Joining Up Welfare and Work: Welfare Reform and the role of ‘private public partnerships’ in Australia and Britain

Dan Finn, Professor of Social Policy, University of Portsmouth

Abstract

Welfare reform has been at the top of the international policy agenda for nearly a decade. Many OECD countries have responded to high levels of long term unemployment and increased economic inactivity rates through major reforms aimed at creating work-based welfare systems. The new approaches have involved radical changes in traditional employment and welfare agency bureaucracies, usually coupled with decentralisation and the increased use of private and voluntary sector organisations for the delivery of active labour market programmes. This paper explores and contrasts the Australian ‘mutual obligation’ welfare state with the British ‘employment first’ approach to welfare reform, and assesses the ways in which the respective Governments are redefining the role played by the public and private sectors in delivering services and employment assistance for those without work.

Introduction

Welfare reform has been at the top of the international policy agenda for nearly a decade. Through the OECD ‘Jobs Strategy’ (1994) and, more recently, the ‘Employment Strategy’ of the European Union, member-states have compared and contrasted the ways in which they have responded to radical economic and social changes which have transformed labour markets, increased unemployment and economic insecurity, and generated social exclusion and welfare dependency. Each member-state may follow its own path to reform but the common aims of the emergent ‘welfare to work’ regimes have been to reduce unemployment and ‘welfare dependency’ by ‘activating’ benefit systems, improving employability, and reinforcing work incentives.

Welfare to Work strategies are not just about abstract opportunities and incentives. Governments have coupled policy with organisational reform and have linked the transition to active benefit regimes with radical changes in the bureaucracies and institutions charged with delivering and administering programmes. The reasons for the perceived inadequacies of traditional systems are contested, but at least part of the problem has been attributed to the ‘top down’ inflexible nature of policy formation and implementation; to the fragmented structure and role of welfare bureaucracies and national employment services; and to the absence of competition and market forces. Monolithic national service agencies are being decentralised and public sector monopolies, especially in the public employment service, are being challenged.

The most significant challenge comes from rapid change in occupations and labour markets. Across the developed economies the introduction and application of new technologies and working practices is transforming the distribution, duration and content of jobs and the ways in which people gain access to them. Throughout the OECD
traditional recruitment and hiring practices are being recomposed as employers look to harness the productivity and cost benefits generated by more flexible working patterns. Employment placement markets have been deregulated and in many countries Government’s have used market mechanisms and ‘contestability’ to increase the efficiency of their Public Employment Service (PES) (OECD, 2001a). The private recruitment industry, temporary work agencies and a diverse range of other organisations have expanded both to meet some of these new demands and to increasingly deliver the active labour market programmes that Governments have introduced to combat unemployment. Many of these organisations are specialised, or operate on a local basis, but others have grown into large multinationals (Thuy et al, 2001)

This paper explores the new ‘mixed economy’ of providers that is emerging in welfare states, and reflects on the mixed benefits which it is delivering for clients. It compares and contrasts how the Australian and British Governments have tackled long term unemployment, and the role that both have given to the private sector in delivering employment assistance to those without work. Australia is significant because it is the only OECD country that has fully privatised its employment placement market - a “unique step” which, according to one report, “is being watched closely by employment Ministers around the world” (ESC, 1999: ix). The British Government has also embarked on a radical programme of welfare reform but, unlike Australia, the aim has been to harness the expertise and insights of the private sector through more limited ‘public private partnerships’.

The difference between both countries is also evident in the way in which they have changed their employment assistance systems. In Britain the Labour Government has introduced a range of New Deal programmes which are at the forefront of its strategy for creating an ‘employment first’ Welfare State. The New Deals for the unemployed provide structured employment assistance which all individuals are required to participate in after certain durations of unemployment. This approach reflects the priorities established through the European Employment Strategy and was in part modelled on the Working Nation ‘Job Compact’ of the last Australian Labor Government. By contrast, the Coalition Government dismantled the Australian ‘Job Compact’ in 1996 and replaced it with varying levels of selective employment assistance allocated according to a complex classification system. This approach was then supplemented by the introduction of programmes linked to a ‘mutual obligation’ which requires many long term unemployed Australians to participate in a range of socially useful activities including, for those aged up to 40, ‘Work for the Dole’ (WfD).

**Australian Employment Assistance: Centrelink and the Job Network**

The 1996 Coalition Government was elected on a radical platform aimed at transforming the Australian labour market. A key element of the strategy involved redefining the rights and responsibilities of the unemployed. The job search obligations of the unemployed were increased and a Common Youth Allowance was introduced. The previous Labor Government’s ‘Job Compact’ was scrapped and the budget for active labour market programmes was halved (OECD, 2001b, p. 13). A fully contestable employment
placement market was created and the Commonwealth Employment Service was privatised into a company known as Employment National.

In the new system benefit assessment, payment and job search monitoring were retained in a public sector agency, Centrelink, which acts as the Gateway to a fully privatised ‘Jobs Network’. Centrelink staff administer work tests and assess levels of employability but apart from providing limited access to some computer screens it plays no role in finding or filling vacancies. Centrelink offices have few job search facilities available, its staff have little experience of the employment market and nearly all the agency’s performance indicators are focused on benefit processing and payment. Nevertheless, Centrelink is the main referral point where unemployed people are assessed and notified that they have to participate in certain programmes. The limitations of this computerised referral process were a constant source of friction, with ‘no show’ rates for particular programmes ranging from 30% to 60% (OECD, 2001b, p. 70). This not only had an impact on the management and viability of individual providers, but was a major factor behind the sharp increase in administrative benefit sanctions imposed on those who failed to attend (Pearce et al, 2002).

