and performance related contracts to a diverse range of 'for profit' private providers, voluntary sector organisations, colleges, Local Authorities and religious groups.

By 1996 the ES was promoting itself as a high performance and high achievement agency, with a reputation for implementing new national initiatives to short timescales. It was able to demonstrate that it had made a direct contribution to reducing unemployment, especially long term unemployment, by engineering a close link between job-broking and benefit administration (ESC, 1999, vol. I, p. xi). Indeed, it was the success of this link that persuaded the last British Conservative Government to retain the core activities of the ES within the public sector, notwithstanding their ideological commitment to full privatisation (Price, 2000, p. 304).

The ES and the 'stricter benefit regime' contributed to reducing unemployment but in 1997 the New Labour Government inherited significant problems. The new

contractualism had prompted more active job search and increased job entries but there was evidence too that more people experienced benefit sanctions, some long term unemployed were 'churned' through programmes and others were placed in short term jobs. Many of the older long term unemployed migrated to disability benefits or took early retirement. Long term unemployment blighted disadvantaged areas; and nearly one in five British households of working age had no one in work. On the ground there was dissatisfaction amongst front line ES staff and scepticism about employment 'schemes' amongst the unemployed and employers (EPI, 1998; Finn et al, 1998; Bentley et al, 1999).

The employment assistance market: the role of 'non profit' voluntary, community and public sector organisations

Before considering the reforms of New Labour it is helpful to reflect on the nature of the external organisations that emerged as subcontractors in the new employment assistance market. It is significant that while in the 1980s many 'for profit' organisations bid for training contracts such organisations were far slower to emerge in the provision of other employment assistance programmes for the unemployed. In the initial phases of reform, when mass unemployment peaked in the 1980s, it was 'not for profit' voluntary and public sector organisations that were crucial for programme delivery. The British Government's ability to rapidly develop large volume programmes owed much to the willingness of these voluntary agencies, community based organisations and local public authorities to come forward to directly run schemes and to provide placement opportunities for schemes run by other bodies. They also dominated as 'for profit' organisations were excluded from running temporary employment programmes that might undermine regular jobs.

When unemployment fell, however, the sector changed radically as Conservative Governments cut expenditure and shifted focus towards shorter remediation and job preparation courses. This process was associated with the introduction of market oriented funding systems where overall budgets were reduced and increasingly provider payments depended on placing participants directly into jobs. This process had a particular impact on the viability of voluntary and public sector providers as they tended to work with those least employable and most distant from the conventional labour market.

Delivering employment and training programmes proved a mixed blessing for voluntary and public sector organisations. By the mid-1990s many had withdrawn from participation and others found it increasingly difficult to manage the 'boom and bust' funding cycles associated with abrupt changes in programmes, targets and funding regimes. One result was a weak provider infrastructure in numerous localities and for many years the sector has been characterised by instability both for those organising premises, staff training, and so on, and for those working directly with the unemployed. This has limited the capacity of these organisations to build durable relationships with other providers and with employers, especially in the areas of highest unemployment. These issues have continued to limit the effectiveness of the 'for profit' providers that increasingly displaced the 'not for profits'.

Street level research revealed the complexity of the local relationships that emerged in this mixed economy. One project, which looked at four cities, found many examples of positive links between agencies; especially between key staff working for providers of employment programmes and those in the ES (Finn et al, 1998). There were problems, however, when the incentive structure of the new performance related contracts worked against the interests of the unemployed. For example, competition between various providers meant that information was not always shared or communicated to clients. Competition for vacancies also was strong as many organisations sought to develop exclusive relationships with prospective employers.

The change of Government in 1997, followed by the swift implementation of New Deal programmes for the unemployed, helped reverse some of the trends. In many parts of Britain voluntary agencies, community based organisations and the public sector came forward to help deliver and participate in the New Deals. Some of the contracting organisations involved have been able to secure impressive results but overall many have struggled to deliver the outcomes expected. This performance partly reflects the programme reductions and recruitment problems related to falling unemployment. It also reflects the problems of the 'hard to place' clients with whom these organisations typically work. There has, however, been significant performance variation between providers in similar labour market circumstances and this has prompted much debate about the capacity of the sector to grasp the opportunities available and to develop the basic skills and levels of employability that employers expect. This concern partly explains the determination of the New Labour Government to introduce more radical experiments directly drawing on the skills and expertise of the 'for profit' sector.

