Telling Tales from Abroad: Australia, the Netherlands and the welfare-to-work proposals in the UK

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Abstract
Welfare-to-work schemes operate through two main channels: they monitor compliance with work-related conditions for receiving benefits, and they support people into work with job search assistance and training. This article examines how the privatisation of employment service provision affects the balance between compliance and support. It is suggested that private providers working under contracts which reward employment results have little incentive to monitor compliance. This hypothesis is supported by evidence from Australia, where contracts with providers now spell out monitoring procedures and do not heavily reward results. In the Netherlands, approaches to private contracting differ between the social insurance system (which is more oriented to results than compliance) and the social assistance system, where the municipalities are strongly compliance-oriented. The implication is that privatisation does not necessarily contribute towards enforcing benefit recipients’ compliance with work-focused activity conditions.

Introduction
The headline measure in the government’s recent White Paper on welfare reform (Department for Work and Pensions (DWP), 2008) was that virtually all working age social security benefit recipients, including those not currently subject to ‘activity’ requirements, will be brought into the ‘work-focused’ regime. Among the secondary announcements, the government declared that the use of private and voluntary providers will be developed and extended. The bracketing of intensification of work requirements and extension of private provision is one that seems, at first sight, quite natural. For supporters, the private sector is a source of the innovative measures that can ensure that employment service provision reaches groups which the current public provider, Jobcentre Plus (JCP), fails to cater for. For critics, conditionality and privatisation are all of a piece in right-wing liberal, market-oriented thinking. The image of a ‘chain of contract’ (Jayasuriya, 2002, p 309) captures a process in which conditionality is imposed on benefit recipients in a pseudo-contractual exchange of ‘rights and responsibilities’, while the relationship between service providers and the state also takes the form of a contract, with the provider subject to performance measures and targets in exchange for funding.

However, a close reading of the White Paper suggests that the government itself does not believe that there is a natural relationship between private employment service provision and the implementation of the single work-focused regime. Its statements about private provision are vague and ambiguous. Privatisation is linked to ‘invest-to-save’ funding, a mechanism whereby anticipated benefit savings can be directed towards extending service provision. These extensions may be needed if an overstretched JCP is to conduct the interviews and deliver agreed services to the new cohorts of claimants. But neither of the two reports which the government has drawn on, by David Freud (2007) and Paul Gregg (2008), lend credence to the existence of a...
‘chain of contract’. The Freud report was strongly in favour of extending private provision by using highly-incentivised contracts in which providers would be paid for employment ‘results’, but it attached little importance to the policing of extended participation requirements in the single benefits regime. The focus of the Gregg report, by contrast, was on how contracts with benefit recipients could be used to strengthen the compliance structure and extend the role of sanctions; however Gregg was uninterested in private provision and indeed put forward a model of how JCP might get access to invest-to-save funding.

This article seeks to explain why there is no straightforward chain of contract linking work-focused conditionality and privatisation. It does this by looking at the two leading country cases that Freud and Gregg (among others) have drawn on in the study of privatised employment service provision: Australia and the Netherlands. Australia has operated a rigorous regime of benefit conditionality (now in the process of being eased by the new Labor government) called ‘Mutual Obligation’. It has also privatised employment service provision, including the basic placement functions retained by JCP. Freud refers to Australia in the course of spelling out his proposal that private providers should be given contracts with strong incentives to place people in work. These ‘black box’ contracts would not specify the procedures that would be followed: the extent of contact, frequency of interviews, and so on, as they would be concerned with outcome and not process. However, a decade of evolution in the Australian contracting regime has seen the virtual disappearance of ‘black box’ contracts. This is an indicator of the tension between conditionality and privatisation, as is explained further below.

Australia is not referred to in the White Paper, while the Gregg report is critical of the ‘Work for the Dole’ (WfD) scheme that is at the heart of Mutual Obligation. Instead, Gregg proposes the Netherlands as a better model, and the White Paper fleetingly picks this up. But the Dutch case also suggests that privatisation and conditionality do not go together. To put it simply, rigorous conditionality operates in one part of the Dutch system (social assistance), while privatisation has been more important in another (social insurance). The stringency of social assistance conditionality arises because municipalities are responsible for paying social assistance benefits from fixed budgets. Their status as public authorities allows the municipalities to intensify their efforts in compliance policing and reap the rewards in benefit savings. The lesson from the Netherlands is that the greater threat to welfare rights comes from hard-pressed local governments, not from private provision of employment services.

