

# A New Deal for Unemployed Australians?

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DECEMBER 2001

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## Executive Summary

The rights and responsibilities of unemployed Australians are being redefined. The Government has created a privatised employment placement market, introduced new 'mutual obligation' programs, and has embarked on radical changes in the social security system. This paper does not assess the relative merits of these individual policies but contributes another perspective by contrasting the emerging Australian approach with the British New Deals for the unemployed. This has value not just because of the long tradition of policy transfer between both countries but because since 1997 the British system has gone through a remarkable period of innovation and renewal.

The paper draws on a broad range of documentary and other evidence to explore the strengths and weaknesses of both systems. While acknowledging the difficulty of drawing out the lessons that one country specific approach may have for another the paper arrives at the following conclusions:

1. Centrelink has demonstrated that it is a high performance, innovative public sector agency. However, the Australian system needs a stronger, more direct personal and administrative connection between benefit eligibility, job search and participation in labour market programs. These weaknesses were explored in the McClure report but the limited personal adviser service that it proposed should be extended to all the long term unemployed.
2. The Australian system relies on automated program referrals. This may be technically sophisticated but it is not getting the message across to significant numbers of clients. Mandatory attendance at adviser interviews in Centrelink would generate the same 'shake out' effect secured by the existing system, but it would also ensure that appropriate and matched referrals were taking place, and they might reduce the excessive breaching that is being generated by the existing system. At the same time, front line Centrelink advisers should be the focus of an organised 'follow through' employment assistance process for the unemployed people who are not placed in jobs through their programs but who currently 'go back to zero' when they return to the unsupported job search regime.
3. The most basic function of an employment service is to provide access to vacancies and other labour market information. Unemployed Australians can access notified vacancies through a computerised system but Job Matching providers usually retain the details. This may mean physically registering with several providers, in different locations. This can cause inconvenience, especially if the vacancy is filled, and it creates new rigidities in the labour market. It also seems perverse that unemployed people cannot access the information they need from their 'one stop' Centrelink office! Strategically, it would be more appropriate to re-integrate basic job matching and vacancy handling into the core public service agency that most benefit recipients have regular contact with. This could enhance the service that Centrelink can offer, enable it to utilise the new technologies that are transforming the job matching process, and free up Job Network members to focus on placing

those who have significant employment barriers.

4. The Job Network may secure more cost effective results but many providers focus solely on entry level jobs and the majority of Intensive Assistance participants return to unemployment. Output related payments need to be supplemented with other mechanisms to ensure that providers place greater emphasis on improving job 'retention' strategies; on making the first job into a better job; and on a 'follow through' process, to get effective assistance to those who come to the end of their placements without a job. In this context it would be valuable to learn lessons from some of the high performance welfare to work 'intermediaries' that are emerging in the USA and UK which are both client focused but also employer/demand led.
5. Competitive pressures in the Job Network have reduced transparency and limited the capacity of Government and providers to share knowledge about successful back to work interventions. The capacity of the system would be enhanced by a more open evaluation strategy designed to extract and extend 'good practice' as much as it is concerned with measuring broad impacts. A complementary suggestion would be to adapt the competitive British New Deal Innovation Funds which act as a stimulus to test local solutions but the results from which are publicly available to all providers.
6. Both the UK and Australia have stressed the significant role to be played by broad partnerships if welfare reform is to become a worthwhile reality. Yet the Australian employment assistance and participation system is competitive and fragmented, partnership arrangements are weak, and there are few linkages between federal and state programs. Stronger local partnerships are needed, especially in areas of highest unemployment, to both 'join up' existing multiple local interventions, create synergies and avoid duplication.
7. The emerging Australian system is sending mixed messages to the unemployed and those working with them. The combination of selective employment assistance, participation focused mutual obligation requirements, and various exemptions and exclusions, is creating a confusing and complex hybrid, especially for the younger long term unemployed. The British New Deal offers no simple 'off the shelf' solution, but the progress made does illustrate the gains that can come from a comprehensive approach to all those who reach a certain duration of unemployment. It may not be a revolution but simply introducing Centrelink employment advisers and systematically 'joining up' existing job search, employment assistance, Work for the Dole and training programs into a comprehensive job focused system could start to deliver something like a New Deal for long term unemployed Australians.

Finally, employment programs and benefit regimes matter. Whether it be the inclusive, citizenship based, New Deal model, or the selective assistance of the Job Network, the principle of helping those at a disadvantage in the labour market is relevant at all stages of the economic cycle. In most areas the labour market is not static and even at the lowest point of recent recessions most people who become unemployed still leave unemployment quickly. The task is to

ensure that **all** those who become detached for longer periods are given effective assistance so that they are not excluded from the opportunities that do arise especially when economic growth generates new opportunities. That is the challenge that must be met more effectively by the emerging Australian 'welfare to work' system.

## Introduction

The long term unemployed get a raw deal in both Australia and Britain. Some are young people with few qualifications trying to break into secure employment. Others are older workers who have lost traditional jobs and skills due to employment change. Most live in poverty, especially if they have dependents. Few have marketable skills and they face discrimination by employers. They all experience significant employment barriers, whether they be a consequence of individual personal characteristics or of local labour market conditions, or a combination of both.

Long term unemployment has also had negative consequences for the economy and for the broader social fabric of both countries. Maintaining a large number of the unemployed out of work for a long time is expensive, in terms of social security expenditure, foregone tax revenue and other indirect costs, and economists have frequently drawn attention to the way in which long term unemployment acts as a 'drag anchor' on the operation of the macroeconomy (Chapman, 1998; Layard, 1999).

In both countries there is now a consensus that positive Government action is needed to re-engage the long term unemployed with the labour market because the problem will not be 'solved' simply through employment growth and market forces. However, there is far less consensus about which programs and which delivery structures will be most effective in helping to reduce the barriers faced by the long term unemployed. In Britain the Labour Government has opted for a 'New Deal' for the unemployed which has similarities with the Job Compact which was introduced by the last Australian Labor Government. In Australia the Liberal led Coalition Government has opted for labour market deregulation and the radical privatisation of what used to be the Commonwealth Employment Service (a strategy now advocated by the British Conservative Party).

The impact of the privatised Australian Job Network has been the source of much national controversy and international interest. The OECD has recently completed an exhaustive study and many of the major concerns about the Network are now being scrutinised in a Government review. There is also an independent ACOSS review into the marked increase in social security breaching and sanctions associated with the Network.

The aim of this paper is not to rehearse all of these debates or the evidence on which they are based. Instead, the objective is to contribute another perspective by comparing and contrasting the Australian approach with the British New Deals for the unemployed. This is of value not only because there is a long tradition of policy transfer between British and Australian political and administrative elites, but because since the election of the New Labour Government in 1997 the British system has been going through a remarkable period of innovation and renewal. In particular, just as the British have tried to absorb the policy lessons from the Australian Job Compact, and the subsequent privatisation of the employment placement market, it may be that Australia can

learn valuable lessons from the New Deals and from the British 'employment first' work based Welfare State.

The following sections compare and contrast the employment assistance systems that are being implemented in both countries. It initially describes the very different approach that each country has taken in restructuring their public employment and benefit payment services and their employment programs for the long term unemployed, especially for young people. It then assesses the evidence on the impact of the New Deals, the lessons that have been learnt about what works, and then extracts some of the findings that may be of relevance to the next stages of Australian welfare reform.

