Chapter 15

The 'Welfare Market': the role of the private sector in the delivery of benefits and employment services

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Abstract

Since the 1980s successive governments have transformed the traditional public sector bureaucracies that deliver benefits and employment services. This chapter assesses the role that private and third sector providers now play in the delivery of the Government's welfare to work strategy. It discusses the creation of a new 'welfare market' where a core of 'prime contractors' will deliver services directly or through other providers and be paid largely on the number of people they place in sustained employment. It reviews the evolution of the contracting regime that has been used to steer the work of these agencies and considers evidence on the impacts that such market delivery has had on the experience and prospects of participants. It reviews also evidence on the quasi market welfare to work delivery systems in the USA and Australia that British reforms are intended to emulate.

Introduction

Successive British Governments have reformed both the formal objectives of the welfare state and the ways in which policies are implemented. In addition to its traditional remit of assessing eligibility for and paying income-related benefits, the social security system now is expected to play a far greater role in preparing working age people for, and connecting them to, the labour market. The objective is to create an active benefit system that connects people with work, reinforces work incentives and reduces costs and 'welfare dependency'.

There are three core components of the welfare to work strategy. The first element involves extending job search and work preparation requirements to lone parents and people with health problems and disabilities. The second is to 'make work pay' through tax credits, a national minimum wage and a variety of other services to assist with childcare and the transition into work. The final element is the development and implementation of a wide range of employment programmes and their delivery through contracts with for-profit private companies and through the non-profit and voluntary organisations now frequently characterised as being part of the 'third sector'.

The strategy has been developed by Ministers and senior civil servants in the Treasury and Department of Work and Pensions (DWP). It is implemented through a redesigned delivery system which has integrated the previously separate Employment Service (ES) and Benefits Agency (BA) into 'Jobcentre Plus' (JCP). Benefit claims and payments are administered by a network of contact centres and benefit delivery offices. Employment services and the monitoring and enforcement of activity requirements are handled through a network of over 800 front line Jobcentres. These offices have been modernised and designed to reinforce the principle that everyone has an obligation to support themselves, in particular through paid employment (NAO, 2008). More intensive employment programmes, including most components of the New Deals for the unemployed, are delivered under contract through an extensive network of non-profit and for-profit providers.

The contracted out employment services system has the characteristics of a 'quasi market' where the state has separated out its role as both purchaser and provider of public services (Le Grand, 2002). These arrangements resemble markets because they induce competition between different service providers who may be for-profit, non-profit or independent entities within the public sector. They are 'quasi markets' because, unlike ordinary markets, purchasing power comes not directly from consumers but from the state. Advocates of such market-based provision suggest that it allows the public sector to focus on those things it does well, for example, policy management and ensuring continuity and stability of services, whilst drawing on the strengths of the for-profit and third sectors. Private providers are thought to be better at "innovating, replicating successful experiments, adapting to rapid change, abandoning unsuccessful or obsolete activities and performing complex or technical tasks" (Osborne and Gaebler, 1993, p. 46). The diverse, mainly non-profit organisations that comprise the third sector are characterised by value-driven 'social missions' and have a capacity to build social capital and better meet and reflect the needs of disadvantaged individuals and groups.

British policymakers now anticipate that competition in the delivery of employment programmes in a 'welfare market' will lead to service innovation, improved accountability, better job outcomes, greater value for money, and better 'customer service' (DWP, 2008a). The next section of the chapter traces the increased role of the private sector, in particular since the 1980s.

Public Sector Reform and the role of the private sector

The welfare state in its broadest sense has always delivered services through a 'mixed economy of welfare', consisting of public, voluntary and private sector organisations (Powell, 2007). After 1945, however, the role of the private and voluntary sector diminished. Service delivery and administration were entrusted to hierarchical public sector bureaucracies. By the 1980s these institutions were under attack. Critics argued that state bureaucracies were provider dominated and interested primarily in promoting the growth of their own budgets, responsibilities, status, and job security. As large monopoly providers they offered poor value for money and gave insufficient attention to the needs and experience of service users. There was also a lack of clear accountability for expenditure and performance (Butcher, 1995).

