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## **The third sector delivering employment services: an evidence review**

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## Abstract

The policy context surrounding the work of third sector organisations in employment services has undergone major changes since 1997. This review outlines the major developments in the field and collates the evidence pertaining to the third sector's experiences. It finds that the current situation can be seen as a major acceleration of the previous government's policy model. This model is based upon a small number of large government contracts, greater flexibility for providers and payment contingent on results. The review explores the main areas of controversy arising from these developments. These include fears that the third sector is being squeezed out of employment services provision, reports of unfair relationships between third sector subcontractors and prime providers, and concern that the hardest to help individuals are not sufficiently provided for by current policy. The review concludes by highlighting areas of missing knowledge about third sector employment services that future research needs to address.

### Keywords

Public services, contracting, commissioning, prime contractors, employment services, the Work Programme, hardest to help, payment by results

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## Introduction

In June 2011 the Coalition government launched its flagship employment service, the Work Programme, a scheme designed to help people to find work and leave benefits. The initiative is the largest ever of its kind, and involves service delivery contracts with private and third sector organisations estimated to be worth £3 to 5 billion in total. In a press release to announce the preferred bidders in April, this development was claimed to be a 'massive boost to the Big Society', as over 300 third sector organisations are involved in the programme's delivery (DWP 2011). Although employment services constitute a relatively small proportion of the public services delivered by the third sector, the Government's overwhelming enthusiasm for contracting and third sector involvement in this area makes it an important focus for study. It is unusual for a theoretical policy model to be implemented into practice so directly and comprehensively, and the stakes are high for all concerned. The Department of Work and Pensions (DWP) has stated that it wants procurement for the Work Programme to be an exemplar for other areas of the public sector, and so the experiences of Work Programme providers could have significant wider implications (Butler, 2011).

The purpose of this evidence review is to take stock of the debates surrounding the third sector's provision of employment services, and the content complements previous work by TSRC which looks at the evidence base for third sector service delivery more generally (Macmillan, 2010). The review is intended to provide a useful platform for future research, which is undoubtedly needed in this area. Generally speaking, the third sector's involvement in employment services has been neglected both in academia and policy circles. Much of the academic literature on employment services consists of international comparative work and does not focus significantly on either the UK or the third sector. As a result, there have been repeated calls for more evidence examining the UK third sector's role, abilities and experiences in this area (Crisp et al., 2011b, Third Sector Task Force, 2009, Aiken, 2007, WPC 2009). The dearth of attention is surprising, given the fact that due to the previous government's enthusiasm for evidence based policy, there are a great number of independent evaluations for programmes involving the third sector. Unfortunately, they generally focus on the way in which services are delivered, and leave aside the nature of the providers who deliver them (Woodfield and Finch, 1999, Hills et al., 2001, Loumidis et al., 2001, Barnes et al., 2005, Stafford et al., 2007, Dorsett et al., 2007). When more attention is paid to providers, the studies also tend to focus on the experience of subcontractors generally, making it difficult to determine the position of third sector contractors in particular (Armstrong et al., 2011, Hudson et al., 2010).

In order to draw out the evidence pertaining to the third sector's experience, therefore, it is often necessary to delve into the grey literature on contracted employment services. There is no shortage of this material, and as well as the evaluations it includes government command papers, reports and press releases, material from the Work and Pensions Committee and a range of commentary from stakeholders and lobbying groups. There are also signs that the amount of attention paid to third sector providers specifically is increasing. Since 2007 and the national roll out of the contracted Pathways to Work programme for incapacity benefit (IB) claimants, DWP has been moving towards

awarding a smaller number of contracts to large organisations, who are then expected to further subcontract delivery on the government's behalf. As most third sector organisations are unable to compete for these larger 'prime' contracts, the sector itself has become increasingly vocal in its concerns over being squeezed out of delivery (McDonald et al., 2007, Third Sector Task Force, 2009). Ministers' public enthusiasm for the third sector's involvement in the Work Programme has also led to a recent increase in the scrutiny of such claims by academics, think tanks and the media (Crisp et al., 2011b, Simmonds, 2011).

Part one of this paper provides the background and context to what can be a sometimes technical and inaccessible policy area, given the myriad of previous employment programmes. An awareness of developments since the election of the previous government is a necessary staging post in developing understanding of the current situation. Part Two of the paper draws together the important discussions from the literature currently influencing the field. For the purposes of this working paper, a review of policy literature has been conducted including the relevant DWP command papers and reports from the DWP, House of Commons select committees and other Government departments. In addition, a selective review has been made of DWP's programme evaluations, depending on their relevance. Following on from the policy review, a more comprehensive literature review was undertaken, which included academic works, independent research, official documents and online material. The concluding section draws together the main areas of debate within this field, and highlights the important questions that remain for future research.

## **Part one: the development of contracted welfare to work schemes since 1997: evolution not revolution**

The government refers to the Work Programme as a 'revolutionary' development (Grayling, 2011). Looking back over the previous government's policies, however, reveals a gradual evolution towards the current policy context of a more personalised and contingent welfare system, provided by external organisations that are paid by results. Policy advanced in this direction under the previous Labour government in three, overlapping waves. The first wave was characterised by experimentation and piloting of contracted services and the second wave by the expansion of these trials. The third wave was marked by a step change in commissioned employment services, greater critical reflection on the commissioning process, and a progression towards the prime contractor model.

### **The first wave – testing the water**

The idea of commissioning the private and third sectors to deliver public services, of course, precedes 1997. The previous Conservative government had attempted to create quasi-markets within the health and social care sectors, and similar trends have been recorded abroad, arguably inspiring much of the comparable policy within the UK (WPC 2009). 1997 offers a useful starting point, however, due to the significant proliferation of commissioned employment programmes under the New Labour government (see Table 1). After gaining office, Labour ministers were unambiguous in their support for contracted service delivery, extolling the 'expertise, discipline and economies of scale' they associated with the private sector (Harman, 1997). Substance soon followed rhetoric, and although in the first instance the

Department of Social Security (DSS) was happy to simply outsource various aspects of its own infrastructure and bureaucracy, it was soon decided that other sectors should also play a role in delivering employment services to jobseekers. At an early stage, therefore, the government contracted a limited number of private sector companies to run its flagship employment schemes in selected areas. The schemes were the New Deal for Young People and the New Deal for 25 Plus, both of which increased the requirements on welfare claimants to participate in job seeking training. The content of services provided in contracted areas, however, differed little to those run by the public sector Employment Agency.

**Table 1**

Client demographic:	Mainstream jobseekers	Areas of high long term unemployment	People with disabilities and long term illness	Ethnic minorities	Former drug dependents	
1998						
1999	New Deals (Young People, 25+, Lone Parents etc)	Prototype Employment Zones	Innovative Schemes			
2000				Personal Advisor Pilots		
2001						
2002		Employment Zones				
2003						
2004						
2005				Pathways to work	Ethnic Minority Outreach	
2006					WORKSTEP	
2007						Progress-2-work
2008					Partners Outreach for Ethnic Minorities	
2009		City Strategy	Provider led Pathways to work			
2010	Future New Deal					
2011				Work Choice		

The department was keen, however, to test the ability of external providers to find innovative solutions to problems if granted sufficient flexibility. Alongside the more mainstream New Deal Programmes, therefore, the DSS experimented by funding ‘Innovative Schemes’ from a central pot of funding. Bids were invited from public, private, and third sector organisations to design and run schemes to help disabled people off benefits and into work. A DWP evaluation emphasised the flexibility afforded to organisations to design their services, and that successful providers received additional payments for initial and sustained job outcomes amongst their clients (Hills et al., 2001). It is also worth noting that unlike in later programmes, third sector organisations had both the capacity and opportunity to bid for contracts with the DWP directly, and half the schemes were run by the third sector. Although the services that individual providers offered differed significantly, third and private sector organisations were acting as providers under the same contracting regime simultaneously, a situation less common in the current context. It is unfortunate, therefore, that while the evaluation identifies the proportions of providers from each sector, it does not elaborate further on any related distinctions in their delivery.