## **Welfare to Work Regimes, the Public Employment Service and Front Line Advisers**

The new welfare to work regimes being created in both Australia and Britain are not just about the abstract creation of employment programs and work incentives. Both Governments have coupled policy with organisational reform and have linked the transition to active benefit regimes with radical changes in the bureaucracies that deliver and administer programs. This modernisation reflects the need to adapt services in response to fundamental changes in employment, in information technologies, and in how people get jobs. It is also a response to the growth of long term unemployment, social exclusion and welfare dependency. These organisational reforms have been associated with the introduction of new management techniques and contractual arrangements designed both to increase efficiency, reduce costs, and ensure that these agencies, and their contractors, are more responsive to meeting the needs of the longer term jobless. To service this evolving approach specialised employment advisers or case managers have increasingly been introduced by agencies to create new front line services providing the gateway to programs, jobs and support at the same time as enforcing the new active obligations of those receiving benefits.

However, while they may share abstract objectives there are significant differences in the ways in which both countries are shaping and implementing reform. In Britain New Labour has introduced a range of New Deal programs which are at the forefront of its strategy for creating an 'employment first' Welfare State. The New Deals for the unemployed provide structured employment assistance which *all* individuals are required to participate in after certain durations of unemployment. This approach was in part modeled on the Working Nation 'Job Compact' but it also reflects the commitment that all European Union countries have now made to introduce similar 'guarantees' for the long term unemployed. By contrast, the Coalition Government dismantled the 'Job Compact' in 1996 and replaced it with varying levels of *selective* employment assistance allocated according to a complex classification system. This selective assistance was subsequently supplemented by programs linked to a 'mutual obligation' which now require most long term unemployed Australians to participate in a range of socially useful activities including, for those aged up to 40, 'Work for the Dole'.

The difference in employment programs is matched by the very different approaches that both countries have taken in reforming their traditional public employment services. Australia was the first OECD country to opt for a fully privatised employment placement market whereas New Labour is broadly committed to reforming, not replacing, the front line public sector agencies which deliver employment assistance and state benefits.

## **From Working Nation and the Job Compact to the Jobs Network**

The last Australian Labor Government instituted its Working Nation strategy in May 1994 as a response to the rising long-term unemployment of the early 1990s. A key economic and social objective was to ensure that **all** the long term unemployed would have access to programs that would improve their employability and enable them to compete for the new jobs being generated by employment growth.

The Job Compact was the centrepiece of Working Nation. It guaranteed at least a temporary job offer to individuals who were at risk of long term unemployment or who had been in receipt of unemployment allowances for 18 months or more. At risk clients were identified through a new classification system. Eligible clients were then served through a competitive case management system delivered through a mixed economy of providers. This started to open up the Commonwealth Employment Service (CES) to competition and external regulation through the Employment Services Regulatory Authority. Once referred to a provider by the CES, the client was evaluated by a case manager and entered into a Case Management Activity Agreement. The agreement was open-ended, included a return-to-work plan and required the client to accept a suitable offer of unsubsidised or subsidised employment or a place on a subsidised work experience project. Through the agreement, case managers were expected to tailor a package of activities designed to improve the individuals' employability and prospects for sustained employment. A jobseeker who failed to attend or abide by the terms of the agreement risked a benefit sanction.

Working Nation was originally intended to be a four-year program. However, barely two years after implementation the Job Compact was scrapped by the 1996 Coalition Government. The new regime argued that the Compact had been ineffective in reducing unemployment, was too expensive, and that the programs were simply 'churning' the unemployed rather than placing them in vacancies. Their analysis seemed to be confirmed by a subsequent Departmental evaluation of the program (DEETYA, 1997).

These evaluation results were controversial. Australian economists have since criticised the post program methodology used, suggesting that it did not control for bias and used an inadequately selected control group. By contrast, Stromback and Dockery (2000) used a more rigorous matched control group method

drawing on data from the curtailed 'Survey of Employment and Unemployment Patterns' which was initiated in 1994 to assess the impact of the Job Compact. Their results suggested that participation in a labour market program almost doubled the chance of someone leaving job search to enter employment. Their duration analysis also suggested that 'brokered' work experience programs were markedly more effective than the 1997 Departmental evaluation suggested (Stromback and Dockery, 2000). Nevertheless, even though proponents of the Job Compact argue that it did help reduce long term unemployment they recognise that the program had significant weaknesses, especially in how it was implemented (Chapman, 1998).

## **The Coalition Government, Centrelink and the Job Network**

The 1996 Coalition Government was elected on a radical platform aimed at transforming the Australian labour market. A key element of this strategy involved redefining the rights and responsibilities of the unemployed. The job search obligations of the unemployed were increased and a Common Youth Allowance was introduced. The 'Job Compact' was scrapped and the budget for its related employment programs was reduced, resulting in a 50% cut in total spending on active labour market programs (OECD, 2001, p. 13). A fully contestable employment placement market was created and the CES was privatised. The aim of the Government's new approach was to get people into "sustainable employment" and "to build new relationships rather than new bureaucracies and to create new networks rather than new institutions" (Abbot, 2001, p. 3).

However, a new public sector agency, Centrelink, was given a key role. This 'one stop' shop to the benefit system was given responsibility for the assessment and payment of unemployment benefits and for ensuring that unemployed claimants meet their job search and other obligations. Centrelink also acts as the gateway to the fully privatised 'Job Network'. However, although Centrelink staff administer work tests and assess levels of employability the agency plays no active role in finding or filling vacancies. Research visits by the author to Centrelink offices confirmed that they have few job search facilities available, their staff have little experience of the employment market and nearly all the agency's performance indicators are focused on benefit processing and payment. Nevertheless, Centrelink is the main point where unemployed people are assessed and notified that they may have to participate in certain programs, although the direct process that informs the individual when they have to attend is highly automated, especially for programs like Work for the Dole. The weaknesses of this referral process have been a constant source of friction, with 'no show' rates for particular programs ranging from 30 per cent to 60 per cent (OECD, 2001, p. 134). Not only has this had an impact on the management and viability of individual providers, but it has been a major factor behind the sharp increase in administrative benefit sanctions imposed on those who fail to attend (ACOSS, 2001).

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

### **Jobseeker Classification and Job Network Services**

In the privatised system access to employment assistance is determined through the initial application of a 'Jobseeker Classification Instrument'. The classification process is computerised and normally applied by front line Centrelink officers. Apart from completing answers to questions there is little interaction between the client and officer (which is one of the reasons many employment barriers are not revealed until after the classification and referral process has been completed). The client is able to choose which Job Network member they wish to register with, so long as there are places available and they have a preference. Until recently few have exercised a preference. However, it is anticipated that more individuals will choose positively as they are now given more transparent information about the relative job entry performance of providers through a publicly available 'star' system.

The three main services provided by Job Network members are *Job Matching*, *Job Search Training* and *Intensive Assistance*.

Job matching involves finding and filling vacancies. After a transitional period Network members appear collectively to have attracted more vacancies from employers but there are rigidities in the system. In particular unemployed people can only access information about most notified vacancies by directly approaching the individual Network member with whom the vacancy is registered.

Job Search Training involves a structured course, lasting for up to two weeks, intended to remotivate the unemployed person, update their job search strategy and place them into work. The Government has announced that in future all people who have been claiming unemployment allowances for three months will be required to participate in what is now described as a 'Job Search Support Pathway' (FACS & DEWRSB, 2001, p. 8).