In the 1980s Conservative Governments sought to reduce public expenditure, diminish the role of the public sector and introduce market mechanisms into the delivery of public services. Welfare state agencies were required to sell assets, 'contract out' services and apply market principles to their operations. One key feature of reform was a radical change in the role of the civil service. From the late 1980s its traditional dual role of providing advice and implementing policies was split. Executive Agencies were 'hived off' across central Government with the aim of creating a more business-like culture; other services were contracted out to the private sector. As part of this reform process, emphasis was placed on meeting the needs of users and setting and publicly monitoring service delivery targets.

The Chief Executives and Boards of these new agencies, such as the Employment Service (ES) and the Benefits Agency (BA), had operational freedom but remained 'steered' by central Government Departments through performance targets and budgets. The BA was responsible for the assessment and administration of all state benefits and a national network of local offices. The ES was responsible for delivering unemployment benefits and for providing employment related services through Jobcentres and contracts with private providers. The work of the civil service staff employed in both agencies was increasingly reorganised to better meet both financial and performance targets.

From their inception the ES and the BA were under constant pressure to reduce operating costs and obtain better value for money (Butcher, 1995; Fletcher 1997). Benefit delivery systems were restructured, making greater use of computerisation. The agencies were required to undergo 'market tests' and to contract out services if they could be delivered more cheaply by the private sector. Many components of service delivery were contracted out, ranging from the relatively routine, such as cleaning and security, through to the more complex, such as medical assessments for disability benefits and the information technology (IT) systems used to deliver benefits and office processes.

Both the BA and the ES retained direct control and were accountable for front line user contacts with their services. The ES, for example, retained control of advisory interviews, job-broking and vacancy placement, and outright privatisation was not considered feasible (Price, 2000, p. 304). By 1996, however, the ES had withdrawn from most direct employment programme provision for the longer term unemployed and these services were contracted out via competitive tendering to a diverse range of private providers including for-profit and voluntary sector organisations, colleges, local government and religious groups.

The modernisation process in the BA culminated in the 'Change Programme' in 1996. It included the proposed use of telephone call centres for 'first contacts' with claimants; an appointment based system for interviews and a market test that involved a 'purchaser-provider' split which would allow the private and voluntary sector to be involved in benefit delivery (Allbeson, 1997). In 1998 the DSS also transferred ownership of all its offices and property to a private company in a 'Private Finance Initiative' deal known as 'PRIME' (NAO, 2005). This was designed to raise money and give its executive agencies more flexibility through paying rents. By 2008 the successor DWP owned almost no physical assets, with all property, IT and telephone technology being outsourced and paid for through rent and service charges (DWP, 2008b).

Many of the developments envisaged in the ‘Change Programme’ were eclipsed by the 1997 election of the Labour Government, committed to its own approach to welfare reform and public services. The new Secretary of State for Social Security suggested that the Government would adopt a “non-ideological approach to the best way of delivering public services”, in contrast with the previous “public bad; private good” mantra of the previous administration (Harman, 1997, col. 9).

Subsequent public sector reforms dropped an “automatic preference for private service delivery” but they have still favoured the injection of market based values and practices in the management and delivery of public services (Grimshaw et al, 2002, p. 480). Another significant change is that such reform has taken place alongside increased public sector investment. The ambition of policy makers has been both to get value for money, by keeping costs down, and to engineer a fundamental change in service design and delivery with a strong emphasis on ‘customer service’. This represents “a significant change in interpretation of the role of the market in public sector delivery” (Entwhistle and Martin, 2005, p. 239).

The New Deals and Jobcentre Plus

In 1997 New Deal employment programmes and ‘make work pay’ policies were implemented swiftly. The core principle of Labour’s ‘New Deal’ for unemployed people in receipt of Jobseekers Allowance (JSA) is that individuals are guaranteed intensive employment assistance after a particular duration of unemployment. At a certain point all claimants without a job must, as a condition for receiving benefit, participate in a full time employment activity (this may include work experience or short periods in subsidised employment). Other, less intensive, voluntary New Deal programmes were targeted at lone parents, disabled people, and unemployed people aged over 50.