Unemployed Australians now rely heavily on the privatised Job Network for access both to employment assistance and for information about vacancies. In its first phase the Network was made up of over 300 government, community and private organisations which were contracted to deliver three levels of service from about 1,200 sites. A second full competitive tendering round took place in 1999. This process had a major impact on Job Network contractors, consumed much administrative and organisational effort, and resulted in a noticeable dip in performance. It also resulted in significant changes. In particular, Employment National, the residual public sector provider, lost its most valuable contracts and there was a marked increase in the share of the market delivered by church based and voluntary sector organisations. The ‘second phase’ Jobs Network was made up of around 200 organisations delivering services from just over 2000 sites, although the more expensive case management based Intensive Assistance (which could last for up to a year or longer) was only delivered at about half of the sites.

The three services provided by Job Network members included *Job Matching*, *Job Search Training (JST)* and *Intensive Assistance (IA)*. Job matching involves finding and filling vacancies. Network members appear collectively to have attracted more vacancies from employers but for the unemployed job seeker the market created some confusion. In particular unemployed people have only been able to access information about particular vacancies by directly approaching the individual Network member with whom the vacancy is registered. This could involve several visits, with no guarantee that the vacancy was still available.

Job Search Training involves a structured course, lasting for several weeks, intended to remotivate the unemployed person, update their job search strategy and place them into work.
Intensive Assistance has been the most expensive element of the system and because a significant sum was paid on entry to the programme it is the contract from which Network members generate financial surpluses (PC, 2002). Network members developed a wide range of practices which aimed to identify and tackle individual employment barriers. Surveys with participants and employers recorded high satisfaction levels and the OECD concluded that the best providers were those “providing some specialist assessment, light training, counselling in job-search, self-confidence and life directions, etc., in-house” (2001b, p.125). The OECD also found, however, that many long term unemployed people had little contact with their providers and that “few providers appeared to be offering effective services to address the underlying barriers to employment” (ibid, p. 193). One Government survey of participants found that less than half of them “had been sent to a job interview or to speak with an employer about a job” (ibid, p. 193), and nearly a quarter of those surveyed had “visited their provider only once or twice” (ibid, p. 59). This lack of contact has been important because participants are not expected to report regularly to Centrelink whilst in IA.

Access to the different levels of employment assistance has been determined by the application of a ‘Jobseeker Classification Instrument’ through which individual employability is assessed and rated. The ‘classification’ process is computerised and normally applied by front line Centrelink officers. Apart from completing answers to standardised questions there is little interaction between the client and officer (which has been one of the reasons many employment barriers have not been revealed until after the classification and referral process is completed). In theory the client has been able to choose which Job Network member they wish to register with, so long as places were available and they had a preference. In practice less than one in five have actually exercised a choice, and most of those have done so on the basis of location rather than performance. The majority of participants have been allocated a provider through an auto-referral system. Once allocated “job seekers are not permitted to move between Job Network providers” and they have had “little power to influence the choice of the services they may receive” (PC, 2002, p. 8.1).

Initially an unemployed person entering IA agrees to a revised Preparing for Work Agreement. If still unemployed after 13 weeks the provider has been required to draw up a more detailed ‘Support Plan’ which should include the additional support the provider will be offering. The evidence from a Government evaluation confirmed, however, that most employment assistance was given in the first few months of participation, the time at which most job entries were secured. As time goes on individual client contact with employment officers diminished and “the intensity of job search activity and motivation of job seekers declines” (DEWRSB, 2001, p. 62). One independent study, which carried out survey research with front line advisers, reported that under Job Network caseloads had risen, staff were concentrating on the most job ready, and less effort was being given to tackling the employment barriers of the most difficult to place. It concluded that the incentive structure of the new market was driving “advisers towards quick, superficial interactions with job seekers and towards strategies which maximised the agency’s short-term financial performance” (Considine, 2001, p. 140).
Front line research carried out by the author in 2001, which involved site visits with a broad range of providers, found also that few Network members had any procedures in place to ensure a smooth, let alone an employment focused, ‘handover’ to Centrelink officials for those people who were still unemployed after they completed Intensive Assistance.

IA was not intended to be a ‘guarantee’ programme, automatically available to individuals after a certain duration of unemployment. Instead it was a selective intervention targeted at those considered to have the capacity to benefit. This meant that a significant group of long term unemployed people were not eligible for support and there was constant friction between Centrelink and Network members about who would be capable of benefiting from the support on offer. This had a particular impact on the Community Support Programme, a small scale programme belatedly introduced by the Government for some of those deemed not capable of benefiting from IA.

The impact of the Job Network

In the year ending March 2002 over 750,000 vacancies were notified on the ‘Australian JobSearch’ database; 320,000 job seekers were placed in work by Job Network members; just over 80,000 job seekers participated in JST; and 285,000 people participated in IA (DEWR, 2002, p. 4). The numbers getting jobs from IA had increased from less than 2,000 a month when the Job Network started, to around 7,500 a month by the start of 2002. The Department reported that three months after leaving 73% of those who were ‘job matched’ were either employed (70%) or undertaking education and training; and of those leaving JST or IA the outcome rates were 47% (38% employed) and 42% (35% employed) respectively (DEWRSB, 2001, p.2). About half the jobs taken were part time. There was little information on what happens to that majority of participants who failed to get a ‘positive outcome’.