## **Intensive Assistance (IA)**

Intensive Assistance is the most expensive form of provision and combines case management with employment assistance. An unemployed person entering IA is required to draw up a Preparing for Work Agreement. If still unemployed after 13 weeks the provider is required to draw up a more detailed 'Support Plan' which should include the additional support the provider will be offering. Job Network members have been most innovative in the early stages and have developed a wide range of assessment and remotivation practices that aim to identify and tackle employment barriers. Surveys with participants and employers record high satisfaction levels and the OECD suggested that the best providers were those delivering "some specialist assessment, light training, counseling in job-search, self-confidence and life directions, etc., in-house" (2001, p.208).

However, evidence from the latest Government evaluation shows that most active employment assistance is given in the first few months of participation, the time at which most job entries are secured. As time goes on individual client contact with employment officers diminishes and "the intensity of job search activity and motivation of job seekers declines" (DEWRSB, 2001, p. 62). The OECD concluded that many long term unemployed people had little contact with their providers and that "few providers appeared to be offering effective services to address the underlying barriers to employment" (2001, p. 118). One Government survey of participants found that less than half of them "had been sent to a job interview or to speak with an employer about a job" (ibid, p. 119), and nearly a quarter of those surveyed had "visited their provider only once or twice" (ibid, p. 118). This lack of contact is important because participants are not expected to report regularly to Centrelink whilst in IA.

One independent study, which carried out survey research with front line staff, concluded that it was the incentive structure of the new market that was driving "advisers towards quick, superficial interactions with job seekers and towards strategies which maximised the agency's short-term financial performance" (Considine, 2001, p. 140). Essentially IA providers receive a third of their payment in advance; 70 per cent after a participant has been in a job for 13 weeks; and a further bonus after 26 weeks. The 'up front' payments are important to underpin provider viability and profitability, but the payment system encourages advisers to 'pick winners' and discourages them to invest in more expensive services that might tackle barriers but not result in immediate job outcomes.

IA was never intended to be a 'guarantee' program, automatically available to individuals after a certain duration of unemployment. Instead it is a selective intervention targeted at those who are considered to have the capacity to benefit. This has meant that not only are a significant group of long term unemployed people not eligible for support but that there is constant friction between Centrelink and Network members about who is capable of benefiting from the support on offer. This has had a particular impact on the Community

Support Program, a small scale program which was belatedly introduced by the Government for some of those deemed not capable of benefiting from IA.

Finally, there is little provision available for the majority of unemployed Australians who exhaust their IA entitlement. The front line research carried out by the author also found that few Network members had any procedures in place to ensure a smooth, let alone an employment focused, 'handover' to Centrelink officials for those people who are still unemployed after they complete IA.

## **The impact of the Job Network**

The most recent Government evaluation report shows that between May 1998 and September 2000 670,000 job matching placements had been effected and more than one million unemployed people had been referred to IA. In terms of outcomes the evaluation reported that three months after leaving 73 per cent of those who were 'job matched' were either employed (70%) or undertaking education and training; and of those leaving Job Search Training or IA the outcome rates were 47 per cent (38% employed) and 42 per cent (35% employed) respectively (DEWRSB, 2001, p.2). About half the jobs taken were part time. There is little information on what happens to that majority of participants who fail to get a 'positive outcome'.

Some data is given separately for younger unemployed people. It shows that 18 to 24 year olds made up nearly a third of the commencements in Job Search Training, and just under 20 per cent of those who started IA (ibid, Table 3.1). Younger participants did slightly better in terms of job entries than older or other disadvantaged participants, with over a third being in employment three months after leaving, evenly divided between those in full and part time work. They were also more likely to exit to education or training with more than one in ten taking this route (ibid, Table 4.4).

The evaluation utilised the same post program comparison technique that was criticised by Stromback and Dockery (2000) to assess the additional net impact of the Job Network. The report concluded that IA was securing an additional net impact of about 10% and Job Search Training was securing about 3 per cent. The evaluation report asserted that these results were at least as good as those produced under the Job Compact and that they had been secured "at a substantially lower cost" (ibid). Government Ministers were even less inhibited and suggest that the results are far better than those produced by Working Nation (Abbott, 2001, p. 4).

These claims are disputed and, amongst others, ACOSS has maintained that the Government has not compared like with like. They conclude that although "competitive tendering was effective in driving costs down .. it weakened service quality". The result has been a reduction in support for the most long term unemployed "leading to poorer employment outcomes than the most effective (though not all) Job Compact programs" (Davidson, 2001, p. 1). Whatever the

relative merits of Job Network and Working Nation programs, the evaluation evidence still confirms that the current Australian employment assistance system shows poor outcomes for the most disadvantaged job seekers.

One of the most telling criticisms of the Network has been that it has failed to reduce the proportion of long term unemployed 'beneficiaries'. In September 2000 the number of Australians receiving unemployment benefit for over a year stood at 385,000, and it was estimated that this number had "barely fallen over the (previous) five years" (ACOSS et al, 2001, p. 1). The OECD subsequently reported that the long-term share of unemployment beneficiaries within the total had increased and that in 1999 over 60 per cent had been receiving benefit for over a year and over 40 per cent had been on benefit for over two years (2001, p. 175). Although there were a number of factors causing this, the OECD suggested that the complex interplay of screening and IA eligibility rules meant "there is a risk that significant groups are falling through the gaps".

### **Mutual Obligation and Work for the Dole**

The other major theme of Coalition policy has been to institutionalise new requirements, activities and programs through which unemployed people can meet what is described as their 'mutual obligation' to the society that pays their benefits. This new approach was first applied to the young long term unemployed in 1998; since then someone aged 18 to 24 who has been out of work and receiving full benefits for over six months who does not take part in some other approved activity, such as part time work or education, has been required to participate in a 'Work for the Dole' project. The projects are organised by charities, community organisations and local authorities, and participants are required to participate for between 12 to 15 hours a week for up to six months, during which they receive an additional A\$20 a fortnight.

Work for the Dole is not a conventional employment program although it is expected to improve 'work habits' and incentives, as well as deliver broader community benefits. Few Work for the Dole providers give formal training or have direct links with employers. It is only now, three years after it was introduced, that the Government is introducing some minimal assistance with job search and giving participants 'training credits', but only after they have participated for at least 16 weeks. In practice the incentive effect of the program, according to Minister Abbott, is expected to work by making regular employment seem more attractive than continuing to stay on benefits (Abbott, 1999).

Official and independent research into Work for the Dole has found that many of those who took up places appreciated some of the activities they participated in and the support they got (Sawer, 2001). However, many of the participants expressed serious concerns (Kinnear, 2000, p.7):

- many resented the compulsion to participate and most thought the program would be better if it were voluntary;

- most participants felt that the Government was not fulfilling its end of the mutual obligation bargain; and
- many felt that their Work for the Dole activities were irrelevant to the type of work that they were seeking.

In terms of impact, the early evidence showed that the new mutual obligation requirement had a significant impact on increasing 'exit rates' from unemployment, reducing the inflow to long term unemployment for the client group "by about 25 per cent" (OECD, 2001, p. 28). A Government evaluation subsequently showed that 30 per cent of Work for the Dole participants were 'off benefit' three months after leaving as against only 17 per cent of a matched sample of non-participants, giving a net impact effect of 13 per cent. For a number of methodological reasons the OECD indicates that these results should be treated with caution and other commentators point to data which suggests that 80 per cent of Work for the Dole participants were still unemployed five months after completion (Kinnear, 2000).

