

## **The Employment Service and Public Private Partnerships**

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### **Introduction**

The Labour Government has put the creation of a 'work-based Welfare State' at the heart of its strategy for modernising Britain. The key changes have involved the introduction and rapid extension of a variety of mandatory and voluntary New Deal job search, training and employment programmes; tax and benefit reform to 'make work pay'; and the 'activation' of the benefit system, where lone parents, carers and people receiving disability benefits, can now be required to attend work related interviews and assessments. The objectives of this transformation are both economic and cultural. One aim is to increase the sustainable level of employment by getting more benefit claimants into work. The other is to change the culture of the benefits system "towards independence and work rather than payments and dependence" (HMSO, 1999, Chapter 4).

The 'welfare to work' strategy involves more than the abstract creation of opportunities and incentives. The Government has coupled policy change with radical organisational reform. Most significantly, it has announced the creation of a new agency, "with a clear focus on work", which will bring together the Employment Service (ES) and those parts of the Benefits Agency which support people of working age (Local Authorities are expected to continue to administer Housing Benefit). The new service will learn from the existing 'One' pilots and "deliver a single, integrated service to all working age benefit claimants and employers". After bringing together central functions the new front end delivery of services will be gradually rolled out across the country, commencing in 2001. According to the Prime Minister the new agency will be in the "front line of the drive to modernise Government" and will "continue to develop the partnership approach to working with local authorities and the private and voluntary sectors which the Government has adopted in implementing its welfare to work policies" (Hansard, 16 March 2000, col. 257W).<sup>1</sup>

The 'senior partner' in this new agency will be the ES which has successfully 'reinvented' itself following the 1997 General Election. After being given responsibility for delivering the New Deals the ES has invested time and resources in redefining its approach in order to rebuild its credibility with the unemployed, employers and other agencies. This has involved the creation of a national network of local New Deal partnerships; the introduction of a new generation of front line employment 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 its performance targets which have started to encourage it to work with other agencies. DfEE has emphasised that "partnership is key to the success of the New Deal" (1999, p.126) and in its 'Way Ahead' the ES acknowledged that it would need to "maintain and further extend" this partnership approach as it engages with the hardest to place unemployed and previously 'inactive' benefit claimants (ES, 1999a, p.6).

Recent developments in labour market policies have also ushered in an expansion of direct private sector involvement in the delivery of new services for the unemployed. Private sector

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<sup>1</sup> While the Welfare to Work strategy and New Deal programmes cover the whole UK, the ES and BA only cover GB, with different institutions responsible for delivering programmes and benefits in Northern Ireland. Devolution in Scotland and Wales also means that some differences in aspects of both delivery and institutional arrangements are likely to increase.

organisations, in varying combinations with the ES, are now responsible for delivering most Employment Zones, and in a number of areas are delivering the New Deals for the unemployed and the 'One Service'. The Government maintains that this is not a prelude to privatisation but a variation of its partnership strategy where it is attempting to include the resources, expertise and innovative practices of the private sector in delivering the broad welfare to work agenda.

This paper outlines the role and purpose of the ES and its relationship with its provider network and the private sector. It describes the 'front line' legacy that New Labour inherited and the ways in which the ES has 'reinvented' itself. It then assesses the progress of the New Deals and the role that local partnerships have played in delivering the programmes. Finally, it considers the capacity of the existing mixed economy of private, voluntary and public sector providers to deliver the Government's ambitious agenda with a particular focus on the emergence of the 'new intermediaries' and the growing role of the private sector.

### **The Employment Service**

The modern Employment Service was formed in 1987 bringing together the activities of the Job Centre network with the former Unemployment Benefit Service. Subsequently, in April 1990, the ES became an Executive Agency and, following a departmental merger in 1995, it became accountable to the Secretary of State for Education and Employment. The Secretary of State defines the aims and objectives of the ES through a 'Framework Document' and sets out targets for the ES in an Annual Performance Agreement. Currently the ES employs nearly 32,000 staff and has a national network of nearly 1,100 Jobcentres.

The role of the ES, its aims and objectives and the nature of its activities have changed significantly. From the mid-1980s labour market policy moved away from large scale, undifferentiated ('one size fits all') training and work experience programmes towards policies designed to ensure that those claiming unemployment benefits remain attached to the labour market and that the barriers which prevent individuals taking up jobs are removed. The integration of job broking, active labour market policies, mandatory remotivation courses and tighter benefit administration, effectively merged what had previously been separate 'enabling' and 'benefit policing' roles.

Four key trends characterised the policy environment that the ES worked within before the introduction of the New Deal. The first trend was the emphasis on reinforcing work incentives and maximising and monitoring the job seeking behaviour of the unemployed in the context of a deregulated labour market. This was underpinned by what the ES called the 'stricter benefit regime'. The second trend was the shift from more resource intensive active labour market programmes towards measures for immediate job preparation and job entry (the 'work first' approach). The third trend was a performance targets regime which was increasingly geared to immediate job entry, benefits policing and the imposition of sanctions. Finally, the ES was under constant pressure to reduce its operating costs and obtain better 'value for money'.