Using a matched comparison net impact technique to allow for displacement and deadweight the Department’s own evaluation report concluded that overall IA was securing an additional net impact of about 10% and JST was securing about 3%. The evaluation report suggested that these results were at least as good as those produced under the earlier Jobs Compact and that they have were secured “at a substantially lower cost” (ibid). Government Ministers have suggested that the results are far better and that the Job Network has been “one of the key achievements of the Howard Government” which involved replacing “an old-fashioned process driven system” with “an expanded network of services focused on finding people jobs” which has “consistently outperformed the former CES and at considerable lower cost” (Brough, 2002).

These claims have been disputed. With others ACOSS, the peak body for the voluntary sector, suggested that the Government had not compared like with like. They concluded that although “competitive tendering was effective in driving costs down .. it weakened service quality”. The result was a reduction in support for the most long term unemployed “leading to poorer employment outcomes than the most effective (though not all) Job Compact programmes” (Davidson, 2001, p. 1). An independent inquiry by
the Productivity Commission concluded also that the Department’s “evaluation methods overstate the benefits of the programme”. In their view “Job Network programmes have had small or uncertain effects on the job prospects of participants” and their net impact on employment has been “very modest” (PC, 2002, p. 5.1).

One of the significant criticisms of the Network was its failure to reduce the proportion of long term unemployed ‘beneficiaries’. This is the unemployed population that remain on benefit payments for long durations as against the broader long term unemployed population measured differently through ABS surveys. One analysis of beneficiaries shows that between 1995 and 1998 unemployment remained flat and long term unemployment ‘tracked’ upwards (Davidson, 2001, p. 7). This was followed by strong employment growth until the end of 2000 with significant reductions in beneficiary unemployment. However, the long-term share of unemployment beneficiaries within the total rose with the OECD reporting that over 60% had been receiving benefit for over a year and over 40% had been on benefit for over two years (2001b, p. 93). Although there were a number of factors causing this, the OECD suggested that the complex interplay of screening and IA eligibility rules meant “there is a risk that significant groups are falling through the gaps” of IA provision (2001b, p. 93).

Despite these problems it has been widely acknowledged that the creation of the Jobs Network was a remarkable administrative achievement with one commentator suggesting that the new approach could be “the most important (post war) initiative” in re-engineering employment assistance taken by an OECD country (Considine, 2001, p.117). By 2001 Australia had in place a comprehensive employment assistance network which was supported by a complex infrastructure. Performance was improving, significantly accelerated by the discipline of a ‘star rating system’ which took account of local factors and was published to better inform jobseekers, employers and other providers about relative performance. Despite criticisms of the star rating methodology it provided additional incentives for providers to work with the most disadvantaged and was to become the benchmark which was intended to free a large proportion of the Job Network from the disruption which had characterised the first two rounds of competitive tendering.

Mutual Obligation and Work for the Dole

The other major theme of Coalition policy for the unemployed has been to institutionalise new requirements, activities and programmes through which people receiving state benefits can meet what is described as their ‘mutual obligation’ to the society that pays for them. This new approach was first applied to the young long term unemployed in 1998, since when someone aged 18 to 25 who has been out of work and receiving full benefits for over six months who does not take part in some other approved activity, such as part time work or education, has been required to participate in a WfD project. The for profit sector has been largely excluded from WfD and projects are organised by charities, community organisations and local authorities, and participants are required to participate for between 12 to 15 hours a week for up to six months, during which they receive an additional A$20 a fortnight.
WftD is not a conventional employment programme although it is expected to improve ‘work habits’ and incentives, as well as deliver broader community benefits. Formally, WftD provides no direct employment assistance or training and few projects have any connection with employers. Instead, according to the responsible Minister, it is expected that projects improve the incentive to work by making regular employment seem more attractive than continuing to stay on benefits (Abbot, 2001). Training credits, worth about A$800, are now available for WftD participants, but they are only available after an individual completes the programme.

In terms of impact, the early evidence showed that the new mutual obligation requirement had a significant impact on increasing ‘exit rates’ from unemployment, reducing the inflow to long term unemployment for the client group “by about 25%” (OECD, 2001b, p. 198). A Government evaluation subsequently showed that 30% of WftD participants were ‘off benefit’ three months after leaving as against only 17% of a matched sample of non-participants, giving a net impact effect of 13%. For a number of methodological reasons the OECD indicates that these results should be treated with caution and other commentators point to data which suggests that 80% of WftD participants were still unemployed five months after completion (Kinnear, 2000).

The main impact of the programme is one of what the OECD calls ‘deterrence’, with three quarters of those referred to WftD failing to attend their first session. The Government suggests that many of these individuals were likely to have moved into jobs or were already working. However, there has been little research and not much is known about where these young people end up or about what jobs they get or how long they keep them. In the voluntary sector there has also been much concern about the interaction with sanctions and the plight of the most disadvantaged who may not only lose their benefit but may also lose contact with services (Pearce et al, 2002).

Nevertheless, the growth of ‘mutual obligation’ activities has been rapid. By 2001 a Government Minister was pointing out that WftD had been extended to cover all unemployed benefit claimants aged under 40 and about “300,000 long-term job seekers” a year were expected to “participate in structured activity under the Mutual Obligation principle” (Abbott, 2001, p. 5).

‘Australians Working Together’ and Job Network Three

The theme of ‘mutual obligation’ was to be central to the broader welfare reform debate that the Coalition Government launched in 1999. The primary concern was how to reduce the social, economic and financial costs associated with increased numbers of working age people relying on state benefits. The final report of the Reference Group on Welfare Reform concluded that there was a need for radical reform and that the social security system should introduce new services and requirements which would promote economic and social participation (McClure, 2000). In particular the Group proposed that a “central gateway and assessment process” should provide individualised service delivery; the benefit system should be simplified; and there should be incentives to encourage and
support participation. They endorsed the mutual obligations approach but stressed that this should extend across the community, and not just be imposed on those receiving benefits.