The chain of contract
This section outlines the reasons why some commentators have argued that conditionality and privatisation are linked, and seeks to explain why these links are actually rather weak. The first link in the chain of contract is the relationship between benefit recipients and the administering authority. The formulation of the relationship as a contractual rather than an administrative relationship can be more than a rhetorical change. In the administrative relationship, the requirements for maintaining eligibility for benefits are set down in rules and guidance. For example, a person may be required to actively seek work, and guidance to advisers may indicate what level of job search is taken to constitute active seeking and what evidence is required. A trivial form of contractualisation is to require the benefit recipient to ‘agree’ to the administrative rules, but less trivial possibilities exist. The adviser may propose more
specific actions such as attending a training course. If the recipient agrees to the proposal, he or she may then be bound to comply. In this way, the contract may become the basis for a more stringent enforcement of behavioural requirements than is possible under administrative arrangements.

Equally, the contract could be adjusted for individual circumstances in ways which make it less burdensome than administrative rules. It is this flexibility about the content of the contract which makes contractualisation attractive for the government as it moves towards a single benefit system. Contracts allow compliance to be tailored to individual circumstances, instead of forcing the government to determine participation rules for the groups of lone parents and disabled people now being brought into the work-oriented regime. For its critics, the innocuous invocation of flexibility conceals serious threats to claimants’ rights, as claimants may agree to burdensome contracts without the safeguards of public scrutiny and debate which restrain administratively-implemented behavioural requirements. For its advocates, flexible contracts can be a way of committing providers to deliver services that claimants want, instead of following routine and demoralising administrative scripts. As Freedland and King (2003, p 468) note, a paradox of contracting is that claimants are empowered as consumers of public services even as they are made to commit to meeting their ‘responsibilities’ to society.

Freedland and King outline two main sets of reasons why welfare contracts are unlikely to respect the liberal values of consent and freedom of choice. The ‘macro’ political environment may create a ‘moralistic, populist and censorious political discourse’ which legitimises illiberal contracts; at the micro level this environment produces a ‘missionary zeal’ for reforming participants’ behaviour. They highlight in particular the incentives of officials to abuse their authority where there are performance management systems and ‘efficiency targets, such as reducing the caseload number’ (Freedland and King, 2003, p 471).

This suggests that the terms of contracts between welfare service providers and claimants will depend on the terms of the contracts between providers and the state. The central intuition is that, if providers are strongly incentivised to achieve ‘results’, they will negotiate tough contracts which put a lot of pressure on benefit recipients to return to work. Providers with strong performance incentives may pressure people to leave benefits, or apply sanctions, while escaping the forms of administrative accountability that are meant to ensure that public bodies treat benefit claimants fairly and consistently (Freedland and King, 2003, p 471). While this risk arises from performance incentives in the public as well as the private sector, it might be thought to be greater in the latter, given that private providers will be more incentive-oriented and less restrained by administrative hierarchies.

This linkage in the ‘chain of contract’ might be broken in two main ways. First, private providers of employment services might not be involved in negotiating the contract with the benefit recipient, and they may not be authorised to judge whether a breach has occurred. Second, the incentive structure of providers may reward ‘results’, in the form of placement in employment, rather than the number of breaches detected or the provision of information about participation failures. The following discussion of Australia and the Netherlands shows that both of these breaks are usually present. Public officials retain the power to decide on benefit sanctions and
private providers are incentivised to get people into employment, rather than just off benefits. Given that tighter benefit policing often results in transitions off benefit which are not accompanied by entry into (recorded) employment, this is an important distinction.

The private sector focus on employment results rather than compliance can lead to a version of cream-skimming known as ‘parking’ (Dockery and Stromback, 2001). Highly-incentivised providers will aim to allocate effort over those referred to them for services in ways which achieve the best results in terms of job placement, and this leads them to ‘park’ or spend little time with unwilling customers. This reduces the effectiveness of the welfare-to-work system in enforcing compliance with benefit rules.

There is one situation where the chain of contract might operate strongly to the detriment of claimants’ rights. If a provider was given a fixed budget out of which to pay benefits and deliver services, there would be a strong incentive to negotiate an intensive contract and ‘create’ breaches. The contracts for Employment Zones (EZs) in the UK do combine the budgets for benefits and services, as contractors are charged with the cost of benefits for up to 26 weeks of the EZ contract, while being allocated funding for 21 weeks, so that they make a profit if they place claimants before 21 weeks are up (Griffiths and Durkin, 2007, p 17). There has been concern about the apparent incentive to ‘breach’ participants, but there are safeguards (Minister for Work, 2004). While contractors may suspend claimants for nonattendance, any benefit sanctions are decided on by JCP.