Over a ten year period the ES achieved its 'efficiency savings' through a combination of market testing, contracting out, cost reviews and other techniques such as business process re-engineering (Fletcher, 1996, p.174). One consequence was that by 1996 the ES had withdrawn from most direct programme provision and, through its Regional Offices, contracted out its schemes via competitive tendering and performance related contracts to a diverse range of private providers, voluntary sector organisations, colleges, Local Authorities and religious

groups.

### **A Mixed Legacy: Front Line Staff and Providers**

The ES has promoted itself as a high performance and high achievement agency, with a reputation for implementing new national initiatives to short timescales. Despite much controversy about the way it measured its job entry performance there is no doubt that the ES has made a significant contribution to reducing unemployment, especially long term unemployment, before (and since) the change of Government (ESC, vol. I, 1999, p. xi).

However, despite this success, the new Government inherited significant problems, especially in the areas of highest unemployment, where there was considerable dissatisfaction amongst front line ES staff and widespread scepticism about ‘schemes’ amongst the unemployed, employers and providers. This legacy was most strongly expressed in the findings of the many official and independent ‘focus group’ research projects that accompanied the introduction of the New Deal (EPI, 1998; Finn et al, 1998; Bentley et al, 1999).

One study, which involved depth interviews with over fifty ‘street level’ key workers in the ES and amongst their providers, found a strong overall sense that ES staff had a difficult job to do especially in urban areas of high unemployment but that it was made even more difficult through a lack of resources, compounded by persistent queues and in some cases by poor management (Finn et al, 1998). ES workers themselves were critical of high caseload and the target culture within which they worked, feeling that the pressures made it difficult for them to give individual support, could result in unsuitable submissions and in some cases led to “burnout”. It seemed that rigid targets for the number of people being referred to programmes distorted ES priorities, prevented them from delivering a fully client-centred service, and meant that too many people ended up in programmes unsuitable for their needs.

According to all the key workers in these high unemployment areas high staff turnover and mobility in the ES was a major problem. It undermined the continuity of working relationships, both between the ES and the unemployed, and between the ES and provider organisations. At the ‘front line’ lack of experience led to problems including poor quality advice and guidance, clients being directed to programmes or premises that no longer existed, misinformation about the right to combine benefit with part-time study, and problems in giving unemployed people accurate advice about in-work benefits. These problems were exacerbated by the use of casual staff which was highest in these areas and had also increased, from a normal 7% of all ES staff to nearly 13% in 1996-97, as the ES coped with the demands of implementing the Jobseeker’s Allowance (JSA). Even though ES staff morale improved dramatically after the change of Government the 1997 Annual Staff Survey still found that only 37% thought the ES had well motivated staff and only 33% thought their office had sufficient staff to provide a satisfactory service.

At ‘street level’ the relationships between the various organisations involved in the “unemployment industry” were complex. There were many examples of positive links between agencies and especially between key staff working for providers and in the ES. However, there were problems that worked against the interests of claimants. For example, competition between various providers meant that information was not always shared or communicated to clients. Competition for vacancies was also strong with many organisations seeking to develop exclusive relationships with prospective employers. There was also much “turbulence” and instability amongst the provider network. Small organisations suffered greatly from

fluctuations in demand and found it hard to compete for and deliver ES programmes. Larger organisations experienced considerable instability, owing to policy changes and budget reductions. This volatility in the market encouraged the employment of many front-line staff on short-term contracts, job changes were common and there was little incentive to invest in their skills.

Despite the problems experienced by the ES provider network some of the organisations involved were part of a significant trend in the late 1980s and 1990s which had witnessed the development of a broad range of local and non-governmental organisations which had developed their own smaller-scale local training and employment initiatives. Many were supported by Local Authorities, by regeneration partnerships, by TECs and LECs, and by the European Commission. Juggling with complex funding regimes and often inflexible benefit regulations, organisations working with women and lone parents, with refugees, with ethnic minorities, with the homeless and with the young and long term unemployed, created new advice, information and training services, many of which appeared to secure impressive job entry and progression rates. According to one review (Turok and Webster, 1998, p.324):

Many offer a wider range of support and better integrated provision, including independent guidance and counselling, personal development and vocational training in flexible packages, customised training for specific vacancies, work experience paying the rate for the job and providing transferable skills, complementary child care, intensive assistance with job-seeking, and progressive wage and training subsidies to private employers with some obligation to keep on recruits afterwards.

The development of these smaller scale local projects reflected a growing change in perspective. By the mid-1990s it was not only recognised that long term unemployment and joblessness was concentrated in particular areas, but that different local approaches were necessary to respond to the needs of these “partially connected, differentiated, local labour markets” (Campbell et al, 1998, p. 2). However, although the last Conservative Government had, particularly through the SRB, begun to promote the development of local partnerships in areas of high unemployment there was no significant attempt to draw the ES into this new way of working. Institutionally, the ES maintained its independence and argued that it was “a national organisation delivering standard products and services in all parts of the country”. It saw no “scope for added value through separate product and service development in each region” (RPC, 1996, p.119). The consequence was that ES programmes had little local flexibility, and the service was driven by its nationally determined output targets. This reinforced the isolation of Jobcentres from many employment and regeneration initiatives, especially those funded through SRB and ESF.