These early experiments remain a relevant development, however, as the twin concepts of flexibility for providers and outcome-conditional payments would endure throughout later developments.

Another lasting element of the early pilots was the personal advisor model. A 'Personal Advisor Service' was piloted from 1998, as part of the 'New Deal for Disabled People' (NDDP). The service allowed IB claimants to voluntarily receive specialist advice from a personal advisor, in order to design an action plan towards finding work. The evaluation of the pilot was inconclusive, reporting positive reviews of the service from staff but no solid evidence that it was improving job entry rates (Hills et al., 2001). This did not, however, stop the personal advisor model becoming the default delivery model for future schemes throughout different sectors (NAO 2006). In fact, even when given almost complete flexibility over their approach, providers seem to gravitate towards this basic model of provision (Vegeris et al., 2010). This may be simply due to the comparative benefits of a one-to-one approach, either in terms of cost or performance effectiveness. Alternatively, however, it may be due to risk aversion and a desire to stick with a tried and tested method. The latter option would bring into question the insistence by DWP that contracting drives innovation (DWP 2007a, DWP 2010).

If different sectors do commonly utilise a similar model of delivery, it also raises questions about the distinctiveness between sectors more generally (Loumidis et al., 2001, Davies, 2008). Unusually, the evaluation of the Personal Advisor Service does comment briefly on the differences between public sector and external providers, if not the third sector specifically. The Employment Service ran the scheme initially in six areas, and a further six areas were contracted to two private companies, two charities and a local council in 1999. In the view of the evaluators, however, this 'did not generate the radical differences in working practices that might have initially been anticipated and a convergence was evident' (Hills et al., 2001, p. 222). In contrast, the introduction of job outcome targets part way through the pilots had a pronounced impact on delivery, encouraging a more strategic, outcome focussed approach. This meant a faster pace of progress for clients, a higher caseload for advisors, and attempts by providers to focus attention on those most likely to achieve job outcomes. This early evidence of providers 'creaming' the easiest-to-help clients and the lack of evidence in favour of contracting is discussed in depth later, but it is worth noting evidence of these problems so early in the development of the contracting paradigm.

The direction of travel has not been an entirely uncomplicated progression towards contracting, competition and targets. A competing policy discourse concerning devolution, localism and partnership was evident in New Labour's first term. Prototype Employment Zones were implemented in 1998 and were managed by local, multi-agency partnerships of public and third sector stakeholders (Griffiths and Durkin, 2007). These consortia were given the flexibility and financial autonomy piloted in the innovative schemes, to come up with local solutions to unemployment and mix and match support available to customers. Although later Employment Zones were strongly influenced by a desire for more competition and outcome-related payment regimes, it is important to remember that these prototype schemes emphasised an alternative partnership approach, localised decision making, and a more voluntary holistic ethos.

## **The second wave – the trickle becomes a flood**

Having thoroughly tested the idea of commissioning during its first three years of power, the Labour government proceeded to roll out these policies to a wider range of benefit claimants during the new millennium and into its second term, ultimately leading to a situation where contracting was described as 'business as usual' by the DWP (2008b, p.11). This expansion of the contracted welfare market, however, was not without its difficulties.

Despite the mixed evaluation it received, the Personal Advisor Pilot was rolled out nationally in selected areas from July 2001 under the new label of NDDP Job Brokers. As the programme dealt specifically with IB claimants, it provided an opportunity for many third sector organisations with experience of working with disabled people to enter the market. In a synthesis evaluation of the programme published in 2007, 42% of contract holders were identified as being from the third sector (Stafford et al., 2007). There is little further cross-sector comparison, however, other than that as public, private and voluntary sector organisations were found across all the performance groups, there is no obvious correlation between the sector an organisation belongs to and its effectiveness. The synthesis evaluation does, however, pay significant attention to the impact of changes to the funding regime and the introduction of tough performance targets as the programme was gradually extended. This seemingly led to a continuation in the trend towards creaming only the most job-ready clients onto the scheme. Where initially the programme may have allowed third sector organisations to expand their work with their preferred client group, it appeared that increasingly commercial pressures were dictating behaviour to all providers, including the third sector. Furthermore, providers often underestimated the costs of delivery to certain groups of clients and the evaluation reported that providers were often struggling to cover their costs. One effect of this difficult environment was that, in particular, existing small providers struggled to make a profit and other small providers lacked the starting capacity to enter the market (Stafford et al., 2007).

During a similar timeframe, fully fledged Employment Zones were rolled out from April 2000 to 15 areas of high long-term unemployment.<sup>1</sup> As mentioned earlier, these new Employment Zones embodied a different ethos to their predecessors and the scheme was mandatory to all eligible participants. While organisations retained the operational and financial flexibilities of the pilots, the partnership model was replaced entirely by contracted delivery in the hope that a managed market would drive up performance and drive down costs. The government set about creating this market by introducing a tough funding regime, which rewarded providers for early employment results and resulted in a financial loss if a customer did not achieve a job outcome (Griffiths and Durkin, 2007). Although payment by results had been evident to some extent previously, the scope for potential profits, or indeed losses, had increased substantially.

Employment Zones were a vital milestone in the development of the contracting paradigm as a whole, as government command papers often cite the superior job outcome results and provider flexibility identified in the Employment Zone evaluations as evidence in favour of contracting (DWP 2006a, DWP 2009a, DWP 2007a). Leaving aside whether or not a significant difference in performance is, in fact, demonstrated by the evaluations, there are problems in using such evidence to

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<sup>1</sup> The number later fell to 13 due to five London Zones merging into three.



argue in favour of contracting. There is evidence that when operating under the same contracting conditions, such as in the New Deal for Young People, there was little appreciable difference recorded between sectors (See also NAO 2002, Hales et al in Davies, 2008). The synthesis evaluation on employment zones also unambiguously states that any performance benefits from Employment Zones “appears to be due to a highly incentivised funding regime in combination with their operation and financial flexibilities,” rather than the fact that delivery is through private sector organisations (Griffiths and Durkin, 2007, p. 72).

In terms of the third sector, Employment Zones provide even less relevant evidence as only a single third sector organisation was ever involved as a lead provider. The synthesis evaluation directly addresses this point, and states there is no evidence that the private sector outperforms the voluntary sector, and that even though the motivation, culture and expertise of the two different sectors may lead to different approaches, this has been neglected within Employment Zone research (p. 64). Given the centrality of the Employment Zones to the government’s case for contracted provision, this omission demonstrates a major blind spot surrounding the third sector’s involvement.

As well as strengthening and expanding existing schemes, the range of commissioned programmes also proliferated during Labour’s Second Term, resulting in many more benefit claimants working with a contracted provider for the first time. The Minority Ethnic Outreach pilot in 2002 and the Partners Outreach of Ethnic Minorities pilot in 2007 both used contracted organisations to try and increase the use of mainstream services by ethnic minorities. Providers for the WORKSTEP scheme in 2001 and the Work Choice scheme from 2010 were contracted to help disabled clients into supported employment places, and from 2002, Progress to Work and Progress to Work LinkUP catered for previously drug and alcohol dependent clients. In many cases the third sector was heavily involved in the delivery of these programmes and already had a history of working with the targeted client groups (Barnes et al., 2005, Dorsett et al., 2007, Purvis et al., 2006). The emphasis on outcome payments was also less prevalent in some of these schemes, recognising the greater difficulties of working with these client groups. In the case of Progress to Work, for example, the split between up-front and job-outcome related payments was 75:25 respectively. This era of third sector organisations holding specialist contracts directly with the DWP, however, was about to begin an inexorable decline.