The key service delivery innovation was the introduction of New Deal Personal Advisers who, like case managers in other countries, provide a more tailored service by assessing employment barriers, developing an individual action plan, and providing job search assistance. These advisers also refer participants to support programmes delivered by externally contracted providers.

In addition to developing its New Deal programmes in 1998 the Government announced more radical proposals to develop a ‘single work focused gateway’ to the benefit system. A culture change would be induced through the introduction of compulsory ‘Work Focused Interviews’ requiring all working age claimants to engage with the employment assistance available. The aim of the ‘gateway’ was to bring together the separate work of the ES, BA and Local Authorities and to provide Personal Advisers (PA) for all working age claimants. Three different models of what was then called the ‘ONE’ service were tested in pilot areas. They included a ‘basic model’, a ‘call centre’ variant, and a version delivered by private and voluntary sector organisations.

In 2002 responsibility for delivering what was now characterised as the ‘employment first’ welfare state was given to the newly created DWP and Jobcentre Plus (JCP), an executive agency that integrated the ES and the BA (but not Local Authorities). The subsequent modernisation of JCP services cost over £2 billion and involved major changes in working practices, including the redesign of local offices and the extensive use of call centres to accept benefit claims and administer payments (NAO, 2008).

Increased investment in the New Deals and front line service delivery was paralleled by the Government’s objective of ensuring efficiency by benchmarking public sector performance against that of the private sector. As it developed new services the Government contracted out with private and voluntary sector organisations to learn from the innovations and to put competitive pressure on mainstream public agencies. In addition to the ONE private sector variant external organisations were contracted to deliver a range of employment programmes. Some of these experiments were designed to stimulate innovation in the New Deals. Others tested new ways of delivering services to workless people with significant employment barriers, as with the private sector ‘job brokers’ who delivered the New Deal for Disabled People (NDDP).

Contracting with employment programme providers: the transition to job outcome payments

In the late 1970s and early 1980s large scale employment and training programmes were rapidly introduced and expanded in response to significant increases in youth and long term unemployment. Many of these initiatives were delivered by external contractors, especially in the non-profit sector. When these were found to be relatively ineffective, the focus shifted towards intensive short term job search and training programmes, designed to complement what was known as the ‘stricter benefit regime’ for the unemployed. By the late 1980s participation in such programmes had become compulsory for the young and the long term unemployed.

Initially external contractors were paid to provide work experience or training places for participants. Funding methodologies were reformed to ensure that providers were paid only for participants who attended. Subsequently greater emphasis was placed on how many participants providers helped to obtain jobs and/or qualifications. The most radical development happened in 1988 when responsibility for purchasing training programmes for the unemployed was transferred from the public sector to a national network of local Training and Enterprise Councils (TECs). These independent, employer-led companies were funded increasingly on the basis of achieved training or employment outcomes, a funding system they also used with the subcontractors through whom they delivered locally (Jones, 1999). The ES continued to separately purchase job search and work experience programmes but it also placed greater emphasis on the job outcomes secured by providers.

After 1997 the ES was given lead responsibility for the delivery of the New Deals and TECs were replaced by a new national Learning and Skills Council (LSC) responsible for distributing funding for all post compulsory school age education and training (apart from Higher Education). The ES (subsequently JCP) and the LSC had different employment or training related targets but both continued to deliver most of their programmes through contracts with a range of public, private and voluntary sector organisations.

The market evolved further when Ministers revised policy objectives to harness what they considered to be the innovative skills, practices and finances of private for-profit organisations. The first indication of a new approach was in 1998 when private sector organisations were invited to run Labour's flagship programme, the New Deal for Young People, eventually catering for about 10 per cent of participants. This was followed by other contracted out initiatives with the most radical of the experiments taking place in 'Employment Zones' (EZs).