**Don’t mention Australia**

The main Australian welfare-to-work programme dates from the advent to power of a right-wing Coalition government in 1996. It introduced a ‘work for the dole’ (WfD) scheme as part of a programme of ‘Mutual Obligation’. The standard obligation on claimants under 40, once they had been unemployed for six months, was to work for 30 hours a fortnight for six months; older workers had a reduced obligation or could participate voluntarily. A small group of ‘very long term unemployed’ assessed as ‘demonstrating a pattern of work avoidance’ had more onerous obligations. Claimants who failed to meet their Obligation could have a ‘participation failure’ applied by the benefits administration, Centrelink. All these requirements and practices are under review and are being eased by the Labor government elected at the end of 2007 (Finn, 2008; Saunders, 2008).

The key to understanding how the Australian example has been drawn on in the UK policy debate is to draw a distinction between the two main sets of provisions: community work provision under WfD and provision of reintegration and placement services. Neither Gregg nor Freud was enthusiastic about WfD, because of its limited effect on participants’ prospects of employment (Gregg, 2008, p 88; Freud, 2007, p 91). But Freud was positive about the ‘innovative approaches’ which contracts with private providers in Australia had brought into employment service provision, where there is more extensive contracting-out than in the UK. In the mid-1990s, the Commonwealth Employment Service (CES) was disbanded and the majority of placement as well as reintegration services contracted-out to ‘Job Network’ (JN) agencies. The remaining claims-handling functions of the CES were merged with those of the then Department of Social Security to create a single agency to receive
and assess claims, Centrelink. Centrelink also serves as the purchaser of employment services: it assesses the needs of claimants and refers them to JN agencies for placement, job search training or Intensive Assistance. These agencies also have contracts to provide WfD places.

In the early years of contracting-out, there were significant contrasts between the contracting arrangements for WfD on one hand and placement and training services on the other. For those referred to Intensive Assistance in particular, the fee structure was heavily weighted towards results (placement in employment). The Intensive Assistance contracts were, therefore, the most strongly geared towards incentivising providers and permitting innovation (Dockery and Stromback, 2001, p 437). By contrast, WfD places were financed on a payment for services basis, partly according to standard costs and partly on a cost reimbursement basis (ANAO, 2007, p 76). It is not surprising that there are no elements of payment-by-results in WfD, as the scheme is not really focused on employment ‘results’. Official Australian government sources state that ‘Mutual Obligation is about you giving something back to the community which supports you.’ As Saunders (a supporter of Mutual Obligation) explains, its main impact has come ‘not through “helping” people get work, but through “hassling” them to leave welfare’ (Saunders, 2008, p 10). The impact of hassle or ‘compliance effects’ is estimated to be about three times greater than placement or training ‘programme effects’.

Because of the importance of ensuring that benefit recipients work the required number of hours to discharge their obligation, WfD contracts required providers to comply with the procedures necessary to generate information about ‘participation failures’ for benefit administration. This has been a contentious business. Saunders (2008) documents the campaigns conducted by voluntary and charitable organisations against the sanctions regime. Many of these organisations were involved as JN providers, and evidence from the early years of this decade suggests that they were less likely to report participation failures than their private counterparts. Subsequently, contractual obligations to report were tightened, culminating in 2006-07 in the reporting of more than half a million participation failures to Centrelink.

Contracts for training and placement services were also affected by this move towards tighter procedural requirements. In particular, Intensive Assistance was replaced with ‘Intensive Support customised assistance’ (ISca), which required fortnightly contacts between provider and participant, and a minimum requirement of three days a week ‘activity’ for three months during the contract period (Finn, 2008, p 16). In brief, process requirements were introduced into what had been a ‘black box’ outcome-oriented contract. All contracts were monitored against indicators such as the frequency of contact between provider and participant and the ratio of case managers to participants. Reporting requirements were extended, provoking complaints from providers about the time taken to meet administrative requirements. The Australian National Audit Office (ANAO) has drawn attention to the time that the coordinators who arrange WfD places spend complying with reporting requirements (40% spent more than half their time on this), and noted that the requirements had increased through time, with higher levels of provider dissatisfaction with the most recent round of requirements (ANAO, 2007, paras 8.18, 8.19). Perhaps the most vivid indicator of how the private sector has been drawn into public sector procedures is the adoption of a mandatory IT system which enables Centrelink and the Department of Employment...
to exchange information, monitor caseloads and disseminate guidance to providers (Finn, 2008, p 17).

In summary, Australia no longer operates ‘black box’ contracts with a weighting towards payment by results. The reasons stem from the dominance of compliance issues in the administration of Australian welfare-to-work. Under ‘black box’ contracts, it was possible for providers to ‘park’ hard-to-place participants, maintaining minimal contact and not investing effort in trying to get them jobs. Parking is efficient in ensuring that resources are directed to those who are most likely to get into employment, but it also means that compliance information is not generated.