The main impact of the program is one of what the OECD calls 'deterrence' and three quarters of those referred to Work for the Dole still fail to attend their first session. The Government suggests that many of these are likely to have moved into jobs or were already working. However, there has been little research and not much is known about where these young people end up, how long they stay in jobs, etc. In the voluntary sector there has also been concern about the interaction with sanctions and the plight of the most disadvantaged who may not only lose their benefit but may also lose contact with services.

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

The consequence is that by 2001 young long term unemployed Australians were being subjected to a new regulatory regime made up of a strange hybrid of poorly connected employment assistance and mutual obligation activity. In the future it seems that most young unemployed people will be eligible for Job Search Training and some will be eligible for selective employment assistance. All will be required to participate in a 'guaranteed' mutual obligation activity after each six months of unemployment, with Work for the Dole being the placement of last resort. Although this pattern of provision may appear to be coherent in abstract flow charts, there is already evidence that this emerging, complex and confusing pattern of support for younger long term unemployed Australians is reproducing the problems already associated with the fragmented provision targeted at unemployed 15 to 18 year olds (BSL et al, 2001).

## **New Labour, Full Employment and the New Deal for the Young Unemployed**

New Labour was elected in Britain a year after the Coalition came to power in Australia. It was committed to modernising the Welfare State by remaking the relationship between welfare and work, and within weeks it was implementing its New Deal for Young Unemployed People (NDYP). The subsequent first term of the Labour Government witnessed a succession of radical changes involving the introduction of a broad range of employment programs and changes to the tax and benefit system to 'make work pay' and tackle child poverty.

It is important to stress that New Labour's welfare reform policies flowed from a fundamental change in the Party's approach to full employment. By 1997 Labour had committed itself to introducing temporary job 'guarantees' for the long term unemployed and had accepted many of the labour market and social security reforms introduced by Conservative administrations. A new synthesis of labour market programs and an active benefit regime were to be a key element of delivering what the Chancellor of the Exchequer describes as "employment opportunities for all - the modern definition of full employment". However, in a world of limited resources, and in the wake of four election defeats, the program on which New Labour was elected had been carefully costed and targeted. Rather than rush to implement a program for all the very long term unemployed - which it was perceived had limited the impact of Australia's Job Compact - the decision was made to give top priority to a 'New Deal' for young long term unemployed people aged between 18 and 24.

The choice of priority was both pragmatic and one of principle. In Britain, as in Australia, many of the young people who continue to leave school at the earliest opportunity tend to experience high levels of unemployment and many of the entry level jobs open to them no longer offer routes into stable employment. This exclusion from the labour market has important long term economic and social costs. However, while the plight of other groups may be as great there is no doubt that precisely because of their youth the returns for successful interventions with this age group are likely to be higher than for others. As significantly, New Labour has made it clear that it aims to deliver a sea-change in the way that people experience and draw on the welfare state and if the objective is to change expectations and cultures then it made sense to begin with those who were starting out on their working lives.

## **New Labour and the public Employment Service (ES)**

The Labour Government gave the public ES the lead responsibility for delivering its New Deal programs. Senior ES managers grasped the opportunity to 'reinvent' the organisation and invested substantial resources in redefining its approach in order to modernise and rebuild its credibility with the unemployed, employers and other agencies. This strategy involved the introduction of a new generation of front line New Deal personal advisers; contracting with a broad range of public, voluntary and private sector organisations for the delivery of

new services and employment and training options; and changes to ES performance targets which encouraged it to work with other agencies. Another key dimension to the strategy involved a major national political effort to engage employers and other organisations in the delivery of the New Deals. In particular Government created a broad range of national and local partnerships, from the employer led national advisory New Deal Task Force through to the contractual partnerships which delivered particular programs. Subsequently, the Task Force has been the main 'driver' in persuading Government to create more flexibility and redesign the program to be 'demand' rather than program led.

Although New Labour gave the public sector the lead role in delivering welfare reform it has expanded the role of the private sector in the delivery of new services for those without work. Private sector organisations, in varying combinations with the ES, are now responsible for delivering a broad range of employment programs. However, while there are continuities with the market testing and drive to privatisation of the previous Conservative administration New Labour maintains that its approach does not represent a prelude to full privatisation, but a variation of its partnership strategy. As the new 'employment first' Welfare State is created the objective is to work through a variety of public private partnerships to try to harness the resources, expertise and innovative practices which the Government believes the private sector can bring to the delivery of its broad welfare to work agenda (for a full discussion on New Labour and 'public private partnerships' see IPPR, 2001).

The decision to implement the British Government's welfare to work strategy through the public ES was a crucial decision. It provided continuity and it enabled New Labour to build its programs on the Conservative's stricter benefit regime which by that time was being credited with making a significant contribution to the reduction in long term unemployment.

### **New Labour's Legacy: the Employment Service and its contribution to reducing long term unemployment**

In the late 1980s both the British and the Australian approaches to the unemployed had been directly influenced by the developing international, OECD driven, consensus about the need to move from passive to active benefit systems. By the early 1990s, British Conservative Governments had reduced benefit entitlements, introduced new job search requirements and more directly integrated the administration of the benefit system with its active labour market programs. In 1996 this culminated in the replacement of unemployment related benefits with a new Jobseekers Allowance, which was itself in part modelled on the Jobstart and Newstart Allowances introduced in Australia in the late 1980s.

The new strategy towards the unemployed had been preceded by radical institutional changes that Conservative Governments made to the 'unemployment market'. However, while training programs for the unemployed were handed over to newly created private sector led Training and Enterprise Councils, a 'modernised' **public** Employment Service was created in

1987 with about 35,000 staff and a front line national network of over 1,100 Jobcentres. The ES worked closely with the larger public sector Benefits Agency which was responsible for the assessment and delivery of most social assistance and insurance benefits. The BA, however, had no role in delivering direct employment assistance.

During the 1990s the role of the ES, its aims and objectives and the nature of its activities changed significantly. Four key trends characterised the policy environment that the ES worked within. The first trend was the emphasis on reinforcing work incentives and maximising and monitoring the job seeking behavior of the unemployed. This was underpinned by what the ES called the 'stricter benefit regime'. The second trend was the shift towards a 'work first' system marked by a move from more resource intensive, longer term, active labour market programs towards low cost measures aimed at immediate job search and job entry. The third trend was a performance targets regime which was increasingly geared to immediate job entry, benefits policing and the imposition of sanctions. Finally, the ES was under constant pressure to reduce its operating costs and obtain better value for money.

Over a ten year period the ES achieved its efficiency savings through a combination of market testing, contracting out, cost reviews and other techniques such as business process re-engineering (Fletcher, 1996, p.174). Core functions, like job broking, benefit administration, job search reviews and program placement were kept in-house, but by 1996 the ES had withdrawn from most direct program provision and, through its Regional Offices, contracted out its various schemes via competitive tendering and performance related contracts to a diverse range of private providers, voluntary sector organisations, colleges, Local Authorities and religious groups.