There was also no effort to create direct links between local partnerships and the activities of the Department of Social Security and its service delivery ‘Benefits Agency’ (with about 500 local offices). The BA is responsible for the assessment and delivery of most benefits but so far it has had little apparent flexibility about how they might apply their rules in ways that are better integrated with local employment and training programmes.

### **Delivering the New Deal: the Task Force, Local Partnerships and Contracts**

Within weeks of taking office the new Government gave the ES the lead responsibility for delivering the New Deal. However, they understood that the ES had a credibility problem and that it would be vital to involve employers and a broad range of other organisations in the

delivery of the programme to build capacity, ensure effective delivery and secure job outcomes.

At national level a New Deal Task Force was established, with representation from major employers, trade unions and the public and voluntary sector. The Task Force has subsequently monitored implementation, given advice to Government, and sought to build employer involvement in the programme (for example, through the creation of Employer Coalitions in ten cities). It is supported by a broader Advisory Group with representation from TECs, the voluntary sector, FE colleges and so on. Parallel national advisory Task Forces have been established in Scotland, Wales and Northern Ireland.

At local level the New Deals for the unemployed are delivered through 144 'Units of Delivery'. Initially the relevant ES District Managers were encouraged to consult widely and to form local strategic partnerships to develop 'District Delivery Plans' (which are updated annually). In most areas it seems that early broad based consultation was followed by the creation of a narrower group of key strategic partners, usually involving Local Authorities, the TEC, Further Education Colleges and some employers.

While some diversity was encouraged the flexibility that exists in the New Deal has mainly been in the **delivery** not the **design** of the programme. However, increased flexibility has been generated by local partnerships utilising other funding streams and by initiatives supported by a national innovation fund, and by 2000 an evaluation report found "growing evidence of differences in the New Deal experience between areas" (Hasluck, 2000, p. vii). In terms of delivery, local areas were given a choice of three contracting models, although it was made clear that the actual award of contracts would be conducted through competitive tendering with final decisions being made by regional ES officials. By 1998 a wide variety of partnerships had emerged, ranging from Joint Venture Partnerships, where the ES shares contractual responsibility; through to 'consortia' where the ES contracts with one organisation which subsequently contracts with providers; through to more conventional arrangements where the ES controls individual contracts but works with an 'advisory' partnership. In ten delivery areas lead responsibility was removed from the ES and given to private sector organisations.

The initial District Plans were assessed by Regional Assessment Panels, which had Government and external representation. Although there was much diversity in the plans DfEE identified some common attributes that were shared by the 'best'. These included a rigorous analysis of the area which defined priorities and shaped the services and provision on offer; the active participation of key partners, at senior level; the commitment by business of resources and expertise, in addition to offers of vacancies; and genuine innovation in the Gateway and each of the four options. Other positive features included the integration of the New Deal with existing job creation provision, and synergy with other funding streams, such as ESF.

There were, however, significant weaknesses. There had been "confusion" about the contracting options and there was a "lack of innovation", attributed to the short timescales imposed, and a lack of direct business involvement in the design of the plans, with most employer representation "limited to the TEC or Chamber of Commerce and perhaps one company". The ES also acknowledged that the approach represented a significant challenge for staff and managers who had relatively little experience of managing partnerships and who were exposed to "much more open discussion about policy and delivery" and had to "very rapidly" develop "new skills of working with and influencing others" (ESC, vol. II, p. 188).

Evaluations of the first 'pathfinder' areas highlighted considerable success in putting complex partnership arrangements in place and reported strong local support for the New Deal (KPMG, 1997; Tavistock, 1998). However, they also found evidence of emerging problems which characterised the national roll out of the programme. In some areas partnerships had not worked well, especially where the ES had only developed relatively weak external links. Another concern was described as "partnership fatigue", where it was unclear how the New Deal for the young unemployed linked with a multiplicity of other local initiatives. There were also reservations about potential conflicts of interest and about the outcome of the contracting process. For one partner quoted there was a real danger that the partnership itself "could seem like a 'magic circle' at the planning stage and a 'cartel' at the delivery stage, if contracts went to all of the same big players" (KPMG, 1997, p14).

These criticisms were echoed in the findings of a Select Committee inquiry which, drawing on comprehensive evidence from the pathfinder areas, also reported the following concerns about the contracting process (1998, p. xviii):

- the bureaucratic and protracted nature of the process had deterred smaller organisation;
- large organisations accustomed to contracting with the ES - the 'usual suspects' - had won the majority of contracts;
- small providers suffered from 'call-off' contracts, which required them to set up an infrastructure for delivery of services without any guarantee of client flows to offset fixed costs;
- the effects of competitive tendering; and
- the effects of tight timescales upon the preparation of innovative bids.

Frustration had also been expressed at the division of responsibility between ES District and Regional Offices, with District Managers having to negotiate with partners whilst having "little autonomy" over their budgets and contracts (ibid, p.xix). There were also problems about the conflicting advice that providers could receive from different levels of the ES (UUY, 1999, p.8).

