View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Portsmouth University Research Portal (Pure)

The 'Welfare Market' and the Flexible New Deal: lessons from other countries

Dan Finn

Correspondence Address: Dan Finn, School of Social Historical and Literary Studies, University of Portsmouth, Milldam, Burnaby Road, Portsmouth, PO1 3AS. Email: Dan.Finn@port.ac.uk

Abstract: Recent British welfare reform involves the creation of a managed welfare market for the delivery of employment programmes. This article critically reviews evidence on the development and impacts of such markets in Australia, the USA and the Netherlands. It considers the emergence of problems with 'creaming' and 'parking' of participants and the challenges that 'market makers' must meet if they are to secure anticipated improvements in service delivery and outcomes.

The British welfare state has changed radically. The rights and responsibilities of adults without jobs have been redefined and the public sector institutions that deliver working age benefits and employment programmes have been reformed. The latest phase of change involves both extending job search and work activity obligations to lone parents and people with health problems and disabilities and a "major transformation" in the delivery of welfare to work programmes (DWP, 2007a, p.9). In future most employment- related services for people on working age benefits will be delivered via a 'managed welfare market'. In this 'quasi market' services will be delivered by a range of private, voluntary and public sector organisations.

During the past ten years there has been much experimentation with private sector delivery of employment programmes and how the Government contracts with it. Recently there has been increased emphasis on paying providers for performance in getting people into jobs and on Jobcentre Plus (JCP) to reduce transaction costs by entering into larger contracts with fewer providers.

There was further significant change after the recommendations of the 'Freud Report' (2007) and the centralisation of procurement within the Department for Work and Pensions (DWP). This culminated in the DWP's 'Commissioning Strategy' that detailed Government plans to simplify and rationalise existing welfare to work contracts (2008).

DWP now is directly responsible for commissioning and managing the welfare market. DWP envisages that it will do "80 per cent of its business" with a "stable core of reliable top tier" or prime contractors capable of delivering multiple contracts across the country (DWP, 2008a, p.10). Smaller providers will act mainly as subcontractors. Successful prime contractors will receive contracts usually of five years' duration, with the possibility of two year extensions. Most of the funding initially will reward sustained job outcomes for employment that lasts for up to six months, but the aspiration is to go further and reward providers if they keep people in employment for a year or eighteen months.

The principles of the new strategy will be applied first to the ‘flexible New Deal’ (FND) that replaces all existing New Deal and Employment Zone provision for long term unemployed job seekers from 2009 (DWP, 2007b). The future delivery of employability services through these performance-based contracts represents “a major milestone in [the] welfare reform programme” and “the rewards will be high, with longer contracts and a growing market” (Purnell, 2008) for successful providers.

The transition to prime contractors is likely to reshape the ‘welfare to work’ landscape with for-profit organisations, with access to risk capital, dominating service provision. The future for many voluntary and community- based organisations, and some for-profit providers, will be as subcontractors. The transition also will pose new challenges to local employment partnerships which aim to coordinate the fragmented programmes that deliver skills and employment.

Consensus and International Comparisons

There is an apparent consensus amongst senior British politicians from all parties that delivery of employment programmes by for-profit and third sector organisations through a welfare market will lead to service innovation, improved accountability, better job outcomes, greater value for money, and better customer service. These claims are justified by frequent reference to ‘international best practice’ and to evidence from British Employment Zones. In particular, the respective proposals of all the parties point to the ‘success’ of welfare reform in countries, such as Australia, the USA and the Netherlands, that began to contract out case management and employment assistance services on a large scale in the 1990s.

While the three countries provide useful comparators for the UK they have distinctive labour markets, governance arrangements and welfare systems. Australia and the USA have a federal system of government and in the Netherlands and USA state and local government play a direct role in the design and delivery of some working age benefits, unlike in either the UK or Australia. The Netherlands also invests more in labour market programmes and provides more generous benefits for working age people (OECD, 2006).

From measuring performance to rewarding outcomes

The transition to performance-based contracting took place initially in the USA, and is embedded in the delivery of training, employment and welfare to work programmes. Federal legislation typically devolves funding and purchasing power to state governments and increasingly their contracts with delivery agencies link explicit performance outcomes with financial incentives to motivate agency staff. Over time these outcomes have evolved to include placement in unsubsidised employment; retention for at least six months in such employment; increased earnings; a reduction in welfare dependency; and, in some programmes, skills acquisition - including basic skills and qualifications.

Other countries were influenced by US developments and GB was the first European country to extensively use ‘output related funding’. Training and Enterprise Councils (England and Wales) and Local Enterprise Companies (Scotland), modelled on the US experience, were introduced in 1987. They were funded through performance-based contracts with an increasing proportion of funding dependent on job outcomes and qualifications gained. The British Employment Service also introduced job outcome performance contracts for some of the separate provision it outsourced.

Job outcome contracts subsequently were central to the design of the new market -based employment services systems introduced in Australia and the Netherlands in the late 1990s.