**Dutch cure or Dutch disease?**

As the Australian experiment with privatisation has lost its appeal, attention has turned to the Netherlands as an alternative example of how to involve the private sector in the provision of employment services. At first sight, the Dutch case offers promising comparisons with the UK. Arrangements for receiving initial claims for benefit and offering basic placement services are broadly similar: ‘Centres for Work and Income’ (CWIs) receive initial claims and contracting-out does not take place for those expected to be unemployed for six months or less. Among those with long durations out of work, disability benefit recipients dominate: indeed, the Netherlands is striking for its high levels of disability benefit receipt. Thus it is not surprising that UK officials turned to the Netherlands for ideas about how to involve the private sector in getting people on incapacity benefits back to work. Highlighted in particular in the Gregg report are the processes for negotiating ‘action plans’ with benefit recipients (Gregg, 2008, p 40). The plan may be to participate in a provider’s scheme or ‘trajectory’, or it may involve the negotiation of an Individual Reintegration Agreement (IRO in the Dutch abbreviation). Either way, the action plan potentially provides the basis for monitoring compliance.

It is very hard to get a sense of how stringent these contracts are and how they are enforced, but there are some signs that they have worked to empower claimants as consumers of public services rather than generating compliance effects. Since their introduction in 2004, IROs have been popular with benefit claimants and have been supported by the CG Raad (the national association for chronically sick and disabled people), particularly after it won concessions from the government. The association lobbied successfully for claimants to have access to independent advice on choosing a reintegration service provider. The argument for claimant choice has been supported by evidence of poor performance by some providers: choice is portrayed as an instrument to improve standards, although Struyven and Steurs (2003, p 35) cite arguments that benefit recipients who are better off out of work have an incentive to choose the worst performing provider.

One concession won by CG Raad in discussions with the government was that providers of services to more severely disabled people would have a lower gearing to employment ‘results’ than the standard 50:50 weighting between service delivery and outcomes. Some contracts have an 80:20 weighting as a result of this intervention (CG Raad 2004). This suggests that ‘parking’ was seen as a problem by some claimant-participants, as a provider who did not foresee a positive outcome might fail to deliver on their side of the IRO.
This is not to say that all is sweetness and light for the Netherlands’ 800,000 recipients of income maintenance disability benefits. There has been considerable conflict around initiatives to reassess the work readiness of claimants of the main disability benefit, WAO. A succession of changes to rules and practices in the assessment of disability have been adopted to try to reduce the numbers on benefit. However, the controversy over the conduct of WAO reassessments is about the control exercised by the standard administrative process of applying a disability assessment instrument, rather than through contracting.

The Dutch benefit system has a clear structural distinction between social insurance and social assistance. In the social assistance system, administered by the municipalities, there have been two different lines of reform. The first line paralleled the social insurance initiatives. Municipalities were given earmarked funds for the procurement of reintegration services and, from 2001 they were required to procure 70% of these services from private providers. They could also negotiate IROs. These measures were, however, overshadowed by the second line of reform. Benefit financing arrangements were changed so that municipalities met a higher share of social assistance (ABW, later WWB) costs. This share was increased from 10% to 25% in 2001 and in 2004 the municipal share of marginal costs moved to 100% with the adoption of block grant financing. This reform was intended to give municipalities stronger incentives to ‘activate’ claimants and counteract a tendency towards increased exemption from work-seeking, particularly for lone mothers (Knijn et al, 2007, p 645).

The two reforms might be thought to go together, in that the financing changes gave the municipalities a financial incentive to procure effective reintegration services from the private sector. However, the municipalities lobbied against the contracting-out requirement, and in 2006 it was dropped. It has also been found that, where municipalities do contract-out, they make little use of payment-by-results (Tergeist and Grubb, 2006, pp 17, 47). This is consistent with problems of parking and undersupply of information about participation failures by private contractors with highly-gearcd incentive contracts.

At the same time, there is evidence of a tightening of conditionality, especially since 2004. McGonigal and van Paridon (2008) examine the changes in administration that occurred in Rotterdam and The Hague between 2003 and 2006. They found an increased emphasis on administrative measures to reduce fraud, leading in particular to the denial of more claims at the initiation stage. In Rotterdam, new claimants were visited, whereas previously initial claims handling had been left to the CWI. In the Hague, there was a significant increase in the proportion of initial claims being denied. They suggest that the focus of administration had shifted, from helping people to find jobs to reducing the numbers dependent on social assistance (Mc Gonigal and van Paridon, 2008, pp 11, 16).