New Labour, the ES and Jobcentre Plus

Within weeks of taking office in 1997 the Labour Government gave the public ES the lead responsibility for delivering its flagship New Deal employment programmes. The senior managers of the agency grasped the opportunity to modernise and rebuild its credibility with the unemployed, employers and other agencies. This strategy involved the introduction of a new generation of front line New Deal personal advisers; contracting with a broad range of public, voluntary and private sector organisations for the delivery of new services and employment and training options; and changes to ES performance targets that encouraged it to work with other agencies.

Jobcentre Plus inherited this partnership culture and the nature of its expanded remit requires it to work more extensively with a broad range of service providers and agencies at both local and national levels. Some of these relationships will be contractual, others may not be. In 2002 Jobcentre Plus was reported to have contracts with over 1,000 private, voluntary and public sector organisations to deliver employment programmes alongside a range of administrative and property services that were contracted out and delivered by 'for profit' companies (W&PSC, 2002). By 2003 it was estimated that this 'market' involved contracts worth about £1 billion per annum.

The contracts that Jobcentre Plus enter into with service providers are evolving. For most general provision the process involves sub contractors registering and qualifying for an 'Approved Providers Register'. Contractors are assessed for financial probity and viability, their previous performance and their capacity for continuous improvement. Once on the register contractors can submit bids when invitations to tender are published. This approach is seen to be "most suited to the delivery of significant volumes of business" (W&PSC, 2002). Jobcentre Plus is free to adopt a different approach when contracting for more specialist or innovative services. It has experimented with alternative forms of tender documentation; provided support for organisations submitting bids for the first time; and moved away from standardised funding models in order to secure the services of particular providers. This use of non standard contracting has been necessary to engage with smaller and specialist organisations. Overall Jobcentre Plus aims to develop contracts based on "the achievement of outcomes rather than prescribed inputs; encouraging the maximum level of outcomes; sharing risk between Jobcentre Plus and providers; and reducing levels of bureaucracy" (ibid). The ambition is to generate improvements in the performance of Jobcentre Plus providers and to develop capacity amongst a broader range of 'not for profit' or 'for profit' intermediaries that may work more effectively with particular client groups or in specific localities (NDTFI, 1999).

In addition the Department for Work and Pensions has been made responsible for more formal experiments with private sector led organisations where Jobcentre Plus has to compete directly with external organisations. These experiments aim both to test new approaches to tackling unemployment and to benchmark the overall performance of Jobcentre Plus. This approach has, for the first time in Britain, seen the significant commercial involvement of private recruitment agencies in front line advisory work previously monopolised by the public sector.

Private Employment Agencies and Labour's Employment Programmes

Before 1997 few private employment agencies played a significant role in the development or delivery of mainstream employment programmes.¹ This changed under New Labour. The Department for Education and Employment (DfEE) that the Government inherited was given responsibility for the New Deal and the public ES was given the lead role in implementing the programme. The Chancellor of the Exchequer, who was politically steering the 'welfare to work' strategy through the Treasury, required DfEE to utilise an 'evidence based' approach to harness, and learn from, the skills and capacities of the private sector in order to bench mark with and speed up the modernisation of the public ES.

¹ In Britain the ES has for many years operated alongside an extensive private recruitment industry that has grown in diversity as the labour market has been deregulated and non-standard employment contracts have flourished (Michelson et al, 2003). Despite competitive tension between public and private sector job broking there has, since the 1980s, been a formal agreement about how Jobcentres should handle vacancies notified to it by the private recruitment industry. Jobcentre Plus inherited the 'digest of good practice' and private agency vacancies account for up to 15 per cent of the vacancies they handle (ESC, 1999, vol. 1, p. xx).