In response the Government proposed a less ambitious programme in ‘Australians Working Together’. This outlined a four year plan aimed at creating a new “balance between incentives, obligations and assistance” (FACS & DEWRSB, 2001, p.2). There were some limited changes in employment assistance; a further extension of the ‘mutual obligation’ through Work for the Dole; and the introduction of new ‘participation’ requirements and programmes aimed at lone parents and the ‘hardest to help’. These final changes are now to be delivered through a new group of personal advisers employed in Centrelink offices, but this service will work only with a very small group of the unemployed. Subsequently, in May 2002, in what has been characterised as the ‘bad back’ budget, the Government announced that it intended to further restrict access to disability benefits and expand programmes aimed at helping those who would now be expected to look for jobs.

At the same time the Government published its plans for the next round of the Job Network. The aim is to “increase active job search and provide more personalised service for job seekers”. From July 2003 unemployed people will now select or be allocated one Job Network member who will “will work on a continuing basis to help job seekers maintain active job search”. In particular the Job Network member will assist the job seeker to lodge their resume on the national vacancy database, “for daily matching”. Job matching itself will, however, be recast as a service focused on employers, and those organisations who wish to claim fees for placing the unemployed will simply be required to comply with a code of conduct and obtain a licence. This liberalisation of the market is aimed at drawing in more private sector recruitment agencies thereby, it is anticipated, increasing the share of vacancies available to unemployed people.

After three months out of work all the unemployed will be required to participate in three weeks JST, and after six months unemployment most will have to satisfy their mutual obligation requirement, with WfID being the ‘last resort’ placement. There will still be early entry into IA for the most disadvantaged, but significantly those who remain unemployed for twelve months will all now be “guaranteed customised assistance from their Job network member” (Abbott, 2002: my emphasis).

Unemployed people will be given a new ‘Service Guarantee’ detailing the services they should receive, including regular personal meetings with their Job Network provider. Within IA the length of entitlement has been reduced to six months but participants will have the benefit of a Job Seeker Account (an average A$850), which Job Network providers will be able to use to purchase services that will help an individual obtain and keep a job. This can include assistance with fares, job-related training and so on. This Account is, however, not an entitlement. Providers will be able to vary individual allocations but, unlike the earlier funding model, they will not be able to retain any surplus that may accrue.
The most significant change for IA providers is that about two thirds of them will be offered ‘roll over’ contracts, freeing them from having to bid competitively. Roll over status has been determined on ‘star rating’ performance and, although not as disruptive as the earlier wholesale re-contracting, there has been concern about the way provider behaviour had been influenced, with much anecdotal evidence about some artificially boosting their performance for the relevant periods. Providers will continue to be paid largely on outputs with the previous ‘up front’ initial payment being replaced by fees for providing services, such as resume preparation, or being absorbed into the Job Seeker Account.

The Government describes the new approach as ‘evolutionary’, but Jobs Australia, the industry association for non-profit Job Network members, has concluded that the changes represent a “radical shift in the direction and operations of the Network”. Jobs Australia suggests that the combination of contractual changes and welfare reform will, over the next few years, “result in a substantial shift in the way Job Network business is constructed, operated and financed” (JA, 2002). One significant footnote is that Employment National, the residual public sector provider, will be closed in June 2003.

By the start of 2002 unemployed Australians faced a regulatory regime made up of a strange hybrid of poorly connected employment assistance and mutual obligation activity. The proposed reforms to the Job Network will introduce some new safeguards and give greater coherence, but they appear merely to rationalise existing programmes which still have differing objectives, which range from job entry, to social participation, to meeting an individual mutual obligation requirement. By contrast, the emerging British system has been clearly focused on ‘employment first’.

**New Labour, Welfare to Work and Full Employment**

New Labour was elected in 1997, a year after the Coalition Government came to power in Australia. Whilst in opposition the leadership of the Labour Party had transformed their approach to unemployment and the welfare state. Although New Labour abandoned Keynesian demand management they rejected the neo-liberal view of the Conservatives which, in the famous words of one Chancellor of the Exchequer, suggested that unemployment was “a price worth paying” to control inflation and stimulate economic growth (Hansard, col. 413, 16 May 1991). Instead New Labour turned to the work of economists that challenged the view that the ‘NAIRU’ (the non-accelerating inflation rate of unemployment) had to be as high as it was in the UK. The new approach suggested that ‘supply-side’ measures such as investment in human capital and labour market programmes could lower the NAIRU. The stricter job search regime introduced by the Conservatives was to be retained but it was to be supplemented by a minimum wage and a ‘New Deal’ for the long term unemployed. This ‘synthesis’ would require individuals to compete for and obtain jobs but would also invest in improving the ‘employability’ of those furthest from the labour market (Layard et al, 1991).

By 2001 New Labour was proposing a more ambitious and comprehensive aim of transforming the ‘passive’ culture of the benefit system through the creation of an
‘employment first’ welfare state. The first phase of welfare reform, from 1997 until 2001, had witnessed the introduction of New Deal employment programmes alongside tax and benefit changes aimed at ‘making work pay’. The second phase was outlined first in a 2001 Green Paper which directly linked welfare reform with full employment. Key policy developments include the extension of tax credits to the low paid, the intensification of New Deal programmes, and the introduction of mandatory ‘work focused interviews’ for all working age benefit claimants. Welfare reform also is being accompanied by major institutional change. A Department of Work and Pensions has been created and the Employment Service (ES) and Benefits Agency (BA) have been replaced by ‘Jobcentre Plus’.