By 1996 the British ES was promoting itself as a high performance and high achievement agency, with a reputation for implementing new national initiatives to short timescales. It was able to show that it had been administratively effective and had made a significant contribution to reducing unemployment, especially long term unemployment, by engineering a close link between job-broking and benefit administration (ESC, 1999, vol. I, p. xi). Indeed, it was precisely the success of this link that persuaded the last British Conservative administration to retain the core activities of the ES within the public sector, notwithstanding an ideological commitment to privatisation (Price, 2000, p. 304).

There was strong evidence to support the position of the ES. Between 1992 and 1997 the number of people in work in Britain increased by more than a million and a half. Over that period registered UK unemployment fell rapidly from a peak of nearly 3 million in 1993 to less than 1.7 million in April 1997. The reduction in long term unemployment was even more dramatic. The number registered out of work and claiming benefit for over twelve months fell from a high point of over a million in October 1993 to just over 350,000 in October 1998. Over the period the proportion of people registered out of work for over a year fell from 38 per cent to 27 per cent. The relative decline in long term unemployment is clearer if a comparison is made between the last two economic

cycles, which saw unemployment peak in 1985/86 and in 1993/94. In the most recent cycle the level of overall unemployment peaked at a total five per cent lower than in the previous cycle. However, the 20 per cent 'peak to peak' fall in long term unemployment was much greater (ESC, 1999, vol II, p. 184).

There has been much controversy about what happened to the people assumed to have benefited from the dramatic reduction in long term unemployment. Sanctions increased, some of the long term unemployed were 'churned' through programs, others were placed in short term jobs, and many of the older long term unemployed were transferred to other benefits. However, the evaluation evidence does confirm that the new benefit regime did stimulate active job search and was more effective at linking unemployed people with new job opportunities (Rayner et al, 2000; Wells, 2000).

Despite the success of the Conservative's 'stricter benefit regime', in 1997 the New Labour Government was to inherit significant problems. Long term unemployment continued to blight many disadvantaged areas; and nearly one in five UK households of working age had no one in work. On the ground there was also considerable dissatisfaction amongst front line ES staff and widespread scepticism about Government employment 'schemes' amongst the unemployed, employers and providers (EPI, 1998; Finn et al, 1998; Bentley et al, 1999).

## **The New Deals and Welfare to Work**

By 2001, at the end of its first term of Government, New Labour had developed a comprehensive approach to reforming the Welfare State which was aimed at tackling the legacy of worklessness and child poverty that it had inherited. The creation and introduction of the New Deal for Young Unemployed People was at the forefront of these changes and became the template from which other programs have been developed.

The program itself arose directly from New Labour's explicit 1997 election pledge which committed the Government to getting 250,000 long term unemployed young people into work. The new program was financed through a £5 billion 'windfall tax' raised from the excessive profits of utilities which had been privatised by previous Conservative Governments. Much of this extra funding was allocated to the NDYP but the New Deal approach was also extended to other groups and by 2001 there were New Deal programs for long-term unemployed adults aged over 25, lone parents, disabled people, those aged over 50 and the partners of unemployed people. Although each New Deal addresses the particular problems of a specific client group they are all based on the principles which were first implemented in the program for young people - "more help, more choices, and the support of a Personal Adviser .. matched by a greater responsibility on the part of individuals to help themselves" (DfEE, 2001, para 1.33). However, it is important to stress that only the New Deals for the unemployed are mandatory.

## The New Deal for the Young Unemployed

The NDYP was implemented nationally in April 1998 since when all 18 to 24 year olds who have claimed JSA for six months have been 'guaranteed' places on the program. There are early entry rules for particular groups, such as ex-offenders, who face particular barriers to employment, but the primary method for ensuring that employment assistance is more efficiently allocated to those who need it has been to use duration of unemployment. Both Conservative and Labour British Governments have been sceptical about the predictive power of screening systems and have been wary of introducing something like the complex classification system in use in Australia.

Initially unemployed young people participate in a 'Gateway' period which can last for up to four months. During this period they should have weekly meetings with a New Deal Personal Adviser (NDPA) who is expected to refer those who are 'job ready' to appropriate unsubsidised vacancies. The adviser should identify and try to tackle any employment barriers of those who are not 'job ready'. There is some specialist ES provision but ideally NDPAs should be 'networked' so that they are aware of other local service provision and be able to refer those young people who need it to other specialised support, for example, in literacy or numeracy training, debt advice or substance abuse programs. After four or five weeks most young people are required to attend a two week full time mandatory 'Gateway to Work' course. This is intended to increase the 'pace and intensity' of the Gateway and assists the young person with job search and, if necessary, with the option choices they have to make if not placed in an unsubsidised job.

The aim of the subsequent 'options' phase has been to provide **full time** work experience and training to improve the employability and human capital of those young people who could not be placed in unsubsidised employment. Between 1998 and 2001 the options could involve either a subsidised job, normally in the private sector, where an employer received a subsidy of £60 a week for up to six months (some young people were able to try self employment under a variant). Alternatively young people could be offered six month placements in either the Environmental Task Force (ETF) or the Voluntary Sector Option (VSO) where they could be paid a wage or more usually their normal benefit payment plus some £15 a week. All the young people were required to receive approved on the job or day release education and training. The final option was full time education or training for up to a year on 'an approved course' for young people 'without qualifications'. Once placed in an option there was little opportunity to switch to another.

NDPAs are expected to monitor the progress of young people in the options and to provide structured 'follow through' support for those who fail to get a job. Follow through provision can involve access to additional support, such as an employment subsidy, as well as help with active job search. Young people then re-enter the New Deal after another six months unemployment or earlier if the individual is in a special group.

The NDYP is a mandatory program and Government Ministers made it clear that there was to be no 'fifth option' of staying on benefit payments indefinitely. Those young people who either fail to attend interviews, refuse to take up an appropriate opportunity or who leave without good cause are now liable to escalating benefit sanctions which can increase from a two week to a six month withdrawal of payments.

## **Compulsory New Deals for the older unemployed and Employment Zones**

Although the NDYP is a national program the Government's approach to tackling the barriers faced by the much larger number of long term unemployed people aged over 25 has been more experimental and incremental. In effect the Government is testing several approaches and is using detailed evaluations, including random assignments, on which it will decide the future shape of its programs. The main approach to the 25 year plus long term unemployed is directly based on the New Deal model. The other 'Employment Zone' approach is area based and seeks to maximise performance by giving local flexibility and discretion to private sector contractors who are paid according to performance.<sup>1</sup>

In 1997 New Labour introduced a minimal New Deal program for those aged over 25 who had been out of work for over two years, but this was swiftly supplemented by a broad range of pilot initiatives which tested more intensive approaches. In April 2001 this development work led to the implementation of a comprehensive and mandatory New Deal program for unemployed people aged between 25 and 50 who have been out of work for 18 months. This involves a Gateway period, a subsequent mandatory period of structured full time activity, and follow-through provision. The tougher sanctions regime which applies to NDYP has also been extended to the older age group so that no person out of work for over 18 months now has the option of remaining on passive social assistance payments.