The Australian Job Network (JN) was created in 1998. It is a managed quasi-market providing scope for competition, some degree of choice for jobseekers, flexibility in the way services are delivered, and financial rewards for successful providers. Prices used to be determined through the tender and contracting process but now are set at fixed rates by the purchasing agency. Currently the JN is comprised of a core of 99 ‘generalist’ and ‘specialist’ providers delivering a full range of services, supplemented by a wider network of licensed Job Placement Organisations which provide vacancy finding and job matching services. The JN has experienced three distinct periods marked by different ‘Employment Service Contracts’ and is about to undergo further reform in a contracting regime to be introduced for 2009-2012.

In the Netherlands a ‘reintegration market’ was introduced in 2003 when the UWV, the social insurance purchaser, and municipalities were required to contract out their employment assistance programmes. The UWV, the largest sole purchaser, has successively adapted the market as it has sought to improve the efficiency of its contracted provision, personalise support and target intensive services at harder to help participants. The initial tendering system involved relatively small contracts designed to tackle the barriers of particular groups with prices and outcome payment terms differentiated according to assessed distance from the labour market. The tender system now has been displaced by a modular purchasing framework and Individual Reintegration Agreements. These ‘IROs’ give harder to help participants more personal control over services and pay contactors higher fees and outcome payments for working with more disadvantaged participants.

Municipalities were under pressure to contract out their reintegration services for social assistance claimants but this requirement now has been dropped. This followed the introduction of a radical new central government funding system, partly modelled on US ‘block grants’. The ‘Fund for Work and Income’ has two components. The ‘income fund’ pays for means tested assistance and is determined using economic and social indicators. A separate flexible ‘work fund’ is designed to pay for employment or reintegration services and can be used to pay only for such services. Any surplus in the 'work fund' returns to the Ministry. In contrast should the municipality pay less than it is allocated in the 'income fund' it can use the surplus as it wishes.

Municipalities thus have a powerful incentive to reduce the number of people claiming social assistance and many have done so through the introduction of 'Work First' programmes. These require selected social assistance recipients to participate in work or work- related activities. In terms of delivery the municipalities act as local prime contractors and, using devolved budgets, are expected to provide employment services either in-house or through contracts with private agencies.

Subsequently other countries, such as Denmark, Canada and Israel, have implemented equally radical market- based reforms (Gould, 2007; Lilley and Hartwich, 2008). Some European countries, such as Germany, France and Sweden, are experimenting with the introduction of job outcome performance contracts (Jordan, 2008).

The risks involved in contracting out employment and welfare to work services

The transition to performance-based contracts offers potential for innovation, flexibility and efficiency savings but the difficulties of managing complex services through contracts pose risks to service access, costs, quality and accountability (Heinrich and Choi, 2007).

There are three particular risks commonly thought to be intensified by performance and outcome based contracts. The first is 'cream-skimming', where contractors who are paid by results select more job ready participants. This is a particular risk when the group eligible for a service exceeds the number of available places and/or when providers can choose whom to admit to a service. 'Creaming' can occur even when the provider is required to take designated participants. The risk then is that a provider may, deliberately or unconsciously concentrate efforts on those participants more easily placed in employment. The third risk is 'parking' where more costly to help participants receive only minimal services and make little progress in a programme. If such participants secure employment through their own efforts this represents a 'windfall' gain for the provider.

Other risks relate to the ability to regulate and ensure the quality of the services delivered by surplus or 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.

Welfare Markets in the USA, Australia and the Netherlands

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 and evidence on all three countries.

This body of knowledge gives valuable insight into issues likely to emerge as the British welfare market evolves (Finn, 2007; 2008).

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 claims of efficiencies and savings illusory. The transaction costs of designing, awarding, and subsequently managing contracts are high, and critics have found that expenditure savings have resulted from “reducing services to clients while increasing profits to agencies” (Considine, 2005, p. 67: Brodkin, 2005; Struyven and Steurs, 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.

Each of the three countries has seen 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, financial and management capacities they bring to the market.

On a more general level the large providers in Australia, the USA and the Netherlands 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 have played a significant part in the debate on the future direction of the British welfare market.

Involvement in welfare markets has had a major impact on voluntary sector organisations in the three countries, although in the Netherlands the non-profits that lost business were different in that many had been created to deliver local government provision only. A detailed study of larger non-profit organisations in the USA found that while some struggled with the challenge of delivering major contracts others had improved their performance and ‘developed services consistent with their social mission’ (Bryna Sanger, 2003).

In Australia non-profits play a major role in delivering the Job Network, providing about half of the services available. The role of secular, community based non-profits has declined whilst that of church-based groups has increased. Two of the largest agencies are ‘Employment Plus’ (the Salvation Army) and Mission Australia. Secular organisations tend to operate as smaller specialist providers, catering for particular client groups or localities. Their continuing role has been secured in particular by two innovative networks – Jobs Australia and Job Futures – which through pooling risk and providing expertise have enabled remaining smaller non-profits to win and deliver JN contracts.