This agenda is formidable. The intention is to embed a new ‘rights and responsibilities’ culture through the transformation of the primarily ‘passive’ support offered by the post-war welfare state into a more ‘active’ combination of responsibilities and services thought relevant to the labour markets and social conditions of the new century. Jobcentre Plus will be at the forefront of this cultural change and will “enshrine the principle that everyone has an obligation to help themselves, through work wherever possible”. In return, Government has “an equal responsibility” to provide work related assistance for those “who can” as well as ensuring “greater security for those who cannot” (HMT, 2001, p. iv).

New Labour’s institutional legacy: remaking the link between job search and benefits and the role of the Employment Service

During the 1980s the direct administrative link between job search and benefit receipt in Britain weakened significantly. Between 1982 and 1986 unemployed people only had to ‘sign on’ for their benefit and were not required to register with their local Jobcentre, the access point to employment programmes and vacancies. Cuts in the number of civil servants also reduced the administrative capacity and inclination to both encourage and monitor job search and deter fraud. Even when employment started to recover the data showed that a significant number of people claiming unemployment benefits had become inactive, and the average duration of unemployment increased (Wells, 2001).

The turning point came in 1986 with the introduction of the ‘Restart’ initiative, which involved mandatory job search interviews for the long term unemployed. This new regime was linked with radical institutional change in the ‘unemployment market’. In 1987/88 the delivery of training programmes for the unemployed was transferred to private sector led Training and Enterprise Councils, and a ‘modernised’ Employment Service was created as a ‘Next Steps’ Executive Agency. This agency immediately integrated benefit offices and Jobcentres, bringing together about 35,000 staff in a front line national network of over 1,100 Jobcentres. The ES worked closely with the larger public sector Benefits Agency which was responsible for the assessment and delivery of most social assistance and insurance benefits. The BA, however, had no role in delivering direct employment assistance.

During the 1990s the role of the ES, its aims and objectives and the nature of its 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 a move from large scale, longer term, active labour market programmes towards low cost measures aimed at immediate job search and job entry. 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.

By 1996 the British 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 show that it had been administratively effective and had made a significant contribution to reducing unemployment, especially long term unemployment, by engineering a close link between job-brokering and benefit administration (ESC, 1999, vol. I, p. xi). Indeed, it was precisely the success of this link that persuaded the last British Conservative administration to retain the core activities of the ES within the public sector, notwithstanding their ideological commitment to privatisation (Price, 2000, p. 304).

By contrast the privatised Training and Enterprise Councils were under pressure. They were accumulating large trading surpluses from their contracts to deliver programmes for the long term unemployed, which were often retained as reserves or invested in property. They also struggled to meet the needs of disadvantaged groups, and it was suggested that this was a function of the 100% output related funding contracts which they entered into with their providers. It was perceived that the employer-led boards which controlled the TECs lacked accountability and were more concerned with in-work training, than with delivering programmes for the long term unemployed or socially excluded (CLES, 1992).

**Delivering the New Deals: 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 New Deal programmes. The senior managers of the agency grasped the opportunity to ‘reinvent’ the organisation and invested substantial time and resources in redefining its approach in order 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 which encouraged it to work with other agencies. Another key
dimension to the strategy involved a major national political effort to engage employers
and other organisations in the delivery of the New Deals.

The decision to implement the welfare to work strategy through the public ES was
crucial. It provided continuity and it enabled New Labour to build its programmes on the
Conservative’s stricter benefit regime. By contrast, the new Government was less
committed to the private sector led Training and Enterprise Councils. After a period of
deliberation it decided to abolish them and replace them with broader partnerships, the
Learning and Skills Councils, which 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.

Between 1997 and 2001 the Labour Government relied on the ES to introduce and
administer ‘New Deals’ for the long-term unemployed, lone parents, disabled people,
those aged over 50 and the partners of unemployed people. Although each New Deal
addressed the particular problems of a specific client group all were based on the
principles first implemented in the programme for young people - “more help, more
choices, and the support of a Personal Adviser .. matched by a greater responsibility on
the part of individuals to help themselves” (DfEE, 2001, para 1.33). Despite the common
framework, however, there continue to be significant differences with most resources
being allocated to the mandatory programmes targeted at the registered (usually male)
unemployed. Fewer resources have been allocated to the voluntary programmes aimed at
the larger numbers of lone parents and those receiving disability benefits.

Unemployed individuals who claim Job Seekers Allowance must participate in the New
Deal. Compulsion ‘kicks in’ after six months unemployment for those aged 18 to 24, and
after 18 months for those aged over 25 (those aged over 50 must attend advisory
interviews but are not required to enter into more intensive employment assistance).
Participation usually commences with an intensive advisory ‘Gateway’ process aimed at
helping the individual find work, followed by a more or less resource intensive range of
employment and training options which aim to improve individual employability. There
is a ‘follow through’ process of advice and support for those who do not get a job by the
time they complete their option. The only significant variation is in 15 areas where the
Government has introduced Employment Zones. These are aimed at long term
unemployed people aged over 25 and represent an alternative to the more prescriptive
New Deal model. They are delivered by the private sector (see below).