The first indication of a new approach was an early decision to invite private sector bids to run Labour's flagship programme – the New Deal for Young People – in two out of the 144 local delivery units (Rodger et al, 2000). This was followed by a decision to contract out delivery of the New Deals for the unemployed in up to ten areas. These contracts were renewed in 2002 and another two districts were added (DWP, 2002). About ten per cent of New Deal provision for the unemployed now is delivered through the private sector.

Private sector 'experiments' have since been used to test a variety of DWP sponsored delivery and programme arrangements with the most radical of the experiments being undertaken in what are called Employment Zones (EZs).

The public ES responded to the competitive pressures created by these experiments by entering into a strategic relationship with a major private recruitment agency. In some areas Jobcentre Plus now competes directly with private agencies, in other programmes it works in partnership with Manpower, the UK subsidiary of one of the largest recruitment businesses in the world. This joint venture is known as 'Working Links'. The rationale for Manpower's involvement was explained by one of their Directors (Faulkner, 2001). Manpower had no interest in taking part in the 'piecemeal privatisation' of the ES. Instead it aimed to combine the "experience, strong value sets and proven capability" of both sectors to "deliver a superior product" that would more effectively secure "sustainable jobs" for the long term unemployed (Faulkner, 2001). The operations had to be "commercially viable" but the aim was to improve the capacity of the public sector. This was to be achieved by working largely with public sector managers in a "conscious effort" to ensure that new practices operated in ways that would be fully replicable across the public sector organisation.

Employment Zones

'Fully fledged' EZs became operational in 2000. They were set up in fifteen of the most disadvantaged labour market areas in which unemployment had not fallen as fast as the average (Hasluck et al, 2003). In these localities participation in EZs is mandatory for unemployed people aged over 25 who have, in eight zones, been out of work and claiming Jobseekers Allowance (JSA) for over 18 months. In the other seven zones participation is mandatory after 12 months. Since June 2001 zone participants who have failed to get jobs have been re-mandated to participate in the zone after 13 weeks of claiming benefit.

The first EZ contracts were awarded on the basis of a competitive bidding process subject to EU procurement directives. After the bids were assessed by DWP officials the Government Minister awarded Working Links, the joint private and public sector venture, eight of the contracts and agreed its involvement with a partnership in another city. Reed Personnel were awarded four contracts, and Pertemps Alliance one. A local partnership delivered an EZ in rural Wales. Each contractor was awarded all of the relevant provision in the area for which they won the bid.

The first EZ contracts ended at the end of March 2004. They have been replaced by new five year contracts and in zone areas coverage has been extended to young people who would otherwise re-enter the New Deal (for whom participation is compulsory) and lone parents (who can choose to join on a voluntary basis).

There are now two types of contract. There are seven 'single provider' zones where the contractor has a monopoly of provision. Four are operated by Working Links, one by Pertemps Alliance, and the other by Work Directions (an offshoot of an Australian Job Network provider). There are also six 'multiple provider' zones in larger urban areas where contractors compete with each other. Participants are randomly allocated to each individual provider. The job entry results from a randomly selected client group should enable evaluators to assess the relative success of the different approaches with more accuracy.

The EZ contracting model

The zones are intended to give providers greater freedom to design their own interventions as against the more prescriptive sequence of employment assistance available in the standard New Deals. Both approaches use front line 'personal advisers' but the distinctive feature of the zones is the funding and flexibility of the contractual model. In the zones individual benefit payments are combined with the resources for active measures into what are called 'personal job accounts' (PJA). Between 2000 and 2002 the overall budget for EZs amounted to £112 million, £54 million of which was accounted for by the Jobseekers benefit payments the participants would otherwise have received (TUC, 2003).

'Benefit transfer' helps fund the performance incentive for the contractors. Under the first round of contracts EZ providers received a fee of £300 for each participant and were advanced the equivalent of 21 weeks average benefit, averaging around £1,300, out of which they paid the client's basic benefit entitlement for up to 26 weeks. The provider keeps the residue if the client is placed in work before 21 weeks but the risk is that they must make up the shortfall if the client remains unemployed. About £400 has been payable on job entry and approximately £2,500 is payable after 13 weeks retention in a job. Premium payments were made for clients with unemployment durations above three years (Hirst et al, 2002, p. 2).