Box 15.1 Employment Zones

The EZs were established in 2000 in 15 areas of high unemployment in 2000. Providers were paid a fee for completing an action plan with each participant but most of their income depended on getting people into employment that was sustained for at least 13 weeks.

Subsequently the number of zones was rationalised and by 2007 there were seven 'single provider' zones (where the contractor has a monopoly of provision) and six 'multiple provider' zones (where several contractors compete with each other).

There are now seven organisations which deliver EZ contracts, nearly all of which are for-profits businesses.

The EZs were not designed to provide a direct comparison between state and private delivery of employment services, as the New Deal is also in part delivered by contractors.

However the EZs could be used to assess whether contractors could deliver better outcomes when they have more flexibility to design their own interventions rather than following the more prescriptive sequence of employment assistance available in the standard New Deals.

The evidence on outcomes is mixed: see further discussion below.

There were changes too in the contracting regime for the mainstream New Deals. In 2006 new contracts placed greater emphasis on price competition and job outcome payments and fewer organisations were given contracts. In place of 1,000 individual contracts the New Deals are delivered through 94 'prime contracts', of which 53 are for-profit, 27 non-profit and 14 were public sector organisations (DWP, 2007a). These 'prime contractors' are expected to manage delivery in their district, working with more specialist subcontractors where necessary.

The prime contractor model was further extended to the delivery of 'Pathways to Work', an employment programme targeted at people receiving Incapacity Benefit. 'Pathways' was initially delivered by JCP in partnership with the NHS but its extension to the remaining two thirds of the country in 2008 was exclusively contracted out to private and third sector organisations. A small number of prime contractors, most of whom are for-profit, will have greater flexibility in how they deliver the programme and will be paid largely on the basis of getting people into jobs that are sustained for at least 26 weeks. Participation in Pathways will be mandatory for many of those people with disabilities and health problems who claim Employment Support Allowance (which replaced Incapacity Benefit in 2008).

By 2006/07 it was clear that a different type of performance funded regime was emerging in a welfare market which in that year included a national network of some 900 for-profit and non-profit providers delivering employment services, with an estimated contract value of about £950 million (DWP, 2007a, p. 28). The key developments were the introduction of prime contractors and a growing emphasis on job outcome related funding.

Box 15.2 Job Outcome and Performance Targets

The UK Government assesses the performance of its welfare to work policies primarily in terms of the number of people in different target groups it gets into employment. Each time that Jobcentre Plus assists someone into a job they earn a designated number of points towards the total in their overall annual Job Outcome Target. The points awarded are weighted to clearly signal the priority attached to different groups with, for example, a greater value of points given for getting a lone parent on benefits into a job.

Contracted providers have an additional interest in getting their service users into employment because some or all of the payment they receive may depend on securing a 'job outcome'. The proportion of funding involved varies significantly. In the initial New Deal contracts for the unemployed, for example, only around 10 per cent of payments were linked directly to movement into a job. In Employment Zones the proportion has been much higher. In deciding on the relative value of such job outcome payments for external providers policy makers are seeking to balance the incentives created. If the payment is marginal there may be little incentive for the provider to get a participant into work. If the value is too high the provider may concentrate their efforts only on those easiest to place and give little service to the hardest to help.

The most significant fee for a job outcome is usually paid only when employment has been sustained for a specified period, often set at 13 weeks in the UK, although in some contracts smaller payments may also be made after 26 weeks. This requirement is designed to ensure that providers do not place participants in very short term jobs. Paradoxically, JCP has no duration requirement and is awarded points for any job outcome. This difference has been criticised because there is little incentive to ensure that JCP staff place service users into longer lasting jobs, and external providers view it as preferential treatment.

The value of these job outcome performance measures is that they directly reflect the

Governments priorities, are relatively simple to check, and are easy for those delivering welfare to work services to understand and relate to their day-to-day work. The difficulty is that they may create perverse incentives and some may be tempted to manipulate their results.