Significantly, New Deal programmes for working age people who were previously
regarded as ‘economically inactive’ are being implemented within a mandatory, ‘rights
and responsibilities’, framework. The childless partners of unemployed claimants, who
are aged between 18 and 24, are now required to register as unemployed and, when
eligible, enter the New Deal. This requirement gradually is being extended to the
childless partners of older unemployed people and the partners of people receiving other
working age benefits. Participation in the less resource intensive New Deals for lone parents and for people with disabilities remains voluntary (at the time of writing), but these programmes now operate in a regulatory regime where working age people applying for and receiving state benefits are required to attend ‘work focused interviews’ (WFI).

This ‘employment first’ regime is being implemented by ‘Jobcentre Plus’, the new public sector Executive Agency made up from the ES and BA. The aim is that by 2005 the agency will have fully integrated the work of 90,000 ES and BA staff in 1,500 local offices, and will have modernised service delivery, particularly through the use of computers, telephones and on line technologies. Jobcentre Plus offices are designed to reinforce the culture change. Largely open plan, they aim to deliver a ‘queueless’ professional service in a modern environment. The agency will be expected to process and pay benefits accurately and promptly, but the expectation is that those using its services will experience an ‘employment first’ approach. The agency will also be expected to work in partnership with a diverse range of public and private sector organisations, and to deliver its programmes through a mixed economy of providers.

**Delivering the Employment First Welfare State: the role of the private sector**

Although New Labour gave the public sector the lead role in delivering welfare reform it has attempted to harness, and learn from, the skills and capacities of the private sector both in the direct delivery of programmes and in the creation of Jobcentre Plus. In the process it has created new relationships both with voluntary sector organisations, for profit specialist employment assistance providers, and private recruitment agencies.1 Most significantly private organisations, in a variety of partnerships with the ES, have been given contracts in various parts of Britain to deliver the New Deals for the unemployed 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, which works closely with the ES in a joint private sector venture called ‘Working Links’.

The highest profile and longest standing involvement of the private sector has been in the New Deals for the unemployed where, in ten out of 144 areas, private contractors delivered the programmes until 2002. The areas reflected a range of different labour markets and the nature of private sector involvement varied. For example, in six areas the private sector was responsible for delivering the Gateway and all the options for young people, whereas in two areas the private sector organisation received a management fee to co-ordinate delivery.

The actual funding mechanism in each private sector area varied and it has been difficult to establish costs as much of the information is regarded as ‘commercially confidential’. However, despite the differences the unifying theme was that greater the success that the

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1 The private recruitment industry has become a significant actor in the British labour market. In 1999 they placed 450,000 permanent staff and registered almost a million temporary workers (Michielsens et al, 2000). They also account for about 15% of the vacancies handled by Jobcentres.
private sector organisation had in moving clients quickly through the process and into jobs, the greater the profit they could secure and/or the greater funds they were able to divert to those clients who were 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 the young unemployed. An evaluation report attributed the initial ‘relationship’ problems to the suspicion and resentment that were created by the way in which the Government imposed the arrangements on the areas involved. In most areas relationships have improved but in a “minority of cases it has been more difficult to overcome initial difficulties, and partnership working remains undeveloped” (Rodger et al, 2000, p. vi).

In practice, private sector led areas have worked well with some employers and have developed some innovative provision for the unemployed, with the lead organisations investing significant resources. Reed in Partnership, which had poor initial results, has since improved its performance, partly by drawing on the experience of Australian Job Network providers, especially by adapting some methods introduced by the Salvation Army. Overall, the performance of the private sector led areas improved after an initial settling in phase and by 2001 they broadly matched other New Deal areas. Indeed, it appeared that seven out of ten of the areas were achieving better unsubsidised job entry rates, compared with ES led districts in similar labour markets (ibid, p. vii). However, varying contractual arrangements make comparisons difficult and there is little substantial evidence that they have ‘out performed’ comparable ES led districts.

Unpublished evidence, supported by a subsequent public evaluation, shows that one of the significant differences between private sector and ES led districts was in the use of options (Rodger et al, 2000). In private sector areas only 36% of those leaving the Gateway entered options, compared with 42% in the other areas. This had contractual implications. In most areas the greater use of the Gateway and a larger than expected movement into unsubsidised jobs resulted in proportionate decreases in their unit costs. By contrast in the private sector areas actual unit costs were contractually agreed in advance and because the entry into options was lower than that planned this produced a greater level of profit than anticipated. This reinforced concerns about accountability, transparency and ensuring value for money in the use of public funds.

In 2002 ‘for profit’ private sector organisations were invited to bid to deliver the New Deals for the unemployed in two more districts, in addition to the original ten areas which came up for recontracting. One new applicant was backed by Work Directions, a significant Australian Job Network provider. Contracts had not been awarded at the time of writing but whatever the outcome it is clear that the New Deals for the unemployed will continue to be delivered through a mix of private and public sector led areas.

**Employment Zones**

The New Deal for unemployed people aged over 25, who have been out of work for over 18 months, is a national programme, with prescribed processes, which is largely
delivered through Jobcentres. In 15 high unemployment ‘Employment Zone’ areas, however, the British Government is experimenting with an alternative approach. In these areas programme provision has been fully contracted out to the private sector, who are paid on the basis of how many participants they get into jobs.

Participation in EZs is mandatory for unemployed people aged over 25 who have been out of work for over 18 months (or 12 months in a few zones). In the Zones individual benefit payments are combined with resources for active measures into what have been called ‘personal job accounts’. The EZs are delivered by private sector contractors who deliver three stages of support. There is an initial advisory process, which can last for up to 13 weeks, aimed at tackling immediate employment barriers, identifying objectives and agreeing a costed Action Plan using the Personal Job Account. The second phase of carrying out the Action Plan can last for up to six months and can involve a range of assistance, from training through to employment subsidies. The third step is to provide support once the individual is in work to ensure the employment is sustained.