These findings suggest that the adoption of a block grant system that places the full marginal cost of claims on the municipalities has been central to the intensification of benefit policing. This contrasts with the situation in the insurance system, where the administering agency (UWV) has no direct financial interest in sanctioning claimants (Struyven and Steurs, 2003, p 22). Reintegration contracts also operate differently in
the insurance and assistance systems: there is little sign that reintegration contracts have provided scope for the exercise of ‘consumer power’ by claimants at the municipal level (Finn, 2008, p 36).

Conclusion
The evidence from Australia and the Netherlands casts some doubt on the use of contracts to tighten behavioural requirements on benefit claimants, and even more doubt on whether private sector provision of employment services could play a significant role in that tightening. Australia has imposed rigorous conditionality on claimants. The resources to operate this system are purchased from the private sector, but privatisation has not facilitated compliance. Providers do not have strong incentives to report noncompliance and are instead bound to do so by contract terms which require costly monitoring. Furthermore, the involvement of some voluntary sector providers has increased political contestation over the Mutual Obligation requirements. In this particular example, privatisation has arguably increased public scrutiny of benefit policing, despite the efforts of the state purchaser to suppress this with gagging clauses (Finn, 2008, p 44).

Evidence of coercion through contracts in the Netherlands is also quite limited. Experience with IROs suggests that individual contracts may provide a way for benefit recipients to obtain services they want. However, the Netherlands also provides an example of a system where incentives to cut benefit payments have the potential to impinge seriously on claimants’ rights. Since 2004, Dutch municipalities have met their social assistance benefit expenditure out of a block grant. Savings can be used for any municipal purpose. The available evidence suggests that the municipalities have greatly increased the stringency of their administration, although from the starting point of a weakly-regulated system with a high proportion of suspect claims. Each municipality adopts its own policies, making it difficult both to generalise about practices and to monitor them. Private provision is not directly implicated in the intensification of benefit policing in Dutch municipalities; indeed, the municipalities have campaigned to be allowed to keep service provision in-house and, when they do contract out, they make little use of (employment) results-based contracts. This is consistent with a strong compliance-orientation, in which the principal concern is to get people off benefits (or indeed to prevent them starting a claim), rather than ensuring that they enter employment.

The importance of budgetary arrangements in this example suggests that financial innovations such as ‘invest to save’ in the UK welfare-to-work proposals deserve close scrutiny. We have been told little about how the Treasury’s long-standing scepticism about shifting benefit cash into service provision has been overcome, but the key condition appears to be that providers must take the risk of payment by (employment) results. Critics of performance-related contracting fear that a private provider might ‘push’ people into work, in particular into low-skilled jobs. This fear has been heightened by the involvement of private employment agencies as providers, as they have been important institutions in the casualisation of employment and the spread of temporary work. There is some evidence to support these concerns (Gray, 2002), but this paper has argued that more serious problems with benefit conditionality and welfare rights lie in the use of mandatory participation requirements to produce breaches and sanctions. ‘Invest to save’ does not provide incentives for imposing such requirements. Indeed, we might not hear much more
about this financial innovation, since rising unemployment will render it unattractive. Increasingly, available jobs will be snapped up by ‘work-ready’ people who attract low performance payments.

This paper suggests that the ‘chain of contract’ is not an illuminating image. We need to look at the triangular relationship between state financing and purchasing authorities, private providers and benefit recipients. In Australia, the state dominates on two sides of the triangle. It binds benefit recipients to contracts which are ‘illiberal’ in the sense that they present administrative requirements in pseudo-contractual form, and it closely regulates the way that private providers implement their contracts. The relationship created by privatisation between benefit recipients and providers seems, if anything, to be a check against illiberality, with some voluntary sector providers speaking up for the participants on their programmes. The source of illiberality lies firmly in the political domain: there has been no circumspection or lack of accountability in the Australian system, just an adverse political environment for people on benefits.

In the Netherlands, there are different triangular relationships in the two parts of the system, with social assistance recipients faring worse than those on social insurance. Again, we could simply say that this reflects a political environment in which assistance recipients are seen as less deserving, and it was ever thus. There is an institutional dimension to this, but budgeting, not privatisation, is at the heart of municipal illiberality. The weaknesses in accountability lie in the exercise of authority by public bodies which receive little political attention, their very numbers (there are 443 municipalities) sheltering them from scrutiny. The implication is that financially-constrained public authorities may have a stronger incentive to enforce ‘illiberal contracts’ than private providers, and that checks and balances to restrain this may be lacking in the public as in the private sector.

Note

References