The alternative Employment Zones (EZs) are also aimed at JSA claimants aged over 25 who have been out of work for over 18 months (or 12 months in a few zones). If an individual is selected then participation is mandatory. The Zones have been introduced in selected high unemployment areas where their performance is being directly compared with the New Deal approach. In the Zones individual benefit payments are combined with resources for active measures into what have been called 'personal job accounts'. The EZs are delivered by private sector contractors who deliver three stages of support. There is an initial advisory process, which can last for up to 13 weeks, aimed at tackling immediate employment barriers, identifying objectives and agreeing a

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1 Another interesting area based approach has been implemented in fifty areas in the form of 'Action Teams for Jobs' (DfEE, 2000a). 'Outreach' teams of ES advisers work with local groups and employers to "support radical, innovative ways" of tackling "specific local problems and obstacles to job matching". The teams assist all 'jobless' people on a voluntary basis and over the next three years their effectiveness will be assessed through the improvement they can make in local employment rates.

costed Action Plan using the Personal Job Account. One of the most distinctive features of the approach is that an Adviser and participant together agree how the funding in the Personal Job Account can best be used to overcome specific employment barriers. The second phase of carrying out the Action Plan can last for up to six months and can involve a range of assistance, from training through to employment subsidies. The third step is to provide support once the individual is in work to ensure the employment is sustained.

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

The new '25 plus' programs were designed on the basis of the evaluation evidence that was generated through the initial pilots and prototypes. The quantitative results indicated that the new interventions were accelerating the return to work of the long term unemployed, but the qualitative evaluation reported that there was a more limited impact on the 'hardest to help' (Lissenburgh, 2001; Winterbotham et al, 2001). The real test of the national programs will be the extent to which they can sustain the 'net impacts' obtained in the experimental phase, and meet the needs of those with greatest employment barriers. Some of the initial operating data is encouraging but it is too early to assess whether the programs for the older age group can sustain the impacts that evaluation studies have attributed to the NDYP.

## **The impact of the New Deals**

In broad statistical terms by the end of July 2001 just under half a million people had found jobs in the UK through the Labour Government's various New Deals and related employment initiatives. The bulk of these jobs were secured through the NDYP. Between 1998 and July 2001 594,300 people had passed through the program of whom over 40 per cent were known to have entered jobs, of whom just over 80 per cent had not reclaimed benefits for 13 weeks (TEN, 2001, p.1). Just over 10 per cent had transferred to other benefits; one in five had left to other 'known' destinations (such as, full time education); and nearly 30 per cent had entered 'unknown destinations'. There were just 89,300 actively participating in the program, of whom nearly 60 per cent were still in the Gateway.

The combined impact of the program and strong employment growth has seen youth unemployment fall dramatically. The number of 18 to 24 year olds in Britain who were out of work and claiming JSA for less than 26 weeks fell from 216,514 in April 1998 to 193,588 in April 2001, a fall of just under 11 per cent. The

number out of work for over six months, at which point they enter the NDYP but are still receiving JSA, fell more sharply from 66,638 to 34,463, a fall of 48 per cent. However, the most dramatic impact was on those unemployed for over a year where the number fell from 46,629 to 3,595, a fall of over 92 per cent. Using the more rigorous international (ILO) definition of unemployment, on data collected from the household based Labour Force Survey (which includes those who are unemployed but not eligible for JSA) the number of young people unemployed over six months had fallen less dramatically to 127,000 in the March-May 2001 quarter from 221,000 in the February-April 1997 quarter. One clear implication is that the program is effectively targeted at those who claim benefits.

The dramatic reductions in registered long term youth unemployment have been welcomed by Ministers, but establishing the net additional impact of the NDYP, the actual difference it makes, is more complex. In both Britain and Australia there is a growing literature, and growing expertise, as economists and other social scientists have utilised a broad range of micro and macro economic evaluation techniques to identify the impact that particular employment programs have secured. The results give mixed messages and there is much debate about the most appropriate techniques and the interpretation of findings (Schmid et al, 1996; Martin, 1998). However, while there is no space to evaluate the general evidence in this paper, there are results from two macro economic evaluations of the NDYP which suggest that it is having a positive impact on the British labour market.

The two studies were carried out by the National Institute for Economic and Social Research (Anderton et al, 1999; Riley and Young, 2000). In their second report the NIESR researchers point out that one way of estimating the actual impact of NDYP on youth unemployment is to compare youth unemployment rates with unemployment rates in other age groups. In the two years prior to the introduction of NDYP that ratio of youth unemployment to other unemployment was stable. However, in the two years following the introduction of NDYP, this ratio had fallen steadily. The authors argue that "if the ratio of youth to other unemployment had remained stable through to March 2000, it would have been thirty thousand higher than it actually was" (Riley and Young, 2000, p.22). They also estimated that NDYP had reduced long term youth unemployment by around 45,000 and estimated it would have been almost twice as high without the program. Looking at employment rates Riley and Young also estimate that, after two years, NDYP had increased employment in the youth labour market by 15 to 17 thousand.

The acceleration in the decline of youth unemployment since 1998 and the job entry rate secured through the program suggests that the NDYP has been effective in helping young people into work. However, it is inevitable that some of those young people would have found work without New Deal: either as a result of natural labour market turnover or because of the general expansion in the economy. In their last report NIESR estimated that “of those leaving unemployment, between 50 and 80 per cent would have done so in the absence of the program” (Riley and Young, 2000, p.20). This was consistent with their earlier estimates of the degree of deadweight in NDYP of around 60 per cent (Anderton et al, 1999, p.72). NIESR also concluded that the overall substitution effect was small, partly because of the relatively small size of the youth labour market.

The NIESR report concluded that the main impact of the program had been secured because it helped young people leave unemployment **earlier** than they would otherwise have done. Indirectly it was also likely to have reduced wage pressures and “so allowed the economy to grow faster without triggering policy action to restrain inflation” (ibid, p. 2). They estimated that the annual exchequer cost per extra person in employment was about £7,000 per annum. However, they point out that “national income was around £.5 billion per annum higher as a consequence of the program” and this made no allowance for the wider social benefits that were also likely to have been generated. They concluded that overall the NDYP was “having a beneficial impact on the UK economy”. However, they also warned that the impacts they found might not be sustained as more people pass through New Deal programs or when “the economic background turns less benign” (Anderton et al, 1999, p.17).

### **What works in the New Deal: Opening the ‘black box’**

The New Deals have been subjected to one of the largest and most publicly available programs of labour market evaluation undertaken in Britain. The ES has underpinned its evaluation strategy through the creation of a comprehensive New Deal evaluation database, which enables it to track every individual who starts on the New Deal, and by mid-2001 over 40 evaluation reports had been published assessing both the micro and macro impacts of the program.

The cumulative evidence from the New Deal evaluation strategy has been able to shed light on those parts of the program which have worked well and those which have experienced most difficulty (Hasluck, 2000a; Hasluck 2000b; Millar, 2000). These findings have been absorbed into and used as part of the Government’s ‘continuous improvement strategy’:

- **The Gateway period of intensive advice and assistance has been effective in moving young people out of unemployment.** Early planning assumptions were that 40 per cent of entrants would leave the New Deal from the Gateway. In reality two thirds of participants leave before taking up an option. If the results of surveys of those categorised as leaving to ‘unknown

destinations' are included, over 60 per cent of those who leave in the Gateway phase have been taking up jobs (ORC, 2001).