### **The third wave – a commissioning tsunami**

Overall, Labour’s initial policy on employment services was characterised by an extensive process of trials and evaluations, gradually increasing the prevalence of contracted employment services and payment by results. These developments were crystallised into a more coherent policy framework in an influential report by David Freud, who would later act as an advisor to Labour and a Minister in the subsequent Coalition government. The report, *‘Reducing Dependency, Increasing Opportunity: options for the future of welfare to work’* (2007), was commissioned by the DWP and its findings called for even greater private and voluntary sector involvement in employment services, financed by savings to the tax payer from any job outcomes created. The report also advocated more of the personalised, flexible approach developed over the previous pilots and schemes, alongside greater requirements for benefit claimants to participate in welfare to work programmes, known as conditionality. It is striking the extent to which policy has gradually gravitated towards a complete implementation of the report’s

recommendations over the current and previous governments. Despite DWP describing the report as 'a radical vision' (2008a), however, Freud was to some extent following an existing trend, as plans were already in place to rapidly expand an existing programme, called Pathways to Work, in the direction laid out in his report.

The Pathways to Work concept had been introduced in November 2002 in the Green Paper, '*Pathways to Work: Helping people into employment*' (DWP). These pilots for the programme were again aimed at helping IB claimants into work, and were initially run by the public sector Job Centre Plus in seven areas. The initial phase of participation in the scheme was mandatory and involved a number of Work Focussed Interviews. Claimants were then referred to a number of voluntary 'Choices', such as the existing Job Brokers scheme, or a Condition Management Programme designed to help medically manage their condition. The programme was launched in the context of a DWP target to reduce the number of incapacity claimants by one million by 2015, as well as to achieve efficiency savings of £960 million by 2009. The pilot schemes received a favourable assessment in evaluations (Dorsett, 2008), although the methodology was later questioned by the National Audit Office (2010b). Following a further Green Paper, '*A new deal for welfare: empowering people to work*', the programme was rolled out to a number of new areas in order to achieve nationwide coverage (DWP 2006a).

The new areas were contracted to third and private sector organisations and by the time national coverage was achieved in April 2008, 60% of the total service was provided by 900 private or third sector providers, through £950 million of contracts (Finn, 2009b). The roll out represented a huge step change in employment services, not only due to its national scale, but as a significant shift in the way the DWP interacted with providers. A new lexicon based around the concept of 'supply chains' was introduced, and in each district, 'prime providers' were commissioned to either provide services themselves, or subcontract delivery to other organisations.

Perhaps unsurprisingly, given the changes in approach and scale, the Pathways programme experienced a number of difficulties related to contracting. The DWP set ambitious benchmarks based on the pilot areas' performance, but bidders offered significant increases even on these figures in order to win contracts (NAO 2010b). Research by the NAO shows that 82% of prime contractors and 61% of subcontractors were surprised by the challenging nature of the claimants they received (NAO 2010a). Combined with the impact of the recession, evaluation of the programme's contracting regime reported that outcome levels and related payments were often insufficient to cover costs (Hudson et al., 2010). As a result, the NAO found that Pathways offered poor value for money and that the voluntary aspects of the scheme were largely ineffectual (2010b). Furthermore, not only did contractors miss their targets, but they underperformed compared to the more established Job Centre Plus areas in terms of mandatory participants. Perhaps most significantly, however, was the impact that these difficult conditions had upon provider behaviour. The contracting evaluation reported that all stakeholders felt financial considerations were shaping the level of support offered to clients, and that creaming the easiest to help clients or parking the hardest to help with no support was considered 'appropriate' and encouraged by management (Hudson et al., 2010, p.4). Although the warning signs

had been observed during the earlier programmes, the normalisation of such practices was becoming a major concern in policy discussions (WPC 2010).

Another prominent effect of the programme's financial difficulties was reflected in the increasing concern within the third sector over the bidding process and delivery of the programme. In response to a prevalent fear that the third sector was being squeezed out of provision, the Association of Chief Executives of Voluntary Organisations (ACEVO) commissioned an inquiry into contracting under Pathways to Work (McDonald et al., 2007). The subsequent report highlights that the third sector won 13% of the prime contracts, despite placing 25% of all bids. This is despite the fact that in pathways districts which already contained NDDP Job brokers, 44% of the NDDP contracts were held by the third sector. Even some relatively large third sector organisations with previous experience, such as Groundwork, decided the risks associated with prime contracts were too great to even bid. The situation was similarly concerning at the subcontractor level. Although 44% of subcontractors were third sector organisations, not all primes intended to subcontract, and many relied heavily on informal service arrangements rather than official contracts (NAO 2010a). The general anxiety seemed to be that primes would use their position to increasingly monopolise provision in house, removing provision from smaller third sector organisations (WPC 2007).

A less obvious impact of the new arrangements, however, may have been the characteristics of those third sector organisations which were subcontracted. The NAO found that by far the largest reason to subcontract was to acquire specialist skills. This reflects that although less specialist third sector organisations might provide other benefits valuable to Ministers, such as reinvesting their profits, or boosting social capital, these are of less importance to prime contractors. A more sceptical view is that third sector organisations acted as 'bid candy', included only to appease the DWP (WPC 2010), or that primes used supply chains to shift financial risk onto their subcontractors (Hudson et al., 2010). If these suspicions are well founded, they would go some way towards explaining the reports of some poor relationships between prime contractors and their subcontracts (WPC 2010). Taking together the financial pressures of the programme, and the frequent position of third sector subcontractors as specialist providers, there were also reports that subcontractors were receiving referrals including only the individuals least likely to trigger an outcome payment (Hudson et al., 2010, WPC 2010). As around three quarters of primes passed on the flat rate of payment even to these specialist contractors, over half of subcontractors were not in a position to cover all of their costs, especially small third sector organisations (NAO 2010a). In comparison over half of primes expected to make a profit. Although some relationships were rated as positive overall, only 38% of subcontractors claimed they would sign up to the same terms again.

In response to both the problems experienced under Pathways, and to the Freud Report recommendations, the DWP published the 'DWP Commissioning Strategy', before expanding the commissioning of services yet further (2008a). It outlined the department's vision of a market in which the DWP would form 80% of its contracts with a limited core of large prime organisations, with subcontractors ensuring local presence and specialist provision. DWP hoped that overseeing only a limited number of contracts would save costs and allow organisations to invest in long term improvements to delivery. The first programme to run under the new commissioning regime was the

Flexible New Deal (FND), which launched in April 2009. The programme replaced various existing programmes for job seekers such as the New Deal for Young People and the New Deal 25 Plus, as well as Employment Zones. The FND model implemented the now increasingly familiar formula of outcome related payments, although employment outcomes were now required to last at least 13 weeks. The scheme also increased the amount of competition and customer choice beyond that seen previously, by allowing prime contractors to secure a higher market share if they performed well. The FND could, therefore, be seen as the apex of New Labour policy on commissioning; fully implementing the personalised, contingent and contracted provision it had experimented with since gaining power.