The Welfare Market

In 2006 and 2007 the Labour Government commissioned a series of major high-level reviews of its welfare to work and employment policies. These identified the progress made and outlined the policy and implementation options available to the Government if it was to realise its new ambition of an 80 per cent employment rate for working age people (DWP, 2006).

One report explicitly addressed the future role of private sector delivery. It followed a decision by Ministers to move towards a 'managed welfare market' and to centralise procurement of all employment programmes within DWP. David Freud, the author of the report was asked to undertake a long term review of the Government's welfare to work strategy. The report proposed a major restructuring of employment programmes and the benefit system and recommended that job search requirements be extended to lone parents. It suggested little change to JCP delivered work first services for the short term unemployed but radical change for the longer term unemployed and other groups. It recommended that these 'harder to help' groups in future should be serviced by private organisations using a model of performance based contracting (Freud, 2007).

The Freud report stressed, however, that existing contracting arrangements were inadequate. They too often specified process rather than outcome, limiting the value that private providers could add. The contracts had restrictions on recruitment and expenditure that prevented providers from expanding provision or being rewarded for overachievement. Contracts were small scale, had a multiplicity of requirements and start and finish dates, and were too short, discouraging providers from making the investment necessary to improve performance. The Report proposed instead a different performance based model based in part on the lessons from EZs.

The basic principle of the proposed contracts was that the Government and providers would share the savings in benefits over a three year period that accrues when a participant obtains employment. The provider would be paid outcome fees slightly lower than these average benefit savings once a participant achieves certain milestones. Phased payments would be made for sustained employment after 13 weeks, six months and one, two and three years, with additional payments for pay progression and the achievement of vocational qualifications. Successful providers would be awarded seven year contracts and act as the single prime contractors in each region of GB, subcontracting as they wished with smaller providers. These 'multi-billion pound' contracts would encourage larger for-profit and non-profit organisations to borrow and invest in advance in service provision knowing they would have an effective monopoly and an income stream from outcome fees over an extended period. Some of the risks associated with investment in employment assistance then could be shifted from Government to the private sector. The proposed sequence of outcome payments would ensure also that providers had an incentive to invest in improving the skills and longer term employability of participants.

The Government welcomed Freud's proposals and subsequently DWP published an overall 'Commissioning Strategy' outlining how the welfare market will be shaped over the next decade. DWP envisages that it will do "80 per cent of its business" with a "stable core of reliable" providers capable of delivering multiple contracts across the country (DWP, 2008a, p.10). Smaller providers will act mainly as subcontractors. Successful prime contractors will be awarded contracts that last usually for five years, with the possibility of two year extensions. Most of the funding will reward sustained job outcomes for employment that lasts for six months initially, but with the aim of moving beyond this to reward providers if they keep people in employment for a year or eighteen months. This will be developed through future experiments with "alternative reward mechanisms" that will also give incentives to providers to help "people progress in terms of skills and earnings" (ibid, p. 22).

DWP intends to play an active role in managing the market, and local 'supply chains', through contract reviews, inspection and 'intervention'. It plans also to further develop a 'star rating' system by which regular public performance measurement will be used to identify poor performers, determine business allocation, and potentially inform user choice. There also will be a process of re-integrating the contracting processes through which DWP and a proposed adult Skills Funding Agency (which will replace the LSC in England in 2010) procure their respective provision with significant implications for the further development of the British welfare market (DCSF & DIUS, 2008).

The principles of the DWP Commissioning Strategy will be applied first to the 'Flexible New Deal' that will replace all existing New Deal and EZ provision for the JSA unemployed from 2009 (DWP, 2007b). In this new system all JSA jobseekers will be serviced by JCP in the first year of unemployment. After a year claimants will be required to enrol with a specialist return-to-work private provider of which there will be at least two delivering services in each district.

When announcing the Commissioning Strategy the Secretary of State for Employment emphasised that the Government was "creating a market for the long term" that would "free" providers "from central control and allow them to innovate". The future delivery of employability services through these performance based contracts represents "a major milestone in (the) welfare reform programme" and for successful providers "the rewards will be high, with longer contracts and a growing market" (Purnell, 2008).