- **Participation on the Gateway is leading to more jobsearch.** The evidence shows a 'carrot and stick' effect, with most young people intensifying jobsearch as a result of increased motivation and new techniques, but others doing so in order to avoid joining an option or to avoid benefit sanctions (about 10 per cent sign off JSA before attending a first interview).
- **Personal Advisers are playing a critical role.** The evaluation evidence has consistently identified the intensive, individualised help from the NDPA as the key element of Gateway success. Young people themselves place great value on having someone with whom they can build a relationship. At their best advisers provide a wide range of individualised services for the young person such as identifying barriers to work, helping with applications, contacting employers and discussing and clarifying employment goals. Unfortunately, not all NDPAs live up to their image and there have been concerns about the work pressures being placed on them by rapid policy changes and because their caseloads have a greater proportion of those with more complex employment barriers. There has also been concern amongst NDPAs about the balance that has to be struck between individual support and immediate job placement. One of the things that had been most valued about the New Deal was the shift away from the immediate job entry targets that had characterised the previous regime. However, by 2001 many both inside and outside the ES felt that the original individual focus of the NDYP was in danger of being undermined by a preoccupation with immediate job entry targets.
- **The performance of the options has been mixed.** Option providers have struggled to place more than 30% of their participants into jobs. This under performance has been partly attributable to the fact those entering these options have the greatest employment barriers and least motivation but it has also reflected the tension felt by many providers about the extent to which they should or could fully focus on employment outcomes. 'Fixing' this part of the program, so that more of those with the greatest barriers obtain jobs, remains a major implementation challenge for the 'next phase' of the New Deal.
- **The impact of the follow through period has been limited.** Research with young people found "marked differences" in the levels of follow through activity which ranged from "intensive support to no identifiable post option activity". Nevertheless, around 40 per cent of those leaving the follow through have been moving into employment. Unfortunately this also means that about half of those leaving follow through have been returning to the normal JSA regime or have been early re-entrants to the New Deal.
- **Sanctions, unknown destinations and the most disadvantaged.** There has been much concern about the impact that the New Deal disciplinary regime might have on the most disadvantaged young people. However, there is no

comprehensive information available about mandatory referrals or the application of sanctions, although the evaluation evidence shows that most disallowances are imposed for the failure to attend interviews and most sanctions are imposed on poorly educated young men referred to work experience placements in the environmental sector (Bonjour et al, 2001, pp 112-115). Research into those young people who had left to unknown destinations found that nearly one in five, 19 per cent, indicated that they had experienced at least one of the living conditions associated with disadvantage (been in custody; slept rough; lived in a hostel/foyer; been in care). Significantly, only 29 per cent of this group reported that they had left NDYP to enter full time employment (ORC, 2001). On the ground local New Deal partnerships and national voluntary organisations have initiated outreach projects to connect with this group and in Scotland various forms of pre-New Deal provision have been tested to create pathways that enable the most disadvantaged to tackle barriers prior to entry to the New Deal.

There is also evidence that the **partnership** approach to implementing the New Deal has added real value. In many localities the establishment of common goals and the interaction between the key local players seems to have improved the effectiveness of New Deal programs by allowing the partners to minimise waste, duplication, and deadweight and substitution. At their best, for example in the first wave of Employment Zones, local partnerships helped free the forces of innovation and experimentation (CSI, 2000). In other areas partnerships have ensured that the New Deals become part of a more extensive and accessible range of local services provided through the creation of 'one stop shops' and integrated back to work strategies.

### **NDYP: Next Phase**

The NDYP has been implemented in a period of employment growth with falling youth and long term unemployment. This has had significant impacts on both the eligible client group and on the viability of those organisations delivering options. However, the Government has tried to speedily adapt the program through a process of regular independent and open inspection reports and an overall 'continuous improvement' strategy. These incremental changes are now accelerating into what has been characterised as the 'Next Phase' of the New Deal (ES, 2001).

This next phase of NDYP aims to provide more assistance to the hard to place individuals who make up an increasing proportion of a shrinking client group and to ensure that the program is 'demand led' by developing more effective sectoral links with employers. Some elements of the program have been changed nationally, involving initiatives such as an 'Advisors Discretionary Fund' which gives NDPAs greater flexibility in spending small amounts of money (up to £250) that can help tackle immediate employment barriers (such as paying for work clothing or equipment, or driving lessons, etc.). However, much of the development is being driven through a patchwork of pilot initiatives. One of the most significant is 'tailored pathways', where some nineteen areas are being

encouraged to break down the existing non-employer based 'options', which have been too rigid, to allow for more individually tailored provision involving greater access to subsidised jobs. The other pilots are exploring new approaches to tackling alcohol and substance abuse, to using mentoring, through to creating wage paying 'transitional employment' projects for the 'hardest to help' (DfEE, 2001, p. 35).

A new funding model has also been introduced for the options phase of the New Deal, and for most other ES programs, which attempts to reflect the lessons learned from the output related funding models of the 1990s (where up to 80% of funds were only paid after evidence that a person had been in a job for 13 weeks). The aim is to both give providers an incentive to get an individual into a job but to also enable them to tackle underlying employment barriers. Under the model the ES pays a fixed amount for provision and providers compete on quality and projected outcomes rather than price. The unit costs have been set to reflect the expectation that only 40% of clients will achieve jobs and also an expectation of the average number of weeks a client is likely to stay on a given program. Providers receive 70% of the per capita funding as a program fee with the remainder paid on job entry. Currently none of the output element is dependent on the client remaining in work, although there are a range of pilots experimenting with payment systems linked to job retention. The ES did consider varying the funding levels according to client group, but ruled it out on the grounds that it would be overly bureaucratic and would encourage 'creaming'.

## **Welfare Reform and the 'Economically Inactive': Participation and Employment First**

At the same time that the Governments of both countries have transformed their employment assistance systems they have also been engaged in broader debates about the future of their social security systems. The unifying theme has been how to tackle the increased social, economic and financial costs that are associated with the increased numbers of working age people who are reliant on the benefit system. In Australia the Government estimated that by 2000 over 2.6 million working age people were reliant on state benefits and 60 per cent of those recipients were "not required to look for work or contribute to their communities in any way" (FACS & DEWRBS, 2001, p. 4). In Britain it was estimated that in 2000 there were still around four million working age benefit recipients in addition to the one million still on unemployment benefits (DfEE, 2001, p. 29). The vast majority were 'economically inactive', either on sickness or disability benefits (2.9 million) or lone parent benefits (900,000).

In Australia the Government initiated a broad consultative process in 1999 intended to cultivate a consensus about how to tackle these and related issues. The final report of the Reference Group on Welfare Reform (McClure Report, 2000) concluded that there was a need for radical reform and that the broad social security system should introduce new services and requirements which would promote economic and social participation. In particular the Group

proposed that a “central gateway and assessment process” should provide individualised service delivery; the benefit system should be simplified; and there should be incentives to encourage and support participation. They endorsed the mutual obligations approach but stressed that this should extend across the community, and not just be imposed on those receiving benefits.

In response the Government proposed a less ambitious program in ‘Australians Working Together’ which outlined a four year plan aimed at creating a new “balance between incentives, obligations and assistance” (FACS & DEWRSB, 2001, p.2). This has involved some marginal changes in employment assistance; a further extension of the ‘mutual obligation’ through Work for the Dole; and the introduction of new ‘participation’ requirements. Initially lone parents will be required to attend annual interviews and those whose youngest child has turned 13 will have to engage in up to six hours activity a week. Paradoxically, although Centrelink will still have little direct input into improving the employability of the unemployed it has been charged with introducing a new ‘personal adviser’ service for those working age benefit recipients who are furthest from the labour market. Amongst other initiatives this is linked with a new 45,000 place Participation Support Program (which replaces the 15,000 place CSP).