In proportion to the increasing dominance of the prime model, however, there was a corresponding increase in concern over the problems identified in Pathways. The minimum performance requirements for the FND were 37.5% higher than the results recorded for previous programmes and the scheme began in the context of a recession, meaning commercial pressures would be fierce (WPC 2009). One of the major concerns was that once again participants risked being parked, especially those migrating onto jobseekers allowance following one of the newly introduced medical assessments for IB claimants. DWP argued in response that tight contract management could mitigate the risk at the prime level, and a defined customer complaints procedure, combined with improved customer choice, would have a deterrent effect more generally (DWP 2009b). However, given the significant extra costs involved in working with the hardest to help, there was scepticism whether sufficient funds were available for their provision regardless of prime contractors' motivation (WPC 2010).

As with Pathways, there was also concern that the prime model would squeeze out third sector providers entirely (WPC 2009). The DWP was explicit that for the FND it saw the role of smaller providers as subcontractors, and so for much of the third sector the important focus shifted to the relationship between primes and subcontractors, rather than with DWP. The extent to which the third sector was ultimately involved in the programme is difficult to gauge. Early evaluations claimed that there had been a growth in the number of organisations involved, much of which resulted from specialist providers delivering smaller subcontracts (Armstrong et al., 2011). It was also estimated that around half of delivery organisations were from the third sector (Armstrong et al., 2010). Unfortunately, this doesn't tell us what market share the sector possessed, or whether they were guaranteed referrals. There were also mixed reports concerning the relationship between subcontractors and primes. These evaluations also claim that management of supply chains improved over the programme, and subcontractors were often pleased with their specialist role. Evidence to the Work and Pensions Committee, however, reported deep seated concerns ranging from a lack of referrals to malpractice by primes, such as late payment, or subcontractors finding themselves frozen out from delivery after contracts had been awarded (WPC 2010, 2009). Furthermore, it was still felt that risk was not fairly distributed, and that the process of having to bid to multiple prime bidders was hugely burdensome for small providers. This is no doubt indicative of the fact that subcontractors often begin negotiations from a weak position, as winning or losing a subcontract can mean the difference between survival or failure (Roberts and Simmonds, 2011).

The dilemma for the DWP is that while they clearly desire a diverse market place, including a strong third sector, enforcing this scenario is directly at odds with the hands off, black box contracting model it also advocates. To this end, it is unwilling to guarantee the third sector any market share, or guarantee that they are able to recover all their costs (DWP 2009b, DWP 2008a). The DWP raised expectations when within its commissioning strategy it outlined a code of conduct for primes to follow when contracting, which demanded that payment and risk distribution should be fair to all parties and that negotiations should be transparent and minimally bureaucratic (2008a). The DWP also pledged to enforce and monitor the code by offering a grievance route for subcontractors, and to act as a market steward during the initial stages of the strategy (DWP 2008a). It subsequently became clear, however, that the department was unwilling to intervene in contract disputes, and that as it was delegating supply chain management to primes it was unlikely to be able to enforce the code of conduct other than when awarding and reviewing contracts. In an attempt to marry the dual demands of market stewardship and hands-off contracting, the DWP eventually decided to delegate the issue of the code and disputes to a new, independent accreditation service called the Merlin Standard. DWP would insist that prime providers were accredited, while an advisory board judged evidence from primes and acted as a form of ombudsman (DWP 2009b).

The development of FND was abruptly halted, however, by the election of the new Coalition government in 2010. The Conservatives were keen to replace FND with their own employment service, the Work Programme, and cancelled the second round of procurement scheduled for 2011. Given the amount that primes had reportedly invested in setting up the FND programme and their supply chains (Armstrong et al., 2011), this undoubtedly came as a surprise to existing contractors. Ironically, one of the main selling points of the new prime model had been that longer, larger contracts would allow the stability necessary for investment. Nevertheless, the welfare market and the third sector were set to undergo yet another major upheaval.

### **The Work Programme – a turning tide?**

The central concept of the Work Programme was to replace the myriad of existing programmes and pilots with a single commissioned programme. Prime contractors would be expected to provide or subcontract individual, tailored support for eligible individuals regardless of whether their benefit was incapacity related or not. This would clearly require a great deal of flexibility for the contractors, as well as huge financial capacity in order to bear the financial risk of investing in so many individuals on a payment by results basis. Only a selected group of large potential primes were allowed to bid for the programme, as organisations had to first be accepted onto ‘the Framework’ for the Provision of Employment Related Support Services (ERSS) through a separate competition.

As the preceding narrative demonstrates, therefore, several key elements of the Work Programme had been clearly prevalent within the previous government’s policy. This does not mean, however, that there is nothing new or distinctive about the Work Programme. Numerous ideas that Labour had piloted, or had planned to do so, were implemented by the Coalition immediately and on a grand scale. While Labour had planned to pilot a similar combined scheme from March 2011, known as Personalised Employment Programmes (PEPs) (DWP 2010), the Work Programme would be a national policy from the outset. The PEPs would have trialled a new ‘accelerator model’ payment

regime, which incentivised providers to achieve outcomes for the hardest to help by incrementally increasing the outcome payment level as more outcomes were achieved. The Work Programme instead brought in a new funding model for the entire programme, offering differentiated payment levels depending on which benefit group a claimant had previously received. Finally, Labour had planned to pilot a switch in the way programmes were funded, as recommended in the Freud Report (2007, DWP 2008b). Instead of funding programmes from the Department's own budget, known as the Department Expenditure Limit (DEL), funds would come from the treasury managed benefits budget, called Annually Managed Expenditure (AME). Because of payment by results, this meant that programme spending would be effectively uncapped, as in theory the AME budget would save more money from a job outcome than it would outlay paying contractors. Again, the Work Programme would be entirely funded from the AME budget from the outset.

The Work Programme may not be revolutionary, therefore, but it is certainly a high risk and daring strategy for the Government and concern has been expressed on a number of fronts. One of the most significant questions is whether the DWP has achieved the correct balance between risk and reward in its contracts. The department has set a challenging minimum level of job entry rates for primes at 10% higher than the estimated level expected without the Work Programme intervention; higher than the New Deals achieved during an economic boom (WPC 2011). Besides the risk of losing their contracts, research from the Centre of Economic and Social Inclusion (CESI) claims that depending on their costs, primes will need to exceed these levels just to break even (Bivand, 2011). There is dispute over whether this is a realistic requirement. The Social Market Foundation used FND data to predict WP performance, and found providers are likely to miss the minimum levels by a significant margin (Mulheirn, 2011). CESI, on the other hand, does not agree that FND data is a valid indicator of Work Programme performance due to differences in the contracting arrangements and the current state of the economy (Deaves, 2011).

The situation has been potentially exacerbated further, however, by price discounting. Bidders were allowed to offer lower rates of payments in order to win contracts, and because in many cases DWP's quality assessments were very close between bidders, the price factor became the major determinant of who received contracts (Simmonds, 2011). The scenario is similar to the race to the bottom documented during Pathways, and based on that experience the impact upon the third sector is likely to be twofold. In attempting to cut costs, primes are more likely to put more pressure on their subcontractors and are less likely to pass down sufficient funds for the hardest to help. In response to the first issue, the main instrument for protecting subcontractors remains the compulsory Merlin Standard accreditation, and its attached mediation service. There are still doubts, however, over how effective the standard will be (WPC 2011). While the standard may be able to deal with the worst excesses, it will have no influence on the terms primes offer to their subcontractors in the first place. Fair contracts which allow full cost recovery are more important than ever in the context of AME funding, which may only be paid in total up to two years after a job outcome. Many potential subcontractors would be unable to cope with such high levels of risk. A survey of Third Sector European Network members who applied for subcontracts recorded unpromising results. 53% of



respondents claimed to have had no influence at all on the terms available, and 53.6% found the experience had been unreasonable or very negative (Roberts and Simmonds, 2011).