The unwieldy nature of ES contracting processes owes much to auditing controversies which characterised the early 1990s, where some TEC providers manipulated output funding regimes, and where ES and TEC procedures were found wanting (NAO, 1995). It also reflected the need to be able to withstand any challenge in terms of fairness and propriety. However, the Select Committee called for a more flexible approach to contracts and competitive tendering which would reduce 'red tape' and help build the capacity and involvement of smaller providers especially from ethnic minority communities. By mid 1998 DfEE had established a 'fundamental review of the contracting process', in consultation with 'key partners', aimed at removing any unnecessary bureaucracy. This reviewed and updated New Deal model contracts and resulted in the publication of a new more 'user friendly' guide on contracting arrangements. Steps were also taken to reduce the amount of paperwork. The revised contracting process will be tested in the next year as providers bid to be able to deliver the New Deal for the young unemployed from April 2001.

In terms of partnership working the most recent qualitative evaluation of the local New Deal Partnerships was based on case studies carried out between November 1998 and April 1999 (Tavistock, 1999). This reported that the focus of the work of partnerships had shifted from strategy to delivery. They found that membership of the partnerships had changed little during

the first year or so, but many had been able to increase participation of ethnic minority, disability and trade union representatives. However, smaller and more specialist agencies continued to find it difficult to participate. Overall, the report suggested that actual partnership working was stronger in the JVP and Consortia models and weakest in the ES and Private Sector led areas.

The actual performance of New Deal Units of Delivery, and by implication the local partnerships, is subject to several forms of scrutiny. The most significant is the regular publication of performance data, especially on job entry, which (for the first time for the ES) has been disaggregated so that inter-area comparisons can be made. To ensure that comparisons are comparing 'like with like' Units of Delivery are 'clustered' into seven categories ranging from 'rural tight labour market' through to 'inner city high unemployment'. These performance tables have revealed significant variations in achievements within the clusters and Government has used the information to try to drive up the performance of 'failing partnerships' (see next section).

A significant new dimension of scrutiny is coming through the work of the Training Standards Council (TSC), which published its first eleven reports on New Deal Units of Delivery in 2000 ([www.tsc.gov.uk](http://www.tsc.gov.uk)). The TSC require those inspected to prepare an initial self-assessment which enables them to subsequently assess the degree of management's awareness of any shortcomings that the inspectors identify. The inspection format is focused closely on raising skills and the education and training elements of all four options receive the closest attention, followed by general management, support and advice for young people and equal opportunities issues. There was little scrutiny of employment outcomes.

The first reports highlighted some good examples of the way that New Deal is making a positive contribution towards helping disadvantaged young people gain a foothold in the jobs market. The TSC were impressed with the high levels of commitment demonstrated by ES staff and by employers. They also found some extremely good examples of partnership working and the application of equal opportunities good practice. However, there were more cases where a below average grading was given than an above average grading. The New Deal Units are given the reports before publication and are expected to use the findings to remedy the problems identified.

Overall, the ES recognises the "need to continue developing and improving .. its relationships between partners at all levels" and it continues to build the capacity of the local partnerships through disseminating good practice and through working with a network of national partners to support local partnerships, for example in building ethnic minority and trade union representation (ES, 1999b, p.36). The Government has also made clear that the local New Deal partnerships are likely to play a significant role in the design, delivery and future development of the welfare to work strategy, and they are already involved in the extension of the New Deal approach to the older unemployed.

### **New Deal Outcomes: Continuous Improvement and the Job Entry Performance of Partnerships and Option Providers**

In combination with strong labour demand UK unemployment has fallen sharply and the New Deals are enabling more of the long term unemployed to compete for vacancies. Morale in the ES has improved markedly and it seems that the young people in particular have responded positively to the new approach (see, for example, Legard and Ritchie, 1999). By April 1999,

the end of the first full year, partnerships had been established and new and imaginative design elements had been implemented, including the Gateway, Personal Advisers and the variety of options. In the first year over 105,000 young people had gone into jobs, mostly unsubsidised, and over 50,000 employers had entered agreements saying they would recruit through the programme.

However, during the year significant issues emerged and the progress of the New Deals was punctuated by controversies about the degree of local flexibility; about the award and nature of provider contracts; about the involvement and performance of private sector agencies; about the numbers of those called to interviews or referred to options who “disappeared”; and about the speed with which young unemployed people were assessed and prepared in the Gateway. Significant variations in the job entry performance of areas and options emerged and young ethnic minority people were less likely to get jobs. There was also concern about job retention where just over one in five of those who entered unsubsidised jobs were back on JSA six months later (NDRTF, 1999, p. 13).

The Government responded with a variety of initiatives. Amongst other things these included the development of new diagnostic tools, resources to intensify the Gateway, increased sanctions and the creation of a new ‘innovation fund’. These initiatives were part of what became the ‘Continuous Improvement Strategy’. In June 1999 the most fundamental and challenging element of this strategy was to set **all** New Deal Units of Delivery the target of increasing their job entry rates by mid 2000 by at least 6% and to secure parity of outcomes for ethnic minority young people by the end of the Parliament.