EZ contractors are paid through an output related funding regime, but it is significantly different to that used for IA in the Australian Job Network. Initially, EZ providers receive a starting fee of £300 and are then advanced the equivalent of 21 weeks average benefit, out of which they must pay the client’s benefit for up to 26 weeks. The provider keeps the residue if the client is placed in work before 21 weeks but has to make up the shortfall if the client remains unemployed. About £500 is payable on job entry and approximately £2,000 is payable after 13 weeks retention in a job. Apart from the Personal Job Account the most significant contrast with Australia is that EZ contractors have no other private sector competitors in those areas where they are awarded contracts.

One of the most distinctive features of the EZ approach is that an Adviser and participant together agree how the funding in the Personal Job Account can best be used to overcome specific employment barriers. This can include expenditure to cover immediate employment barriers, such as the cost of work clothes, through to purchasing job related training. Devolving this decision making to front line advisers has been one of the most successful parts of the EZ approach, and has already been extended through the national New Deals where personal advisers can now spend up to £150 per participant on tackling immediate employment barriers. By contrast there is emerging evidence that, as in Australia, the funding model discourages providers from paying for “lengthy” training courses or “cover the cost of intensive support for participants facing acute barriers” (Martin, 2002, p. 21).

Within two years the EZs appeared to be generating significantly increased job entry rates in very difficult areas. Before the publication of any formal evaluation the Prime Minister publicly endorsed the approach, emphasising 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” and were “popular with claimants” He indicated that the Government intended to build on the approach by extending it to other clients groups, such as lone parents (PM, 2002).
The private sector and Jobcentre Plus

While EZs may have demonstrated added value the attempt to involve the private sector in the delivery of Jobcentre Plus was far less successful.

The creation of Jobcentre Plus was preceded by an experimental phase where in twelve districts the Government initiated a variety of different delivery models intended to integrate employment assistance and benefit delivery in a ‘work focussed’ system. One of these variants was described as the ‘Private Voluntary Sector Model’, which was tried out in four areas. Two were led by for profit agencies which were also delivering the New Deal; two were delivered through consortia led by a major consultancy company (W&PSC, 2002, p. 30).

In creating the PVS partnerships, Ministers said they wished “to harness the enthusiasm, expertise and knowledge of the private and voluntary sector in … developing innovative and flexible ways of delivering” the new service (ibid, p. 31). However, a Parliamentary inquiry found that the PVS pilots quickly faced problems which the public sector led pilots did not face. They had been given only nine weeks between winning the contracts to run the service and being expected to be fully operational, and private sector managers faced a steep learning curve in getting to grips with the new business. The PVS pilots also had staffing turnover problems, as staff seconded from public sector agencies returned to their home agencies, particularly as the planned period of the pilots came to an end. This led to direct recruitment of external staff, but “with an inevitable drop in levels of performance as new, less-qualified staff learned the job”. The limited nature of the PVS pilots also meant less opportunity to draft in extra staff from a wider area at periods of extreme pressure. The relatively short length of the contracts also inhibited both capital investment and the development of modern information technology systems.

All the private companies were heavily critical of the contractual terms under which they were expected to run the pilots, which in their view, restricted the scope for innovation and led to poor outcomes in getting people into work. Their criticisms of the contract have a wider relevance, in that they highlight issues concerning the culture and priorities of the main Government Department. The contracts operated on a capped funding model, with remuneration heavily linked to meeting fixed targets to do with benefits processing, and meeting a defined percentage of ES job placement targets. A major criticism of the contract was that it prioritised output measures over outcomes. Output related funding targets around quality of completion of forms and the number of days before an initial work-focused meeting carried greater payment returns than output measures - getting people into jobs. Therefore, when the pilots came under pressure due to high claimant demand and shortage of staff it was the work-focused element which got squeezed.

The private companies also expressed their exasperation at what they saw as the over-bureaucratic and inflexible attitude of the officials supervising the PVS pilots to proposals for innovation. Subsequently, the major consultancy company has withdrawn from the pilots, and in the other two areas the private sector lead will gradually give way to the public sector led Jobcentre Plus model. The Parliamentary Committee concluded
that the private sector was not “well used” in this exercise, although the result could be interpreted as a successful outcome for the public sector, in that a major competitive threat had been removed (at least in the short term).

The employment impacts of the New Deals

There is as yet little public data available on the relative performance of the public and private sector variations in the delivery of the Labour Government’s employment assistance programmes. Nevertheless, by the end of 2001 it was pointed out that well over half a million people had found jobs through the various New Deals and that some 53% of the young people going through the most developed New Deal were entering employment. Just under 80% of the jobs they obtained were ‘sustained’ for over 13 weeks.

The combination of employment growth and the New Deals produced significant reductions in JSA unemployment, especially amongst the younger long term unemployed (McDonagh and Asvesta, 2002, Table 2). Between April 1997 and April 2002 the number of 18 to 24 year olds in GB who were out of work and claiming JSA for over 26 weeks, the point at which they enter the New Deal but are still receiving JSA, fell sharply from 87,700 to 39,800, a fall of over 55%. The most dramatic impact was on those registered as unemployed for over a year, where the number fell from 90,700 to 5,100, a fall of almost 95%. The reduction in the shorter term unemployed was, however, less marked, with the number of those out of work for less than 26 weeks only falling some 16%, from 243,200 in April 1997 to 204,300 in April 2002. There were some cyclical factors at work, with the inflow into unemployment increasing in early 2002, but this data reinforced concern that the New Deal might be ‘recycling’ the unemployed, rather than moving them directly into jobs.