The third sector experience is also deeply entwined with the second issue concerning funding for the hardest to help. At first glance, differentiated payments represent a significant incentive to providers not to park clients. The total payment available for the most challenging customer group is as high as £13,000, compared to £4000 for the group considered the least challenging. As a further incentive to providers, market share within claimant groups will be shifted away from underperforming organisations to their regional competitors at set periods, starting in 2013. The difficulty is that because the number of outcomes will be comparatively lower in these groups, those payments have to cover the costs of provision to a much larger cohort of claimants (Simmonds, 2011). This means that per person, funds available may actually be lower for the hardest to help than in the past. The eight groups are also very large, covering the entire spectrum of claimants from all previous schemes, meaning the risk of parking for harder to help individuals within a group remains high (WPC 2011). Combined with the urgent requirement for primes to cut costs following payment discounting, there is a very strong incentive to focus efforts on the individuals most likely to trigger payments. This is bound to have a subsequent impact upon the specialist organisations that cater for the harder to help individuals, often small third sector organisations. Conversely, any reduction in the involvement of these organisations, would represent a step backwards in catering for the hardest to help (Crisp et al., 2011b).

Whether the third sector is being squeezed out of the programme altogether, therefore, remains a live issue. With the implementation of the Framework, which requires a minimum turnover of £20 million, the issue over the third sector's participation at the prime level is now a null debate. While a few third sector organisations were able to gain a place on the framework, only two received any prime contracts under the Work Programme and both of these bids involved some form of private sector backing (Giotis, 2011). Ministers have repeatedly stated their support for the third sector's involvement, announcing at the Work Programme's launch the involvement of almost 300 third sector organisations as subcontractors (DWP 2011). Looking more closely at the published information for subcontracting, however, reveals a great deal of variation in the extent to which primes use third sector partners, with particularly low levels in Scotland and Wales and relatively low levels for the four largest prime providers (Simmonds, 2011). Taking into account the published amount of provision primes intend to retain in house, the third sector will deliver 19.4% of contracts (1.1% as primes and 18.3% as subcontractors), compared to 72% for the private sector. What this amounts to in market share is once again not clear due to the payment by results model, and because it is unclear how many referrals subcontractors will ultimately receive. CESI's financial model, however, estimates this represents £86 million per year for the sector (Crisp et al., 2011b). They believe that contrary to the aims of ministers there has been a squeeze on the sector's involvement, particularly amongst smaller organisations, and point out this may have an impact on specialist provision.

## Part two: major themes within the literature

*'New Labour is a party of ideas and ideals but not of outdated ideology. What counts is what works'* – Labour Party manifesto 1997

*'the freedom to design support that actually works, rather than having to do what's prescribed by Whitehall'* – Chris Grayling in a press release (DWP 2011)

There are three major themes within the literature on employment services which impact most significantly on the third sector. Firstly, in the context of the seismic changes within employment services, some have questioned the evidence base driving the move towards contracting. There are worrying gaps in what we know, or think we know, about the distinctiveness and value of the third sector. Secondly, there has been ongoing concern surrounding the role and health of the third sector itself in the field of employment services. The changing contracting environment has had profound implications for the shape and experience of the sector within employment services, which it is arguably still coming to terms with. Finally, commentators have asked whether the aims set for providers are beneficial to all benefit claimants. Specifically, there are serious issues surrounding provision for the hardest to help individuals, who are often provided for by third sector organisations. The next section draws out some of the most important points from these three nodes of debate, in turn, in order to more fully address their implications.

### **The evidence base behind contracting policy**

There is broad political consensus in favour of the contracting paradigm, and both the current and previous governments have been categorically in favour of external providers delivering services. DWP command papers repeatedly adopt the mantra that external providers bring specialist knowledge, experience and skills to employment programmes (DWP 2007a, DWP 2006a, DWP 2010). Piecing together a more detailed explanation of the policy direction, however, is more challenging. Written evidence from the Work and Pensions Select Committee refers to the 'proven track records' of the two sectors (DWP 2008a). As the Committee has pointed out on more than one occasion, however, there is surprisingly little such evidence from within the UK (WPC 2007, WPC 2009). As identified in Part One, despite copious amounts of evaluation research, there is in fact little to suggest that any sector enjoys an inherent advantage over its competitors (Griffiths and Durkin, 2007, NAO 2002, Stafford et al., 2007, Loumidis et al., 2001).

Furthermore, not only is praise often heaped on public sector delivery in its own right (Freud, 2007, DWP 2010), there is some evidence that the public sector can outperform contractors in direct competition. The National Audit Office, for example, found that public sector led areas in Pathways to Work achieved a higher success rate amongst mandatory participants than contractor led areas (NAO 2010b). This led to champions of the public sector claiming that when given the same levels of flexibility and funding as contractors, the Job Centre Plus is as capable, if not more so, of delivering results (TUC and PCS in WPC 2009, Davies, 2008). Whether or not this is true, there certainly seems to be a lack of engagement with such evidence in the rush towards ever greater contracting (Crisp et al., 2011b). The trend looks set to continue under the Coalition, who cancelled plans to trial greater



flexibility for the Job Centre Plus in favour of the Work Programme. Perhaps unsurprisingly, therefore, some have ardently criticised DWP's approach to policy and evidence in this area. Davies has accused the DWP of simply recycling the same limited set of references in favour of contracting, and reiterating claims from providers themselves (Davies, 2008). Grover, on the other hand, has criticised the DWP for heaping praise on the Job Centre Plus, while at the same time contracting its work out to other sectors and cutting staff (Grover, 2009).

Part of the problem in comparing providers arises from the difficulty of comparing performance on a like-for-like basis. As prime contractors have complete flexibility over their subcontracting arrangements, the potential variety of roles and subcontracts within supply chains has proliferated greatly. It is also now increasingly rare to find public providers and contractors operating side by side under the same conditions. The dilemma is demonstrated in research carried out by the National Consumer Council in 2007. The research found that user experiences of third sector employment services were generally more positive than for other sectors, praising the relatively high level of communication and individual attention available (Hopkins, 2007). The authors themselves identify, however, that third sector organisations will often be providing niche, intensive support to specific client groups. While this does not invalidate the findings, it does highlight the difficulty in distinguishing between differences in the role of providers, which may be the result of external factors, and the characteristics of the providers themselves. This is especially the case, as due to the black box approach it is difficult to accurately pinpoint the role of individual providers from published data.

Given the lack of firm evidence regarding contracting in the UK, however, the question arises over why the government is so enthusiastic towards contracting. Given its influence, the Freud report might be expected to provide a fuller rationale for contracting. Freud, however, is rather more circumspect in his distinction between sectors. Despite portrayals of Freud as a 'Captain' of the private sector (Grover, 2009, p.491), he acknowledges that there is controversy over the evidence base. The primary reason he gives in favour of contracting is from 'bringing in innovation with a different skill set, and from the potential to engage with groups who are often beyond the reach of the welfare state' (Freud, 2007, p. 6). Another influential writer on contracted employment services, Dan Finn, points to the impact of international evidence on policy, such as his own work carried out for the DWP (2007, 2009a). He suggests that the private sector is seen as faster on its feet, able to react to change and capitalise on successful experiments (2009b). Perhaps the core of subsequent governments' thinking, however, is revealed in a section of the DWP command paper 'Building bridges to work', which refers to the ability of the private sector to be incentivised through a structured funding regime (DWP 2010). This suggests that it is only through contracting out services that the power of the markets can be harnessed to boost performance. Grover claims that while the public sector is accused of being prone to stagnation and corruption, the private sector is put forward as more objective, and the pursuit of profit is portrayed as a tool to motivate the disinterested pursuit of outcomes (2009). An example of such thinking is also found in the synthesis evaluation of Employment Zones, which claims that flexibility in the public sector is too unaccountable, and instead requires 'flatter hierarchies and 'can do' management cultures' (Griffiths and Durkin, 2007, p.73).