By the end of January 2000 191,600 young people had found jobs through the New Deal, although 51,600 had left those jobs in under 13 weeks.<sup>2</sup> The Government is likely to meet its manifesto target of 250,000 into jobs by October 2000, or by July 2001 if it only counts ‘sustained’ jobs.

Although national performance is in excess of meeting the 6% improvement target, it has become clear that some partnerships are struggling to keep up and the overall job entry performance of the options is still weak. Amongst local Units of Delivery 82 were meeting or exceeding the 6% target but the gap between the good and poor performers was widening, especially in those areas classified as ‘high unemployment inner cities’ where only 3 out of 18 were on target. Amongst more general measures the ES is now implementing a strategy to try to drive up performance in these areas, although there is no clear indication about what steps will be taken if progress is not forthcoming. One key element of the strategy is to stimulate the inner city development of what have been described as new intermediary organisations who are expected to secure better job outcomes.

The new intermediaries are also expected to play a role in improving the performance of the options. Currently only 12% of those leaving the options are going directly into jobs, although the proportion increases to 27% if those who found work after the ‘follow through’ are included. Yet some providers secure far better outcomes with, for example, some full time

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<sup>2</sup> This paper only considers in detail the performance of the New Deal for the young unemployed. The New Deal for the older unemployed was implemented later and is less resource intensive and its job entry rates have been modest. However, in the 2000 Budget the Government announced that something like the New Deal for the young will be extended to those aged over 25 who have been out of work for over 18 months from April 2001. This is likely to intensify the demands being made on local partnerships and the providers who will contract to work with this more difficult to place group.

education and training providers able to get half of their leavers into jobs compared with an average of only 10%. One immediate response is that ES Regions are reviewing the performance of providers and either cancelling contracts or putting providers on notice about their poor performance. Other providers are being encouraged to focus more directly on job entry and develop stronger links with their local labour markets.

### **Delivering the New Deal: the Role of Intermediaries**

For many private, public and voluntary sector organisations involvement in delivering employment and training programmes has proved a mixed blessing. Over the past 15 years many organisations had withdrawn from participation and others have found it increasingly difficult to cope with the ‘boom and bust’ funding cycles associated with abrupt changes in programmes, targets and funding regimes. One result is that 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 undermined the capacity of these organisations to build durable relationships with other providers and with employers, especially in the areas of highest unemployment.

The change of Government and the creation of the New Deal helped reverse some of these trends and commercial providers, voluntary agencies and community based organisations have come forward in large numbers both to directly provide specialist services and the options and to provide placement opportunities for schemes run by other providers. The successful New Deal providers have become (or were already) part of a large mixed economy of private, public and voluntary sector organisations delivering a complex array of employment and training programmes through a myriad number of sub contractors and placement providers. Although quality assurance thresholds and standards are required through the contracting process, and ‘policed’ by the ES and various inspectorates, remarkably little is known about the organisations that make up the ‘unemployment industry’ or the staff who work for them.

Because of the low job entry rates of the New Deal option providers policy attention has now shifted to the capacity of these organisations, especially in inner city areas where employer based programmes are more difficult to operate. It is accepted that part of the explanation is that option providers, almost by definition, are working with more disadvantaged young people, but it is also suggested that the low placement rates of many of the organisations involved are also the product of weak employer links.

In this context the New Deal Task Force, with the support of the Rockefeller Foundation, commissioned a research paper which was to identify best practice from successful employer-led welfare to work programmes in the USA (JFF, 1999). This reported that one thing which characterised the programmes of companies as diverse as American Airlines, Pizza Hut, Xerox Business Services and the United Parcel Services, was the close relations they had developed with ‘intermediary’ organisations. The key characteristic of these ‘new intermediaries’ was that they were both employer/demand led and client focussed. The Task Force, again with the support of the Rockefeller Foundation, commissioned more in-depth research into intermediaries in both the US and UK, and followed this up with a two day conference in mid-1999. This has resulted in a major policy drive to extend the intermediary approach throughout the delivery of the Government’s welfare to work programmes.

The intermediary development work identified a mix of services, organisational capacity, staff skills, relationships and commitments that have made some organisations more successful than

others both in meeting employers needs and in enabling disadvantaged job seekers enter the labour market. Although the 'new intermediaries' are at an early stage of development the research reports highlighted a number of 'ideal type' characteristics that distinguish them from traditional programme providers and job brokers (NDTFI, 1999, p.3):

- Intermediaries can be found in all sectors - public, private and voluntary - but they are essentially local organisations (usually 'not for profit') with an intimate knowledge of the employers which they serve and the communities in which they operate.
- Intermediaries are playing broader and more diverse roles within the local labour market. They are serving not only as job brokers but as active agents on both sides of the market. In this capacity, they provide customised training and support for individuals to meet employer specifications; at the same time, they help companies (and clusters of firms) to assess and articulate their needs, improve recruitment and training, and support workforce development.
- Intermediaries are able to integrate detailed information about vacancies, skill shortages, individual employers, job seeker characteristics and the services available through public and community resources. They use this information to develop and manage flexible packages of services for their dual customers. In doing so, they also act as a buffer between the needs of employers and unemployed people, and the complexities of programme regulations and funding.
- Intermediaries provide services (for both the employer and individual) to increase job retention and progression as the most effective route out of poverty.
- They are able to build effective partnerships and know how to network. This is vital as few of them have the capacity to maintain a full portfolio of services and they rely on close relationships with local agencies which provide specialised support in such areas as housing, transportation, substance abuse, child care, and so on.