By contrast the British welfare reform debate has been directly driven by Government, and articulated in a series of Green and White Papers. The approach is unambiguously about employability, job entry and labour supply. A new 80,000 strong public sector Working Age Agency, formed through a merger of the ES and Benefits Agency, has now been given the objective of implementing an ‘employment first’ system for all those of working age who need to claim state benefits. Formerly ‘inactive’ claimants are being required to attend employment focused interviews with personal advisers who have access to ‘barrier breaking’ services including the full array of voluntary and mandatory New Deal programs. The aim of the system is to both increase the sustainable level of employment by improving the employability of more benefit claimants and placing them into work, and to change the culture of the benefits system towards independence and work rather than what has been characterised as the passive payment of cash benefits (DfEE, 2001).

## **Conclusion: Implications for the Australian Welfare to Work system**

In Australia and Britain the impetus behind broad welfare reform is irreversible and is being driven by powerful political, social and economic forces. However, while there may be a broad political consensus in both countries around general objectives there is fierce debate about ‘what works’ and about the success of their respective approaches towards the long term unemployed and other groups. Both systems have their strengths and weaknesses and it is always difficult to extract the lessons that one country specific approach may have for another. Nevertheless, the following conclusions about the Australian system seem warranted:

1. Centrelink has demonstrated that it is a high performance, innovative public sector agency. However, the Australian system needs a stronger, more direct personal and administrative connection between benefit eligibility, job search and participation in labour market programs. Centrelink may be an effective 'one stop shop' for the assessment and payment of benefits, but it plays a far less effective role in stimulating job search, in tackling employment barriers and in ensuring that unemployed people are matched with appropriate programs. These weaknesses were explored in the McClure report but the limited personal adviser service that it proposes for lone parents and others should be extended to the long term unemployed.
2. Australian automated program referral systems may be technically sophisticated and less costly, but they are not getting the message across to significant numbers of clients. Mandatory attendance at adviser interviews in Centrelink would generate the same 'shake out' effect secured through the existing system, but it could also ensure that appropriate and matched referrals were taking place, and they might reduce the excessive and too often inappropriate breaching that is being generated by the existing system. They would also reduce the 'no shows' that bedevil providers. At the same time, front line Centrelink advisers should be the focus of an organised procedure to 'follow through' and capitalise on improvements in employability that may have been secured by unemployed people who are not placed in jobs through their programs but who currently 'go back to zero' when they return to the unsupported job search regime.
3. The most basic function of an employment service is to provide access to vacancies and other labour market information. It can be argued that this is as important a contribution to the functioning of the labour market as placement services. Ideally it helps ensure both equitable access to labour market information and increased quality and efficiency in the matching process. Although most unemployed Australians can access notified vacancies through a computerised system, with access points in Centrelink offices, a large majority of the vacancies are 'semi open'. Job Matching providers usually retain the employers details, so job seekers interested in a vacancy have to register with them. This can mean physically registering with several providers, in different locations, if the job seeker wishes to pursue more than one vacancy. This can cause inconvenience, especially if the vacancy is filled, and it creates new rigidities in the labour market. It also seems perverse that unemployed people cannot access the information they need from their 'one stop' Centrelink office! It would seem more reasonable to re-integrate basic job matching and vacancy handling into the core public service agency that most benefit recipients have regular contact with. This could enhance the service that Centrelink can offer, enable it to utilise the new technologies that are transforming the job matching process, and free up Job Network members to focus on placing those who have significant employment barriers.

4. Even if Job Network providers secure more cost effective results than comparable Working Nation programs the reality is that large numbers of participants return to unemployment even when placed with the best providers. Many successful participants also move into entry level jobs but, apart from minimal follow up (principally designed to ensure that outcome payments are secured), there has been little stress on how that first job might become the route to a better job. Output related payments need to be supplemented with other mechanisms to ensure that providers place greater emphasis on improving job 'retention' strategies, to ensure that participants keep the jobs they enter; on 'progression', where skill training and follow up support can assist those who do take entry level jobs to be able to make progress to higher paid and more secure employment; and on a 'follow through' process, to get effective assistance to those who come to the end of their placements without a job. In this context it would be valuable to learn lessons from some of the high performance welfare to work 'intermediaries' that are emerging in the USA and Britain which are both client focused but also employer/ demand led (NDTFI, 1999; Pinto-Duschinsky, 2001).
5. Privatisation and competitive pressures in the Australian Job Network have reduced transparency and limited the capacity of Government and providers to share knowledge about successful practices and back to work interventions. This has been compounded by an official evaluation strategy that has been limited to the production of broad reports which have been more concerned with measured impacts than with the processes by which they have been secured.<sup>2</sup> By contrast, the British approach has been to engage independent evaluators who through case studies, interview and survey based research, have directly explored impacts and what has been taking place inside the 'black box' of actual provision, and to then use these findings to immediately inform the development of policy and practice. The knowledge of providers and practitioners, and the performance of the Australian system, would be improved by a more open and comprehensive evaluation strategy. A complementary, or alternative, approach would be to adapt something like the competitive British New Deal Innovation Funds which act as a stimulus to providers to test local innovation and to make the results publicly available to all providers.
6. Both the UK and Australia have stressed the significant role that will have to be played by broad partnerships if the rhetoric of welfare reform is to be translated into effective action and the emerging system be able to coordinate and deliver the range and depth of services needed to tackle the employment barriers of the most disadvantaged. Yet the Australian employment assistance and participation system is competitive and fragmented, partnership arrangements are weak, and there are few linkages between federal and state programs. Stronger local partnerships are needed, especially in areas of

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2 The Australian Government published the first of three proposed evaluation reports on the performance of the Job Network in May 2000. The second was released in June 2001. The third report, examining the broader effectiveness of the Network in securing sustainable employment - the only one which will be 'independent' and not produced 'in house' - has yet to be commissioned. It is likely to be published in mid-2002, after the 2001 federal election.

highest unemployment, to both 'join up' existing multiple local interventions, create synergies and avoid duplication.

7. The emerging Australian system is sending mixed messages to the unemployed and those working with them. The combination of selective employment assistance, comprehensive participation focused mutual obligation requirements, and various exemptions and exclusions, is creating a confusing and complex hybrid, especially for the younger long term unemployed. The British New Deal approach offers no simple 'off the shelf' solution, but the progress made with the program for young people does illustrate some of the gains that can come from a more comprehensive and coordinated approach. The NDYP also shows that mandatory programs can have strong client and provider support if delivered in the right way and if seen to be offering genuine choice and employment opportunities. It may not be a revolution but simply introducing front line employment advisers in Centrelink and systematically 'joining up' existing job search, employment assistance, Work for the Dole and training programs into a comprehensive job focused system could start to deliver something like a New Deal for long term unemployed Australians.

Finally, employment programs and benefit regimes matter. Whether it be the inclusive, citizenship based, New Deal model, or the selective assistance of the Job Network, the principle of helping those at a disadvantage in the labour market is relevant at all stages of the economic cycle. In most areas the labour market is not static and even at the lowest point of recent recessions most people who become unemployed still leave unemployment quickly. The task is to ensure that **all** those who become detached for longer periods are given effective assistance so that they are not excluded from the opportunities that do arise especially when economic growth generates new opportunities. That is the challenge that must be met more effectively by the emerging Australian 'welfare to work' system.

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