Whether or not the government is correct to believe the market can provide solutions to market failures such as unemployment, the rationale provides an interesting context to the third sector's involvement. Although the 'the third sector' can be defined in a number of different ways, or given different names, at its core is the idea of organisations that are mission driven rather than motivated by profit (Finn, 2009b). In part, it is the lack of a profit motivation that makes working with the third sector so attractive to the state, as rather than taxpayers money being diverted to share holders or board salaries, profits are in theory reinvested to benefit their client group and communities (Giotis, 2011). This in turn is more likely to be accepted by the public, as trust in charities is relatively high comparative to the private sector (Davies, 2010). However, within employment services, the third sector must find a way to reconcile their mission focus with a contracting regime which incentivises fast job outcomes with potential profits.

Employment services can be broadly distinguished into work integration activities, and placement activities (Aiken and Bode, 2009). The former usually involves helping to create employment opportunities and supporting individuals once employed, while the latter involves helping people to search and apply to market vacancies. A distinction can also be made between active approaches, which deal with both the supply and demand side of employment, and passive approaches, which focus only on the supply side (Aiken, 2007). Since the New Deals, policy has tended to favour the higher turnover and lower cost of placement activities, but the third sector's involvement has historically often focussed on integration, seeking to improve an individual's chance of employment at the same time as building social capital and community integration. These more abstract social and community goals are simply not captured, however, within a payment by results framework. It is questionable, therefore, whether the distinctive characteristics and benefits of the third sector are being utilised under current arrangements.

There is scope within European commissioning laws for the government to take into account the community knowledge of local third sector organisations (McDonald et al., 2007), but since the introduction of the prime model, the third sector has had to increasingly sell its participation to profit driven private companies. This means that the third sector has had to articulate what it can offer purely in terms of improved job outcomes, in particular for the hard to help clients the primes are most likely to wish to subcontract to specialist providers. A task force jointly commissioned by ACEVO and the DWP was keen to stress the extent to which third sector organisations are trusted by the individuals and communities they exist to help, their ability to innovate and their expertise at catering for specialist groups (Third Sector Task Force, 2009). The Third Sector Task Force conducted a survey of ACEVO members in order to identify these claims from its own members. Unfortunately, however, alongside the lack of evidence in favour of contracting, there exists a relative paucity of *independent* evidence to back up these claims concerning the third sector's added value. Commentators have argued that until such evidence exists, the lobbying position of the sector in this area is likely to remain weak, and profit based contracting regimes will continue unabated (Aiken, 2007, Crisp et al., 2011b).

### **The third sector's position in employment services**

If the third sector's distinctiveness is being under-utilised, then this would not be immediately clear from listening to policy makers. Ministers in the current and previous governments have made no

secret of the fact they wish to see the third sector heavily involved in employment services provision (DWP 2011, 2008a). Such enthusiasm is part of a much wider policy trend observable since the Labour government took power in 1997 and took a number of steps to encourage greater cooperation between the state and the third sector. This included the publication of the Compact, a guide of best practice for departments working with the third sector, as well as a number of capacity building measures to encourage third sector organisations to become involved in service delivery (Macmillan, 2010). The Third Sector Action plan, published in 2006, called for departments to consider investing in the capacity of the sector and facilitate the involvement of the broadest possible range of suppliers in commissioning exercises (McDonald et al., 2007). The Conservatives shared much of this ethos, and pledged in opposition to reduce bureaucracy and barriers to the sector's involvement (Macmillan, 2010).

In the context of employment services, however, it is worth reflecting on what exactly the government is looking for when it claims to desire a flourishing third sector (DWP 2008a). The third sector organisations delivering the Work Programme are not necessarily the same organisations that have delivered previous programmes, and there are many organisations that have either never succeeded, or tried, to secure contracts. The changing shape of the sector in this area is difficult to evaluate, as relatively little data has been made publically available concerning the size and shape of the sector's involvement in previous schemes (Simmonds, 2011). The 'third sector' frequently referred to, therefore, is in fact only a small slice of the wider third sector and one about which comparatively little is known. There is a strong risk, therefore, of falsely homogenising this group. In Aiken's words, it is all too easy to assume 'my family is blonde, bearded and tall because my mother is blonde, my uncle has a beard and my cousin is tall' (2007, p.12).

The evidence that does exist, demonstrates two notable trends. Firstly, large third sector organisations bidding to multiple primes tend to be more successful at negotiating subcontracts (Roberts and Simmonds, 2011, Crisp et al., 2011a). This is simultaneously interesting and yet unsurprising, as while 75% of all charities receive no public money at all, it is large charities with an income over one million who receive 75% of the funding that is available (Davies, 2010). Secondly, by far the most likely reason for prime contractors to subcontract provision is to make use of specialist skills (NAO 2010a). It is reasonable to assume, therefore, that the third sector organisations in this area are becoming both larger and more specialist, though more research is needed to provide a clearer picture. In order to gauge how closely this matches the goals of Ministers, more clarity is needed not only about how much third sector involvement they would like to see, but also what type of organisation they wish to be involved and to what end.

Identifying what exactly the government sees as the third sector's role is important, because it would allow us to better understand whether policy has been successful in encouraging this vision. The DWP may have found itself trying to balance the potentially competing policy objectives of greater third sector involvement and fully implementing the prime model. As discussed in Part One, there has been much discussion around whether there has been a third sector squeeze under the prime model, and how best to protect those who do secure subcontracts from unfair treatment by prime contractors. There is firstly the fear that a number of barriers to involvement are squeezing the third sector out of employment service delivery altogether (Simmonds, 2011, WPC 2009). These include burdensome bidding requirements, a lack of capital and bidding capacity and a lack of negotiating power in a

competitive market place (Third Sector Task Force, 2009, Crisp et al., 2011b, Roberts and Simmonds, 2011). Those who do achieve contracts may face high levels of risk, such as prime failure, or a smaller numbers of referrals than expected at the time of bidding (WPC 2010, Armstrong et al., 2011). In return, they may also struggle to cover their costs in order to make any profit from the contract (NAO 2010a, Aiken, 2007). Finally, there is the ever present risk that through the pursuit of contracts, third sector organisations find themselves increasingly compromising on their initial mission in favour of box ticking and meeting funding expectations (Aiken and Bode, 2009). Although more research is required to understand the extent of all these issues, there is certainly evidence that many subcontractors regret the changes that have occurred in the area of employment services (Armstrong et al., 2011).

In the context of such concerns, therefore, it might be surprising that the third sector aspires to be involved in the current Work Programme at all. Partly, the motivation is likely to be one of survival. Employment and training services represents a relatively small area of the third sectors' provision of public services in total, but it is the area in which charities are most dependent on statutory funding, at around 70% (NCVO in Davies, 2010). Amongst respondents to a survey by the Centre of Social and Economic Inclusion; of those who had been unsuccessful in securing subcontracts, two thirds claimed the result might mean ceasing delivery altogether, or being forced into a merger with another organisation (Roberts and Simmonds, 2011).