The conclusions drawn from the development work around intermediaries are significant. From an initial focus which saw them as interesting niche organisations, those working with the Task Force now view the new intermediaries as offering a fundamentally new approach. The challenge is not to simply develop the competence of existing providers but "to transform the culture and capacity of organisations throughout the employment and training system - to imbue them with the values and attributes of effective intermediaries" (NDTFI, 1999, p.1).

There is no simple way in which this transformation can take place and it is suggested that the Government will have to play an enabling role - "to establish a framework that preserves public accountability without diminishing innovation, speed or specialisation" - and that it will take "sustained investment" over the next five to ten years to develop intermediaries as a significant part of the employment and training delivery system.

The Government has responded through the New Deal Innovation Fund and has allocated £10m over the next three years to support proposals which will test demand-led strategies sponsored by intermediaries from the public, private and voluntary sectors. The fund is divided in two parts: half is for community based initiatives in eleven inner city areas (which are covered by Employer Coalitions), and half is for projects linking New Deal participants to particular sectors, initially financial services and IT. Bids are being invited from new and existing organisations, over two bidding rounds in April and October 2000.

As an initial step, a workshop was held at No. 11 Downing Street in late 1999 which brought together business leaders, and voluntary and community groups, to explore and discuss how

intermediaries might support disadvantaged unemployed people from London to find and keep financial-sector jobs in the City. Since then, ten major financial companies have agreed to review their human resource requirements and the vacancies which New Deal participants could be trained for, support the development of intermediaries in order to meet the sector's requirements, and contribute towards the cost of the project. It is planned to hold an equivalent workshop and develop a similar approach for the IT sector.

A key component in the 'intermediaries strategy' is the 18 month partnership agreement that the New Deal Task Force has entered into with the New York based Wildcat Service Corporation.<sup>3</sup> The aim is both to provide technical assistance and training to the ES and community based organisations in developing demand-led strategies, beginning with financial and IT services, and to help identify policy and programme design issues which must be addressed if intermediaries "are to successfully implement demand-led strategies and achieve rigorous performance objectives". The policy implications of this activity will be drawn together through a Task Force 'Intermediaries Advisory Group' which has also been asked to help "clarify" the relationship between the ES and intermediaries within the context of welfare to work and workforce development systems.

### **Delivering the New Deal: the Employment Service and Private Employment Agencies**

In addition to general partnership working and the involvement of private organisations as programme subcontractors or intermediaries, the Government's commitment to using public private partnerships has had two other direct and significant impacts on the delivery of its welfare to work strategy. First, private sector organisations, in varying combinations with the ES, have in a number of areas been given contracts to deliver the New Deals for the unemployed, the 'One' Service, and Employment Zones. The main contractors have been private employment agencies, especially 'Reed in Partnership' and Manpower (the UK subsidiary of one of the largest recruitment businesses in the world). Second, the ES has been asked to modernise its 'job broking' relationship with private recruitment agencies in ways that will increase the number of job vacancies available to unemployed people (see 'Appendix A' for a more detailed description of the recruitment agency industry and the role it plays in the job search strategies of the unemployed).

The highest profile and longest standing involvement of the private sector has been in the New Deal for the young unemployed where, in ten areas, private contractors organise and lead delivery (see Table 1). The areas reflect a range of different labour markets and the nature of private sector involvement varies. For example, in six areas the private sector is responsible for delivering the Gateway and all the options, whereas in two areas the private sector organisation receives a management fee to coordinate delivery. Manpower, which manages Bridgend, suggests that its approach is the only "true partnership with the ES". In particular by working through Jobcentres and ES Personal Advisers, operating within ES policy frameworks and acting as part of a joint management team, Manpower is developing delivery techniques which are readily transferable to other ES led districts.

### **Table 1: New Deal for the Young Unemployed: Private Sector Led Area**

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<sup>3</sup> In its research on US organisations the Task Force identified Wildcat Service Corporation as an intermediary that is nationally recognised for its success in moving welfare recipients into well-paid jobs with very high retention rates. Wildcat had also had extensive experience in assisting other community organisations to develop demand-led strategies.