The impact on smaller non-profit organisations in the USA has been less transparent, but many have lost contracts or voluntarily withdrawn 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 concern about ‘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 voluntary sector actors and may “mute their advocacy on behalf of disadvantaged communities” (Brodkin, 2005, p. 77).

Conclusion

The evidence from Australia, the USA and the Netherlands reveals that contracting out employment assistance services is not a simple option and that the systems have been in flux over time. Securing the delivery of Government objectives through contracts is prone to the same implementation problems experienced in public sector delivery systems. Contracting out poses further challenges because it fragments programme responsibility amongst multiple contractors, changes the relationship between those who design policy and those who deliver front line services, and blurs lines of responsibility and accountability.

The development and management of welfare markets is a complex and demanding task for administrators and managers. There is a sharp and continuous ‘learning curve’ and it takes time to learn how to steer the market to minimise perverse incentives and to capture the efficiencies and innovation that independent contractors can offer. The DWP Commissioning Strategy presents a coherent approach to managing such tensions in a way that seeks to retain the flexibility for providers to innovate and deliver greater outcomes.

Its successful implementation requires that DWP demonstrates also its capacity to be a ‘smart buyer’ and good ‘contract manager’ (Bryna Sanger, 2003).

Finally a looming challenge for the British Government’s strategy is its potential durability should recent turbulence in credit markets and recessionary forces persist. It will be difficult for the new welfare market to deliver the anticipated job outcomes in a context of increased caseloads and fewer jobs. In such a context, the Flexible New Deal quickly may begin to look like the failed programmes of the past.

Acknowledgements

This article draws on the findings from comprehensive reviews of welfare market developments in each of the three countries commissioned by the Joseph Rowntree Foundation and the Department for Work and Pensions. They are cited in full in the references.

References

Brodkin E.Z. (2005) ‘Towards a Contractual Welfare State? The Case of Work Activation in the United States’, in Sol E. and Westerveld M. (eds) *Contractualism in Employment Services: A New Form of Welfare State Governance,* Kluwer Law International, The Hague.

Bryna Sanger M. (2003) *The Welfare Marketplace: Privatization and Welfare Reform*, Center for Public Service, Brookings Institution Press, Washington DC.

Considine M. (2005) ‘The Reform that Never Ends: Quasi-Markets and Employment Services in Australia’, in Sol E. and Westerveld M. (eds) *Contractualism in Employment Services: A New Form of Welfare State Governance,* Kluwer Law International, Aspen Publishers, The Hague, The Netherlands.

Davies, S (2006) *Third Sector Provision of Employment-Related Services. A report for PCS,* Public and Commercial Services Union: Leeds.

DeParle J. (2005) *American Dream: Three Women. Ten Kids and a Nation’s Drive to End Welfare,* Penguin Books, New York.

DWP (2007) *In work, better off: next steps to full employment. Impact Assessment*, Department for Work and Pensions, London

DWP (2008) *Department for Work and Pensions Commissioning Strategy*, Cmnd 7330, The Stationery Office: London.

Finn D. (2008) *The British ‘welfare market’: Lessons from contracting out welfare to work programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, York.

Finn D. (2007) *Contracting Out Welfare to Work in the USA: Delivery Lessons*, Research Report No. 466, Department for Work and Pensions, London.

Fischer D.J. (2001) *The Workforce Challenge: To Place is to Win*, Center for an Urban Future: New York City.

Freud D. (2007) *Reducing dependency, increasing opportunity: Options for the future of welfare to work:* An independent report to the DWP, London.

Gould M. (2007) ‘A welfare-to-work scheme based in Sheffield is now helping the long-term unemployed in Israel’, February 28, *The Guardian*, London

Heinrich C. and Choi Y. (2007) ‘Performance-Based Contracting in Social Welfare Programs’, *The American review of Public Administration*, Vol. 37 No. 4 pp 409-435, Sage Publications.

Jordan H. (2008) *International insights: Best practice in employment programmes*, Ingeus/Work Directions, London

Murray P. (2006) *A Job Network for Job Seekers*, Discussion Paper, Catholic Social Services Australia, Curtin ACT: Australia

Lilley P. and Hartwich O. (eds) *Paying for Success: How to make contracting out work in employment services*, Policy Exchange, London.

OECD (2006) *Report on Missions to the Netherlands, the United Kingdom and Germany Relating to Activation Strategies and Performance of Employment Services,* August/September 2005, Directorate for Employment, Labour and Social Affairs, OECD: Paris

Purnell J. (2008) *Written Ministerial Statements*, Official Report, 28 February, col. 88WS, Hansard: London

Struyven L. and Steurs G. (2005) ‘Design and redesign of a quasi-market for the reintegration of jobseekers: Empirical evidence from Australia and the Netherlands’, *Journal of European Social Policy*, vol. 15 no. 3 pp 211-219, Sage Publications.