Working practices and front line delivery in EZs

In practice, there are three stages of EZ support. Stage 1 involves an initial 'gateway' advisory process, which can last up to 13 weeks, aimed at tackling immediate employment barriers, identifying objectives and agreeing an Action Plan using the Personal Job Account. During this period the participant retains their conventional JSA payment. Stage 2 is the most intensive and is the point at which the PJA can be used and where the contractor becomes responsible for paying up to 26 weeks benefit. This phase can last up to six months and can involve a range of assistance, from training through to employment subsidies, specified in the Action Plan. Stage 3 provides support once the

individual is placed in work to ensure that employment is sustained.

One aim of EZ contracts was to test the ways in which private sector providers would use their flexibility when seeking to maximise their performance and financial returns. An extensive qualitative evaluation explored differences that had emerged in the experiences of front line advisers and the unemployed in zones as against comparable New Deal advisers employed by Jobcentre Plus. This found that advisers in zones earned higher basic salaries, sometimes supplemented by substantial bonus payments linked to meeting their job entry targets. Public sector advisers received better work related benefits, including non-contributory pensions and permanent contracts (Joyce and Pettigrew, 2002, p. ii). Both groups of advisers were also asked what they thought the optimum size of their caseload should be. In zones it was 40; in the New Deal it was 30. In reality caseloads in zones ranged between 55 and 80; in the New Deal they ranged between 45 and 60 (ibid, p. 14).

Some zone advisers were on secondment from the public sector. They were attracted to the zone because of the greater autonomy they thought they might enjoy and/or because of a potential increase in pay. The zone advisers who were new to the industry tended to be younger with some being recruited direct from university. It seemed clear that zones had recruited from a diverse range of private sector occupations in order to build teams with a breadth of experience. New advisers previously had worked in the recruitment industry, finance, sales and marketing, counselling, career advice, psychiatric nursing, and training. One advantage, according to some of them, was that unlike Jobcentre staff “they did not have any preconceptions” of how they should carry out their jobs (ibid, p. 9).

The evaluation found some differences in working practices. If initial job search support was unproductive public sector advisers were more likely to refer clients to external provision and then see their clients less frequently. Zone providers saw their clients regularly throughout their participation and made less use of placements with external providers. Advisers in both systems complained of undue administrative and bureaucratic requirements but both sets reported that they considered themselves ‘relatively autonomous’, at least in comparison to mainstream Jobcentre staff (ibid, p. ii).

These findings were reinforced by the results from a large scale survey of both EZ and New Deal participants in matched comparison areas (Hales et al, 2003). This found similarities in that participants in both programmes had a number of one-to-one meetings with the same adviser and these contacts focused on jobsearch efforts. Participants were encouraged to be realistic about the jobs they wanted and given advice about seeking work. Most participants were appreciative of the support they received although a significant minority were not. About 12 per cent of zone respondents said they had experienced a benefit sanction over the relevant period, compared with 18 per cent in the comparison areas (ibid, table 4.2.6).

Participants were more likely to report that zone advisers had been more supportive and more frequently were thought to “have influenced the outcome when a job had been

obtained”. Zone participants were also more likely to suggest that the programmes content had been organised to suit their individual needs, “rather than the programme having a ‘menu’ of activities to which they were being assigned”. More New Deal participants had received training or subsidised work experience but these arrangements were not common in either programme. By contrast more zone participants reported that their adviser had been in a position to spend money to help them get a job. This devolution of small budgets and decision making to front line advisers had been quickly identified as one of the most successful innovations to emerge from the private sector experiments and it was subsequently adapted for the public sector. New Deal advisers now have access to a ‘Discretionary Fund’ that enables them to spend up to £150 per participant on tackling immediate employment barriers.