### *Unit of Delivery*

### *Private Sector Organisation*

Bridgend & Glamorgan Valleys	Manpower Ltd.
Exeter & East Devon	Action for Employment Ltd.
Forth Valley	Triage Central
Hackney & City	Reed W2W Ltd.
Leicestershire	Fernly Business Services Ltd.
North Essex	MARI Group Ltd.
Solihull	Action for Employment Ltd.
South Humber	Capita Business Services
Tyneside North	Seetec
West Lancashire	Training West Lancashire Ltd. (formerly TP Training)

The actual funding mechanism in each private sector area varies and was negotiated separately but they each normally contain (ESC, vol II, 1999, p.249):

- an 'all inclusive' price, which is paid for each client to cover the full period of time on New Deal. This allows the private sector provider to use the funds flexibly across all clients - on the basis that some clients will need more help than others;
- a monthly 'management fee' with further elements paid on achievement of specified levels of performance; and
- an agreed amount payable for each client as they enter particular elements of New Deal.

The trigger points also differ. Some private sector providers have payment arrangements linked to all clients identified as eligible for the ND, while others are paid when the client has their first Gateway interview. The amount available to each private provider differs, depending on the balance of delivery between ES and the private sector provider. However, the overall level of funding was based upon the standard level of funding available to ES led Units of Delivery (£1,736 per client, excluding allowances). The key point is that the greater the success that the private sector organisation has in moving clients quickly through the process and into jobs, the greater the profit they can secure and/or the greater funds they have to divert to those clients who are harder to help.

Initially, the private sector led areas experienced start up problems both with managing the programme, their relationship with ES staff, and in working with unemployed people they had little experience of. This was particularly the case in Hackney, where Reed in Partnership, appeared to perform poorly. Overall, however, their performance has improved and the latest data on entry into work at 46% compares well with the 41% achieved by other New Deal areas (the difference reflects differences in local labour markets and in the number of clients moving into 'unknown destinations'). Seven out of the ten areas are meeting or exceeding the target for improving their job outcomes by 6%. However, as with other New Deal areas some over perform relative to other areas of a similar type, others (such as Hackney or Solihull) under perform.

The ES is currently undertaking an evaluation of the private sector led areas but the first detailed public scrutiny of one area, Leicestershire, has been published by the Training Standards Council. Considering that the contractor is a training provider, the inspection report on the training provided was poor, with weaknesses identified relating to poor achievement of

qualifications, poor retention in the Full Time Education and Training (FTET) option, poor monitoring and review process, poor use of individual training and action plans, and ineffective monitoring of the quality of training. In addition, there was a weakness in the failure to monitor equal opportunity activity at subcontractor level. There were also strengths, especially in the self employment route. Training provision in the FTET option was also effectively provided on a rolling basis, in contrast to other ES led areas where a heavy reliance on FE Colleges, combined with a low level of partnership working, had led to young people being directed onto inappropriate options simply because courses were not starting at the time.

Detailed unpublished evidence shows that one of the significant differences between private sector and ES led areas is in the use of options. In private sector areas only 36% of those leaving the 'gateway' entered options, compared with 42% in the other areas. Private sector led areas also seem to make much greater use of the voluntary and environmental sector option and less of the subsidised employment option. This may reflect the nature of the area, but could be a function of the funding model. Most significantly it seems that the National Audit Office has expressed concern about some of the detailed terms of the private sector contracts. In most areas the greater use of the Gateway and the larger than expected movement into unsubsidised jobs resulted in proportionate decreases in their unit costs. However, in the private sector areas actual unit costs were agreed in advance and because the entry into options was lower than that planned this has produced a greater level of profit than anticipated.

Although this particular issue will be tackled in the re-contracting for April 2001 it does highlight the problems of accountability and of ensuring value for money from public funds. Indeed, these concerns have also been expressed about the funding mechanism agreed for the new Employment Zones. The principal concern is not just that improvements in job entry and retention rates will generate greater profits, but that providers will focus on those who are most easy to place and that others may be 'parked' in lower cost, less intensive provision. DfEE and the contractors argue that because of the 'risk' involved in the contracts this is unlikely to happen, but these issues have bedevilled performance related funding regimes and have been particularly acute in the privatised Australian employment placement market (ref).

In terms of more general 'job broking' activity there has been a long standing relationship between the ES and the recruitment industry about safeguards and how its vacancies should be handled at Jobcentres. The ES is trying to extend cooperation and joint work between agencies and Jobcentres and has recently developed a digest of good practice with the main industry body, now called the 'Recruitment and Employment Confederation' (REC). The ES is also actively exploring ways of including agency job vacancies on a new 'Internet Job Bank' which the ES plans to open in 2001. The ES Chief Executive has suggested that the relationship works well and that up to 15% of all vacancies carried by the ES now come from agencies (ESC, 1999, vol 1, p.xx). However, it is not known how many unemployed people take these jobs and, on taking more detailed evidence, a Select Committee was told that in some areas "an atmosphere of competition prevailed" and that "the degree of partnership" at local level is "a function of how the agreement is interpreted locally and the relationship between the various participants" (ibid, p. xx).

It should also be noted that competitive tensions between the agency industry and the ES could increase as the ES moves to increase the quantity and quality of vacancies available to its clients; develop job retention services for those it places in work; and improve its services for employers. Although both the ES and the agency industry suggest that their activities now complement rather than compete with each other, in the early 1980s the situation was very

different and the agency industry played a key role in lobbying the then Government to reverse the strategy of the ES which at that time was to increase its share of the vacancy market.