On the other hand, there are clearly some third sector contractors who are happy with their position. A survey of third sector subcontractors working under the European Social Fund, which provides employment schemes using European funds and also uses the prime model, found 63% of respondents were generally positive about their experience (Crisp et al., 2011b). Evaluation of the FND also found that primes were willing to invest time and resources into supporting their supply chains, and even adapt contract terms for struggling subcontractors (Armstrong et al., 2011). Such findings may explain why the Chief Executive of ACEVO described the prime model not as a threat to the third sector, but as offering 'huge opportunities' (Bubb in DWP 2009b).

While the current picture is undoubtedly far from one-sided, therefore, there are clearly still a great number of concerns to be resolved by further research. Research in this direction, however, should not become too focused purely on the sector itself. Given the mission driven nature of third sector organisations, it is also worth seriously considering the impact of policy on the clients of such organisations.

### **Provision for the hardest to help**

The rationale underpinning employment policy is heavily influenced by what is known as 'the work first theory' developed in Michigan during the 1990s (Sandfort in Davies, 2008). The core element of the theory is that achieving a work outcome as early as possible is the most likely means of ensuring longer term employment for an individual (Freud, 2007). The Freud Report confidently claims that intensive intervention at the start of a claim, focused on assisted job search, is the best way to help people into sustainable employment and has largely solved long term unemployment for 'mainstream unemployed' (2007, p. 9). Freud also references a DWP research review by Waddell and Burton (2006) that finds employed work benefits the health and wellbeing of individuals. In the work first model, therefore, unemployment is conceptualised as both a leading cause and symptom of social

deprivation and other problems. Rapid job outcomes not only benefit society as a whole through budget savings, but the benefit claimants themselves.

This paradigm is most controversial, however, in the case of those defined as the hardest to help, with whom historically the third sector has been most associated with (Third Sector Task Force, 2009). This group is defined either by the length of time they have spent on benefits (Freud, 2007), or as individuals who belong to certain groups considered disadvantaged when looking for work (Aiken, 2007). Freud accepts that the support for these individuals needs to be more intensive and tailored, and he argues that contracted providers can be incentivised to provide this support and achieve sustainable job outcomes of three years. The recommended tool, however, is making payment contingent on the achievement of job outcomes for claimants. This funding regime has in itself encouraged the work first model in programmes, as placement methods and brief job seeking training are seen as the most likely tools to achieve a fast turnover of results (Griffiths and Durkin, 2007).

There has been much discussion, however, over whether disadvantaged individuals are best served by this approach. The major proviso attached to Waddell and Burton's findings, is that the benefits to wellbeing from work are conditional upon the quality of employment (2006). Research by the National Audit Office, however, points out that as providers are incentivised only by the number of job outcomes they facilitate, they have a tendency to steer people towards sectors that attract low pay and require low level skills, regardless of the circumstances of the participant (2005). Grover has warned that the easiest job outcomes for the hardest to help are also going to be in sectors where they are already most frequently employed, reinforcing existing unequal socio-economic relationships (Grover, 2007). This does little to improve the long term prospects for the individual, who may find themselves trapped in low paid work with little support, increasing the numbers of the so called working poor. It also may explain why many of the short term job outcomes achieved during Employment Zones and the New Deals did little to boost employability long term, contrary to the work first theory (Finn, 2009b).

Perhaps the most significant criticism, however, is that government unemployment policy has placed far too much responsibility on the role of supply over demand, and hence on the individual benefit claimant. Grover and Piggot complain that there is no recognition that groups such as disabled people face barriers and discrimination when trying to find work (Grover and Piggot, 2007). They argue that discrimination in a system designed for able bodied people is what results in individuals being defined as disabled, or *other*, in the first place. From this viewpoint, governments would be better advised to focus on solving the structural barriers to work such as a lack of affordable child care, inflexible working hours, employer discrimination or a lack of suitable jobs in the economy (Grover, 2009). To simply impose ever greater levels of conditionality upon benefit claimants without addressing these issues, serves only to increase stigma towards those who are already most vulnerable (Grover, 2007). Such a view is particularly relevant to the third sector, given their historical involvement in approaches which either subsidise or create employment opportunities (Aiken and Bode, 2009), or focus on a 'social inclusion first' model (Aiken, 2007, p.8). Although this aspect of the third sector's work has been sidelined by the work first policy framework, compared to contracted service provision, it may be that such approaches are still needed to help the sector's traditionally challenging client base.

This is especially the case given the ongoing concerns surrounding provider behaviour in response to outcome related payments. As detailed in Part One, in almost every scheme involving payment by results, there has been concern that providers would engage in gaming; either only registering individuals closest to the labour market (creaming), or offering only the minimal level of help to those unlikely to provide a profitable job outcome (parking). Evidence from schemes such as pathways also suggests that it is when the financial viability of providers is most strained that providers target their provision most strategically (Hudson et al., 2010). The tough targets set for the Work Programme, therefore, have led to the fear discussed earlier that there will be insufficient funds available to properly cater for the hardest to help (WPC 2011, Simmonds, 2011). This concern is exacerbated by the fact that in some cases these individuals will be catered for almost exclusively by small, third sector subcontractors (Third Sector Task Force, 2009, Armstrong et al., 2011). Adequate provision, therefore, relies strongly on prime contractors understanding the needs of such customers and passing these on to subcontractors, an area in which they lack a strong track record (Stafford et al., 2007, Hudson et al., 2010).

It is not simply a case of financial resources, however. There has also been anxiety that the relatively short time scales of employment programmes are insufficient. Evidence to the Work and Pensions Committee claimed that individuals often face problems such as personal debt, family breakdown and low educational attainment, and that these were not amenable to short term solutions (Coyne in WPC 2011). The DWP has again attempted to counter these issues by gradually shifting the requirements of the funding model. FND providers worked with clients for a one year period, and were incentivised to achieve job outcomes of over six months. The Work Programme offers an even longer period of two years to work with clients, though there is still concern this may be too short (RNID in WPC 2011). Upfront payments and initial job outcomes are also to be phased out and reduced respectively over the programme, meaning providers will be increasingly reliant upon the sustained job outcome payments of two years or longer. On the one hand, this should be a disincentive towards placing individuals into inappropriate jobs, but on the other, it will ratchet up the financial pressure on providers even further.

The understandable assumption behind these alterations is that if the funding regime can alter behaviour to cause the problem, it can alter behaviour to provide the solution. It is an open question, of course, whether provider behaviour and the market can ever be sufficiently controlled in this way. Certain providers, however, have long argued that it is not the funding regime *per se* that needs changing, but the outcomes which are measured and rewarded (WPC 2007, 2010, DWP 2006b, 2007b, Crisp et al., 2011a). These providers are often from the third sector, and argue that rewarding intermediate outcomes such as new qualifications, long term training, or volunteering placements, is the only way to ensure assistance for those who need the most help. Such a 'holistic' approach would also involve dealing with problems not traditionally associated with employment services, for example secure and stable housing. The potential for such developments seems unlikely, however, given that the idea is inherently contradictory to the principles of the work-first approach, potentially complicated to administer, and at best might only trigger a pay-off politically in the very long term. Some intermediary outcomes, such as an increase in confidence, may also be near-impossible to measure and quantify.



## Conclusions

The current policy environment for employment services is at a crucial and fluid stage. Research on the Work Programme offers the opportunity to potentially answer many of the unresolved issues concerning the third sector and their clients discussed in this review. Much uncertainty remains concerning the viability of the programme and the prospects of the third sector under the prime model. If contracting and payment by results are to be effectively evaluated then research is needed now, while the programme is still in its infancy, in order to observe developments as they occur. As the rapid rise and fall of the FND has shown, a lot can change in a short space of time. It would be wrong, therefore, to assume that the status quo is necessarily set in stone. If economic conditions worsen, the hardest to help are again parked, or Work Programme providers simply fail to deliver, policy makers may once again begin looking for new solutions and approaches to the intransigent problem of long term unemployment. If and when the employment services policy does next undergo a shift, it would be beneficial to all stakeholders if a more substantial evidence base was available to guide decision making.