Establishing the net additional employment impact of the New Deal, the measurable economic difference it has made, is complex. Nevertheless, the most authoritative econometric findings come from evaluations of the New Deal for Young People carried out by the National Institute for Economic and Social Research (Anderton et al, 1999; Riley and Young, 2000) and the Institute for Fiscal Studies (Blundell, 2001). Both studies concluded that there was a positive impact with the IFS finding an “economically and statistically significant effect” on the flow of young men from JSA to employment (Blundell, 2001, p. 34). The NIESR findings were themselves independently scrutinised by the National Audit Office, which concluded that on the evidence it was “reasonable” to conclude that in its first two years NDYP was cost effective and directly reduced levels of youth unemployment by between 25,000 and 45,000 and increased youth employment by between 8,000 and 20,000 (NAO, 2002, Part 3).

There have been other, less favourable, assessments of the employment impact of the New Deal. Apart from those who suggest that the reduction in youth unemployment has simply reflected the strength of the economy, others point out that despite the reduction in long term youth unemployment about a third of those who participated in NDYP returned to unemployment and about one in five of those who did obtain a job failed to retain it for 13 weeks. Some of these young people are now entering the programme for a second or third
time. This problem is most acute for young black people and for those in many inner urban and depressed industrial labour markets where, it is suggested, the concentrated geography of unemployment leads to the “recycling and churning” of participants and that local ‘jobs gaps’ have undermined the programme (Martin et al, 2001). In response, Government economists have argued that appropriate vacancies arise in most local labour markets, and that participation has reduced the ‘scarring’ effect of long term unemployment with those re-entering the programme exiting at the same rate as the newly unemployed rather than becoming ‘detached’ and entering long term unemployment. In its ‘Next Phase’ of the New Deal the Government has also responded by increasing efforts to achieve ‘parity’ of employment outcomes for ethnic minorities, and by introducing ‘Step Up’, a temporary job creation programme targeted at high unemployment areas and aimed at those who fail to get unsubsidised jobs through the New Deal (DWP, 2001).

The ‘net’ employment outcomes of the NDYP continue to be contested, and the detailed evaluation results for the other evolving welfare to work programmes, especially for lone parents and the older unemployed, have also been challenged. Nevertheless, the balance of the evidence supports the conclusion that the strategy is accelerating the return to work, especially of the long term unemployed, and that it is contributing at least some net increase in employment (Blundell, 2001). These results are being secured through a complex structure of partnerships and a mixed economy of providers, within which there are significant new dimensions of private sector involvement. It is now clear that Jobcentre Plus will continue to draw on the private sector as it copes with the administrative challenge of implementing an ‘employment first’ regime, but what is still unclear is the extent to which the private sector will be involved in the delivery of infrastructure and services.

Conclusion

Australia and Britain have embarked on radical changes in their employment assistance and social security systems. Both countries have recognised that modernising the welfare state requires more than rhetoric, new regulations or even discrete programmes. They have, however, chosen to reinvent the governance and delivery of employment assistance in very different ways. Australia has created a fully contestable market; Britain has created a new national ‘employment first’ public sector led Executive Agency, albeit one that works through a range of ‘private public partnerships’.

The earlier sections of this paper identified many of the strengths and weaknesses of the Australian employment placement market. In essence the new system gives greater flexibility and discretion to contractors and their front line staff and appears to secure similar results to the earlier Job Compact but for far less expenditure. The plans for the next phase of the Job Network signal that successful providers will have their contracts renewed, albeit they will have to deliver services in a very different way involving far greater emphasis on monitoring job search activity and behaviour. The new Job Seeker Account may induce providers to invest more in improving the employability of the hardest to place, but there is considerable scepticism that the resources available will enable or incentivise providers to more effectively tackle significant underlying
employment barriers or build human capital. IA may only be available for unemployed people once or twice, whereas Work for the Dole will be mandatory after each six months of unemployment but it will still not provide direct employment assistance. Centrelink will continue to be the gateway to the Network and will retain responsibility for monitoring compliance with the activity test and mutual obligation, and impose sanctions when required, but it has been given no direct role in employment assistance, especially for those who do not get jobs after their programme ends. Instead, Centrelink is creating a parallel personal adviser service for more disadvantaged groups, and is being expected to deliver new programmes which stress social as much as economic participation. For the unemployed in particular the apparent combination of employment assistance with participation focused mutual obligation requirements leaves in place what is still likely to be experienced as a fragmented and complex hybrid.

Britain’s New Deals for the unemployed reflect a different type of approach which tries to avoid some of the weaknesses that limited the impact of the Job Compact, and contains many of the additional ‘tools’ which the OECD thought were absent in the marketised Australian system. Nevertheless, the British approach has its own limitations and challenges, and despite more generous funding and a buoyant economy, it has also struggled to deliver employment outcomes for the most disadvantaged amongst the long term unemployed. Ironically, the more limited British experience of drawing in the private sector confirms, though on a smaller scale, many of the strengths and weaknesses evident in Australia, especially in Employment Zones. Giving flexibility and discretion to providers and their front line staff seems to generate better outcomes, but unless output related funding contracts are properly specified, the pressure will be on providers to work with the most job ready and they will be reluctant to invest in higher cost provision which may improve longer term employability, but not short term profitability.
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