## **Conclusion**

The Government has been able to cultivate broad-based support, especially for its New Deal programmes, at least partly by engaging directly with the private, voluntary and public sectors, both as partners and providers. There is now considerable evidence that these ‘public private partnerships’ have generated considerable innovation, flexibility and created real synergy between the New Deals and other programmes and funding streams. However, there is also evidence that the new implementation architecture is under considerable pressure, and this is likely to grow as the Government rolls out its other New Deal programmes. In the areas of greatest need the caseloads of New Deal Personal Advisers are increasing and they are having to engage with more disadvantaged and disaffected young people. The extensive provider network, with its myriad sub-contractors, is also struggling to deliver the high job entry rates that are vital if the New Deals are to break free from the widely held public perception that these programmes are yet more ‘schemes’ designed to massage the unemployment figures and pressurise the unemployed into taking whatever jobs are available.

Ironically, as unemployment has fallen and as the ES has begun to assist the groups at most distance from the labour market, the New Deal is encountering barriers and revealing weaknesses in other services which, unless tackled, limit the potential for individuals to both take and retain jobs. For example, advisers often find that necessary and appropriate services do not exist in localities. Public transportation systems frequently cannot get people from their homes to the places where there are jobs. Childcare may not be available, or may not be available during non-traditional hours or when children are sick. Few substance abuse or rehabilitation programmes have a strong employment focus. Work based training opportunities for low wage entry-level workers are limited. One of the most important implementation challenges for the New Deal is to use the partnership approach to build on the links with workforce development, transportation, housing, economic development, and other systems that are only now starting to emerge. In addition to ‘growing’ a new generation of intermediaries, it is also vital to build the capacity of the existing provider network and to strengthen the links it has with employers.

Finally, the evolving relationship between the ES and the private sector is at a critical juncture. Are the new partnership arrangements simply a welcome modernisation adding value by drawing in new skills and expertise and broadening the base of vacancies available to the unemployed? Or are they, as some critics suggest, a prelude to a more radical form of privatisation, as implemented in the privatised employment placement markets created in Australia and the Netherlands and as now advocated by the Conservatives in their ‘Common Sense Revolution’? Unless firmly rebutted the threat of ‘creeping privatisation’ may undermine the partnership approach and could demotivate front line ES advisers whose continued commitment and performance are vital in enabling people to move from welfare into work.

## Appendix A: Private Employment Agencies

Although the employment agency industry is a central part of the UK labour market there has been little evaluation of the role these agencies play as bridges or barriers into jobs, as sources of jobs for the unemployed, or as providers of Government employment and training initiatives.

Formally, the ES can advise unemployed people to register with employment agencies, and individual's can be expected to register with one or more as part of their Jobseekers Agreement. A major survey into the impact of the Jobseeker's Allowance, which interviewed samples of 5,000 registered unemployed people both before and after its implementation, found evidence that this had made some impact. It reported that the proportion of those who used private employment agencies had increased from 13% to 17% (McKay, et al, 1999, Figure 6.1). There was no data on how many obtained jobs through this route. However, LFS data from Spring 1998 shows that 10% of those individuals who were unemployed before they had obtained their job in the previous three months had done so through an agency. Nearly one in four (23%) of the ILO unemployed were registered with a private employment agency, though few (3%) relied on it as their main method of search.

Currently there are about 10,000 private employment agencies in the UK, operating from some 17,000 offices, directly employing about 63,000 staff (DTI, 1999, p.3). Each week about 500,000 job seekers find employment through the agencies and between 1994/95 and 1996/97 the number of people they placed into permanent jobs increased from 258,000 to 445,480 and the number placed into temporary jobs increased from 754,000 to just over one million (FRES, 1997, p.10). By late 1998 the then Secretary of State for Trade and Industry was acknowledging that the industry had "tripled in size since 1992".

This growth has been fuelled by changes in employer recruitment practices. In 1996 the Institute of Employment Studies found that more than half the employers they surveyed used temporary workers, and the majority of those employers recruited their temporary staff through employment agencies (Atkinson, Rick, Morris and Williams, 1996). The Workplace Employment Relations Survey found that 75% of the largest workplaces report using 'temps', mainly recruited through agencies, and many employers report that they often use this experience as a form of 'probation' for permanent work. The greatest increases in the use of 'temps' has been recorded in public administration, social care, health, banking and business services; with noticeable increases amongst white collar and clerical staff. However, there is evidence that recruitment agencies are playing a growing role in manual and casualised labour markets (Hansard, 1998).

The industry is characterised by fierce competition, low entry requirements and high turnover, and a new regulatory framework has recently been agreed by Government (DTI, 1999). The largest agencies, especially Manpower, have welcomed steps which make it harder for 'cowboy' operators and the Institute of Employment Consultants (now part of the 'Recruitment and Employment Confederation') has done considerable work to establish recognised qualifications and to provide training in recruitment practice. However, "it is still the case that only a small proportion of those working in the sector hold qualifications" (DTI, 1999, p.13).

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