There is broad political consensus on the 'direction of travel' represented by the Governments development of a welfare market, with the Conservative Party (2008) and Liberal Democrats (2007) respective approaches to welfare reform also including further growth of the market. Opposition to the 'marketisation' of welfare reform has been expressed only by a relatively weak coalition of 'back bench' Labour MPs, public sector trade unions and some welfare rights groups (Davies, 2006).

The risks involved in contracting out employment services

The literature on the contracting out of public services suggests that there are important consequences for accountability when the direct control previously exercised over staff and levels of service is replaced by indirect control exercised through contracts. There are two particular risks associated with welfare to work performance based contracts. The first is that of ‘creaming’, where contractors who are paid by results are likely to concentrate their efforts on those participants who are closest to the labour market and more easily placed in a job. The second criticism is that of ‘parking’ where other participants will receive a bare minimum of services and are unlikely to make any progress whilst participating in a programme. Arguably the most disadvantaged, those with the greatest employment barriers, are the most likely to be ‘parked’.

Other risks concern the ability to regulate and ensure the quality of the services delivered by profit-seeking agencies; and the potential for market failure, where government has no choice but to intervene and either ‘bail out’ a failing provider or quickly find an alternative to continue the delivery of services.

The evidence from evaluations of performance based contracts in the UK is mixed. Private and voluntary sector providers have introduced new approaches, and appear to work well with some claimants, but evidence of greater efficiency or performance is more limited. EZs, which were subject to continuous quantitative and qualitative evaluation, were found, for example, to have used their flexibilities to improve the “quality, intensity and customer orientation” of their services and that participants responded (Griffiths and Durkin, 2007, p. 34). Evaluations reported that service users preferred the more informal and friendly atmosphere of EZs (in contrast to Jobcentres) and appreciated the intensive and more individual support received. Participants were more likely to report that zone advisers had been more supportive and more frequently were thought to have influenced the outcome when a job had been obtained. Zone participants also were more likely to suggest that the programme’s content had been organised to suit their individual needs, rather than the programme having a ‘menu’ of activities to which they were directed (Joyce and Pettigrew, 2002).

Other evidence from the zones indicated that providers concentrated adviser support on those who were the “key to making profits” with the hardest to help receiving little assistance (Hirst et al, 2002, p. vi). This front line rationing of employment assistance is, however, found also in public sector systems, where advisers must balance the needs of the long term unemployed, available job opportunities, and restricted public funds. This process may be exacerbated by the commercial pressures to which private providers are subject but evaluations found no evidence that zones achieved their better performance through ‘creaming’ or ‘parking’ clients who were less disadvantaged than did comparator New Deals (Griffiths and Durkin, 2007, pp 57-60).

Impact studies, which measured the relative performance of zones and New Deal provision in assisting long term unemployed people to get and keep jobs, reported that zones performed somewhat better. One DWP study found, for example, that 8 per cent more 25 to 50 year old zone participants started jobs, and 10 per cent more retained those jobs at 13 weeks (Griffiths and Durkin, 2007). The studies found that both zones and New Deals worked best for those with a better employment record and were least effective for those without qualifications, were unemployed longer and had an unstable pattern of employment. One study reported that some 20 months after being eligible to participate, almost half the participants in both programmes had spent no time in paid work (Hales et al, 2003).

There has been no equivalent impact evaluation of the performance of EZs that started to recruit lone parents on a voluntary basis after 2003. Broad outcome data reported to Parliament indicated, however, that by the end of 2006 38 per cent of lone parents who had contact with an EZ adviser had moved into work (Hansard, 8 January, 2007, col. 209W). The cost of helping each lone parent was estimated at £1,900 compared with a cost of £600 for each person helped through the comparable New Deal. The direct comparison may be misleading because zones work in more disadvantaged areas and with participants who may have been more difficult to place. There had also been design problems with the incentive structure. After these were changed providers began to make greater efforts with this client group. The important point this demonstrated was that "providers generally innovate where they are financially incentivised to do so" (Griffiths and Durkin, 2007, p. 4).