The qualitative EZ evaluation reported that despite apparent variations in the approach of the zone contractors their practical implementation structures converged. All had a similar flat organisational structure: a manager, deputy manager, and personal advisers with, in most zones, a marketing (to employers) function (Hirst et al, 2002, p. 9). All had ‘dedicated and welcoming’ premises and an ethnic staff mix that reflected the local population.

In terms of links with employers the zones had not expanded the type of job vacancies available for the client group. These were constrained by the characteristics of local labour markets and of clients. The zones relied on traditional Jobcentre vacancies although there was evidence that the employer specialists recruited by most zones were developing relationships with employers and local employment agencies that gave access to vacancies that might otherwise have been filled through other means (ibid, p. 47).

The evaluation reported that many of the stakeholders interviewed suggested that the approaches developed by EZs were effective with a group of clients who had often been failed by traditional programmes, albeit both approaches were unable to tackle the barriers of the ‘unemployable’. The core strength of the approach, according to the evaluation, was the level of discretion available to contractors in local delivery (ibid, p. 55):

Zones have acted as joining-up organisations, helping reconfigure the support services required by the long-term unemployed. This has been done partly through organisational linkages with other programmes. More importantly personal advisers operate on behalf of clients to pull together services from a range of sources to help them back into sustainable employment.

The employment impact of EZs

General operating data shows that by the end of June 2003 more than 80,000 unemployed people had participated in a zone, more than a third of whom left to enter sustained employment (they had not reclaimed a benefit within 13 weeks). More than one in five was male, a third were from minority ethnic backgrounds, and one in five recorded as having a work limiting health or disability. A more complete picture is given by assessing

the position of those who joined the programme between July 2001 and June 2002. Of the 29,810 people who joined just over 40 per cent had entered employment by the end of June 2003, of which just under 80 per cent were sustained jobs (DWP, 2003).

The Government commissioned two major evaluations to explore the 'net impact' of the zones. One utilised administrative data, the other was informed by surveys of participants. In each evaluation comparisons were made between zone participants and the experiences of those in New Deal programmes in matched high unemployment localities.

The quantitative evaluation of administrative data assessed individual periods of unemployment and unemployment flows over time. The data was then subjected to a battery of statistical tests and the results appeared consistent. They "point to a small but significant programme impact in exits from unemployment during the first year" of zone activity (Hasluck et al, 2003, p. 77). This programme effect was not at the expense of other groups of the unemployed. The evaluation also reported, however, that by the third year of operation the programme impact had been considerably eroded.

These findings were confirmed by the results of large scale participant surveys where some 1,800 zone and 1,000 New Deal participants were interviewed in two waves (Hales et al, 2003). By the first interviews, ten months after the respondents had first become eligible for programme support, 34 per cent of zone participants were in paid employment or had been, compared with 24 per cent of the New Deal participants. The difference was "statistically significant" (ibid, p. 1). At the second stage interviews, a further ten months later, some 55 per cent of zone and 51 per cent of New Deal participants were either in jobs or had been in them. The difference was significant but not statistically so. It is important to note that over the research period the comparable New Deal programme was itself changed, incorporating some key features from the zone approach.

One other significant finding to emerge from the participant surveys was that in both zone and New Deal areas many of the jobs that had been sustained for over 13 weeks "had not lasted in the longer term" (ibid, p. 1). According to the evaluation this reflected labour market realities for the long term unemployed. Many jobs were temporary and were with small employers and offered low wages. The personal barriers of the clients, such as ill health, lack of skills and qualifications also contributed to the short duration of job tenure. The participant surveys found that those who were least likely to have entered employment, or to have retained it, were the 'harder to help' – those who had a history of unstable employment or characteristics such as a criminal record. Even "some 20 months after being eligible to participate, almost half the participants had spent no time in paid work".