Before more critical and evaluative questions can be asked, the dearth of more basic, descriptive data needs to be addressed. Too little is known about the third sector organisations that are involved in delivery, and those who are not, either through their own choice or having failed to win any contracts. Information is needed on the role different organisations play, and the relationships within supply chains. Crucially, more information is needed to substantiate what is distinctive about third sector organisations. Are there common characteristics between third sector providers, either in structure, culture or experience; and how do these differ to the characteristics of other sectors?

Only once this empirical blind spot concerning the third sector and employment services has been resolved, can research begin to effectively examine more critical questions surrounding the third sector. The Public Administration Select Committee found in 2008 that much of the discussion surrounding the benefits of the third sector was hypothetical or anecdotal, and this is as true within employment services as it is elsewhere (PASC 2008). Firstly, it is necessary to look in detail at how, and why, third sector provision might be beneficial. In particular, the sector's relationship with the hardest to help individuals requires further attention, backed up by independent evidence and research. If the third sector does have a genuinely distinctive and important role to play in helping benefit claimants into work, then more thought needs to be applied to how best this is harnessed by policy makers. The problems documented in this review are by now relatively well known within the area. Based on the increasing amount of work being conducted in this area, the experience of third sector subcontractors under the prime model within Work Programme may, therefore, be subject to a greater level of scrutiny and observation than in the past.

Finally, it is important not to lose sight of the bigger picture. The role and experiences of the third sector in this area have significant implications within public policy. It is important that regardless of the ultimate success or failure of the Work Programme; these potential insights are not lost, leaving the same questions to resurface again in the future and in other policy areas.

## Appendix one: timeline of major developments in unemployment services post-1997

<b>1997 July</b>	New Deal for Lone Parents begins in selected pilot areas.
<b>1997 July</b>	Harriet Harman affirms New Labour's commitment to private sector partnerships and outsourcing, and announces the retention of a number of related Conservative projects.
<b>1997 December</b>	The government invites bids from organisations to set up innovative schemes under the umbrella of the New Deal for Disabled People.
<b>1998 April and June</b>	The New Deal for Young People and The New Deal for long term unemployed people aged 25+ are respectively launched nationally. Private sector contractors soon provide services in 10 areas.
<b>1998 July 1999 March</b>	First and second tranches of winning bids for the 'New Deal for Disabled People' is announced respectively.
<b>2000 April</b>	15 areas with consistently high levels of unemployment are designated as Employment Zones. Consortia are given budgetary flexibility to provide flexible employment services.
<b>2001 April</b>	Supported Employment Programme (SEP) is replaced by WORKSTEP - a supported employment programme which places disabled people into subsidised and supported jobs.
<b>2001 May</b>	£3 million of innovative schemes are commissioned from voluntary organisations as part of the New Deal for Lone Parents.
<b>2001 June</b>	The Department of Work and Pensions is formed from the Department of Social Security (DSS) and parts of the former Department for Education and Employment (DfEE).
<b>2001 October</b>	The first 49 Job Centre Plus Pathfinders are opened, combining work of social security offices and job centres on the high street.
<b>2002 July</b>	Ethnic Minority Outreach is launched. 'Small, locally-based grass roots organisations' are contracted to attract ethnic minority members to mainstream employment services.
<b>2002 August</b>	Private sector provision for the New Deal for Young People and New Deal 25 Plus programmes is extended to 12 areas.
<b>2003 October</b>	New measures to help Incapacity Benefit claimants back to work are trialled, including the personal advisor service, Pathways to Work.
<b>2004 April</b>	Multiple Provider Employment Zones are introduced.
<b>2005 January</b>	It is announced that "Pathways to Work' is to be expanded to a third of all Incapacity Benefit Claimants within two years.
<b>2006 July</b>	13 areas receive funding to set up consortia of local government, third sector and private sector stakeholders in order to find local solutions to unemployment as part of the Cities Strategy.



<b>2007 March</b>	The government commissioned report by David Freud is published. It calls for greater use of the private and voluntary sectors to provide services for the hardest to help, with their payment linked to how many of their clients find work.
<b>2007 September and December</b>	Contracts are awarded to run the Pathways to Work in order to provide national coverage.
<b>2007 December</b>	In the White Paper 'Ready for work: full employment in our generation' the DWP commits to condensing the number of contractors it works with to a core of prime contractors.
<b>2008 February</b>	The DWP's commissioning strategy is published. It lays out DWPs vision of a prime model of contracted employment services, with the DWP working as a market steward.
<b>2008 June</b>	The City Strategy pilots are commissioned for a further two years.
<b>2008 October</b>	Incapacity benefit is stopped for new claimants, and is replaced by Employment and Support Allowance. Claimants are put through the Work Capability Assessment, which determines their benefit and obligations to seek work.
<b>2008 December</b>	Professor Paul Gregg publishes his commissioned report on conditionality and unemployment benefits, and recommends an extension of welfare conditions to a wider range of benefit recipients.
<b>2008 December</b>	The White Paper 'Raising Expectations' is published, and pledges the extension of welfare conditionality, and to trial paying contractors from the benefits budget.
<b>2009 April</b>	The budget announces that the government will fund 150,000 new jobs through the Future Jobs Fund programme.
<b>2009 October</b>	It is announced that Flexible New Deal will replace the previous mandatory programmes in over half of the country during October. Only one third sector organisation, 'The Wise Group' is chosen as a prime provider.
<b>2010 October</b>	It is announced that Work Choice is to replace previous disability employment programmes (Work Preparation, WORKSTEP and the Job Introduction scheme), and that the second phase of the flexible new deal is to be cancelled.
<b>2010 November</b>	White Paper 'Universal Credit: Welfare That Works' pledges to replace a range of benefit types with a single variable payment.
<b>2010 December</b>	Private and voluntary sector organisations are invited to tender for contracts to deliver the Work Programme.
<b>2011 April</b>	Government announces preferred bidders for the work programme. In total there are two third sector organisations with prime contracts and roughly 289 with subcontracts.

For more detailed information on the programmes mentioned, the House of Commons Library produces an occasional guide to all government employment services, which can be accessed at <http://www.parliament.uk/briefing-papers/commons-research-papers/Employment-and-training/Employment-schemes/>

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## About the Centre

The third sector provides support and services to millions of people. Whether providing front-line services, making policy or campaigning for change, good quality research is vital for organisations to achieve the best possible impact. The Third Sector Research Centre exists to develop the evidence base on, for and with the third sector in the UK. Working closely with practitioners, policy-makers and other academics, TSRC is undertaking and reviewing research, and making this research widely available. The Centre works in collaboration with the third sector, ensuring its research reflects the realities of those working within it, and helping to build the sector's capacity to use and conduct research.

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## Service Delivery

From housing, to health, social care or criminal justice, third sector organisations provide an increasing number of public services. Working with policy makers and practitioners to identify key priorities, this work will cut across a number of research streams and cover a series of key issues.

Critical understanding service delivery by the third sector is important to policy making as the third sector now provides a major - and very different - option for public services, which may be more responsive to the needs of citizens and service users. At the same time, there are dangers inherent in the third sector becoming over-dependent on funding from service contracts – particularly in terms of a potential loss of its independence. The centre's research will help to inform the debate on the way in which service delivery is developing, the potential role of the third sector in commissioning as well as contracting, and the implications of different approaches to service delivery on the overall impact of the third sector.

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