Evaluations of the parallel private sector delivered NDDP for those on disability benefits found that of the 260,330 voluntary registrations between July 2001 and November 2006, 110,950 (43 per cent) had found jobs by November 2006 (Stafford et al, 2007). Nearly 60 per cent of those who got jobs sustained employment for 13 weeks or more albeit most entered routine, unskilled occupations. Detailed assessments of financial costs and employment impacts found that the investment in the programme saved the government money and the net social and employment benefits were larger for longer-term than for more recent claimants. Whether these returns will be sustained in future private sector delivered provision for those on disability benefits has yet to be assessed.

EZ provision for the unemployed may have been estimated to outperform the New Deals for the unemployed but it proved more costly. It is unlikely that the Government will be as generous in the design of its future contracts and this may have implications for the quality of provision. The challenge for policy makers will be to more carefully design incentives and flexibilities to secure value for money whilst avoiding the type of 'parking' and service reduction strategies that emerged as costs were cut in the privatised Job Network in Australia (Considine, 2001).

One other significant finding was that in both zone and New Deal areas many of the jobs that were sustained for over 13 weeks did not last in the longer term. This reflects, in part, labour market opportunities for the long term unemployed. Many jobs were temporary, were with small employers and offered low wages. The personal barriers of the participants, such as ill health, lack of skills and qualifications also contributed to the short duration of job tenure. The implication is that simply remaining in work for 13 weeks did little to enhance the longer term employability or skills of those who found jobs (Griffiths and Durkin, 2007). It remains to be seen if the incentives created by the longer duration outcome payments envisaged in the DWP Commissioning Strategy will result in more sustained employment for those who participate in future contracted out services.

The evidence on market failure is limited. Performance has been regulated through contract management and inspections. Zone providers have been financially viable but there have been a number of cases where providers of other DWP programmes have gone out of business, causing much disruption to individual service users and requiring speedy intervention by the public sector to shore up the capacity of local delivery systems. The continuing role of JCP, with its national coverage, and the DWP's commitment to actively manage the market and ensure that there at least two private providers operating in most regions, should minimise although not eliminate the risk of performance or financial failure.

Welfare Markets in the USA and Australia

The experience of other countries, especially the USA and Australia, has helped shape UK policy in this area. For example, the design of the EZ contracts and the 'star rating' system for providers was based on practices developed in Australia after the public employment service was wholly privatised and replaced by a 'Job Network' in 1998 (Morrell and Branosky, 2005). The interim DWP Commissioning Strategy was itself influenced by and published alongside a review of lessons from the contracting out of welfare to work services in the USA, where some states have used a prime contractor delivery model (Finn, 2007).

Whilst it is difficult to disentangle the impacts of market based delivery systems from the wider work based welfare reforms that they are designed to implement, there is a wealth of analysis available from both Australia and the USA. This body of knowledge gives valuable insight into issues likely to emerge as the British welfare market evolves (Considine, 2001; Bryna Sanger, 2003; Sol and Westerveld, 2005).

Proponents of the new systems argue that private contractors have brought innovation and new capacity to service delivery and that competition and payment for performance has generated efficiencies and cost savings. Officials involved in the delivery of welfare to work services stress that contracting out has enabled them to speedily and flexibly expand capacity and restructure delivery systems (including, where required, the ability to renegotiate contracts). Critics dispute the idea that the conditions for effective competition exist and deem efficiencies and savings claimed as illusory. The transaction costs of designing, awarding, and subsequently managing contracts are high, with critics finding that expenditure savings have come from "reducing services to clients while increasing profits to agencies" (Considine, 2005, p. 67: Brodkin, 2005). As problems have emerged public purchasers have been forced into frequent redesign of contracts and as regulations have become more prescriptive providers have less operational flexibility and capacity or ability to innovate.