An earlier evaluation of zone implementation found that these personal barriers may have been reinforced by the harsh commercial realities in zones. The incentive system forced contractors to estimate their future income stream from clients so that they could concentrate adviser support on those who were the "key to making profits" (Hirst et al,

2002, p. vi). This led to the informal segmentation of clients into 'job ready', 'near job ready', 'not job ready', or 'unemployable', with this latter group having a variety of drug, alcohol, mental health, or other barriers unlikely to be resolved in the 39 weeks available (this group was estimated to make up between 25 and 40 per cent of the client group). This segmentation was reflected in adviser practice with resources concentrated on those closer to the labour market. Those thought unemployable were likely to be 'parked'. They received fortnightly interviews with minimum additional help and/or were referred to other benefits or voluntary organisations that did not charge for services (ibid, p. vii). As Stephen Martin, formerly employed by Reed Personnel observed, zones were unlikely to pay for lengthy training courses or pay "the cost of intensive support for participants facing acute barriers" (Martin, 2002, p. 21). In public sector areas advisers may have more readily made referrals to other providers but that was no guarantee of effectiveness. New Deal advisers also reported that the pressure to reach Jobcentre Plus performance targets meant that they too were more likely to focus their efforts on those they thought to be more 'job ready' (Finn. 2003).

The participant evaluation concluded that zones had "shown a capacity for innovation and for taking a flexible approach to the needs of participants" and concluded that "this resulted in a higher rate of job outcomes than would have occurred if New Deal .. had operated" in those areas (Hasluck et al, 2003, p.1). It also concluded, somewhat pessimistically, that there were few ways in which zones and mainstream programmes could increase the proportion of participants gaining employment or retaining longer term employment. These issues are now the subject of new experimental job retention and job creation programmes.

Conclusion

Contractualism has been a vital instrument for transforming the British public employment service and the relationship between unemployed jobseekers and the state. Notwithstanding the failure of TECs, the market testing, contracting out and privatisation introduced by Conservative Governments generated efficiency gains and, in combination with a 'stricter benefit regime', pushed down levels of unemployment. This process was reinforced by the performance targets and contracts that shaped both the ES and an emerging mixed economy of providers.

New Labour has further developed this quasi-market. It has introduced a new 'employment first' welfare state and created Jobcentre Plus. There are New Deal employment programmes for the long term unemployed and, in the context of a robust labour market, there have been further reductions in unemployment and long term unemployment. More sophisticated contracting models have been developed and experiments with the private sector have been utilised to drive forward public sector reform. EZs have been supplemented with other experiments and the DWP now contracts with 'for profit' providers in 'Action Teams' for the long term jobless and with contracted 'Job Brokers' for people with disabilities. The Prime Minister has linked such 'private public partnerships' with the future of the welfare state and with the key

principles that are driving public sector reform (PM, 2002). When announcing the continuation and extension of EZs Tony Blair emphasised that in the zones local flexibility, discretion, the focus on job outcomes, and a front line “can do” mentality, had secured “really impressive job outcomes” that were “popular with claimants”.

The evaluation evidence gives some support for the Prime Ministers contention but the evidence has also exposed the rationing and targeting of employment support that takes place at the ‘street level’ of the employment assistance market. It has confirmed that existing ‘employment first’ programmes struggle to assist those furthest from the labour market and the design of future contracts will need to be more carefully crafted if the strategy is to avoid the ‘parking’ and service reduction strategies that have characterised the privatised Job Network in Australia (PC, 2001).

A rich tapestry of personal, commercial and public sector contracts will continue to be used to structure and drive the relationship between the state, the public employment service and the unemployed. In the context of delivery, however, the key policy question in Britain is whether private sector organisations should actually replace Jobcentre Plus. The Conservative Opposition have made clear that if returned to power they intend to privatise Jobcentres, abandon the New Deals, and create an employment placement market similar to that in Australia. At the same time other commentators, especially in the public sector, suspect that New Labour’s experimental strategy with EZs represents a stepping stone, creating the ground from which a full scale privatisation could be launched. Whatever the immediate political outcome the likely challenge to emerge for a future Government will be how to manage this evolving market and effectively respond to rapid changes in labour market circumstances via the multiplicity of contracts and diversity of delivery mechanisms that are the legacy of ‘contracting out’ and privatisation.

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