In both countries there has been much debate about the role of large scale national providers and controversy about their operation. In the USA in particular there has been much criticism of large providers in certain states (similar criticisms have now been made of some of the larger British providers: Davies, 2006). The US critics cite examples of corporate malpractice, including inadequate and poor provision of services, misappropriation of funds and other financial irregularities (Bryna Sanger, 2003; DeParle, 2005). In some US states the organisations involved have lost contracts; in others they have taken remedial action and continue to deliver services. The largest providers themselves point to their successful delivery of many other contracts and continue to stress the strength of the organisational and management capacities they bring to the market.

On a more general level the large providers in both Australia and the USA have emerged as a powerful interest group, locally and nationally, lobbying, for example, for further privatisation of services, and for changes in their contractual terms. In the UK such providers are now organised into the 'Employment Related Services Association' and they have played a significant part in the debate on the future direction of the British welfare market. Unsurprisingly they are in favour of longer and more flexible contracts.

Involvement in welfare markets has had a major impact on voluntary sector organisations in both countries. A detailed study of larger non-profit organisations in the USA found that some struggled with the challenge of delivering major contracts but others had improved their performance and 'developed services consistent with their social mission' (Bryna Sanger, 2003).

The impact on smaller non-profit organisations has been less transparent, but many have lost contracts or chosen to withdraw from providing services. The experience of New York City, which introduced a prime contracting model, illustrates the impact of a 'shake out' of community based and smaller non-profits that followed. For some the loss of these 'less effective' providers increased efficiency, thereby improving services for clients. Others have argued that clients with special needs may be less well served and that while the loss of many of these local organisations "might not show up on a balance sheet" it undermines the already limited social capital of poor communities (Fischer, 2001, p.1; Bryna Sanger, 2003).

Wider concerns have been expressed about the impact of welfare to work contracting on the values and practices of the non-profit sector (Murray, 2006). There has been 'mission drift' induced through the requirements of contracts and by the involvement of non-profits in processes that impose benefit sanctions, often on large numbers of disadvantaged and poor people. Others fear that contractual involvement reduces the autonomy and vitality of the voluntary sector actors and may "mute their advocacy on behalf of disadvantaged communities" (Brodkin, 2005, p. 77).

Overview

This chapter has assessed the role of for-profit and non-profit organisations in the delivery of the social security system. It has described in particular the creation of a welfare market and the key role that private sector providers are now playing in the delivery of welfare to work programmes. It has shown also some of the risks involved in making such changes Over the next decade it will become clearer whether British policy makers and those entrusted with implementing the welfare market have managed to fashion a contracting regime that has harnessed the resources and the capacities of the private and third sectors to deliver services that assist workless people to get and keep jobs. It may be that contracting out these services will simply reduce the visibility of government decisions and disguise reductions in the funding and quality of welfare to work programmes. We may also find that the new delivery systems become mired in the same delivery problems that undermined the bureaucratic systems they have replaced.

Questions for Discussion

1. How has the role of the private sector changed in the delivery of British welfare to work programmes?
2. What gains and risks are involved in the delivery of welfare to work programmes by private providers?
3. Why is the Government using private agencies in the delivery of welfare to work programmes?
4. What does the evidence tell us about the impact of welfare to work contracting on service users and third sector organisations?

Website Resources

Department for Work and Pensions Research	*www.dwp.gov.uk/asd/asd5/*
Employment Related Services Association	www.ersa.org.uk
Centre for Economic and Social Inclusion	www.cesi.org.uk
Work Directions	www.workdirections.co.uk
Department of Employment Education and Workplace Relations (Australia)	http://www.workplace.gov.au/workplace
Social Policy Research Centre, University of New South Wales	http://www.sprc.unsw.edu.au
Brotherhood of St. Laurence	http://www.bsl.org.au
Jobs Australia	http://www.ja.com.au
U.S. Department of Health and Human	http://www.hhs.gov

Services	
Institute for Research on Poverty, University of Wisconsin-Madison	http://www.irp.wisc.edu
Mathematica Policy Research, Inc.	http://www.mathematica-mpr.com

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