
REPORT

WELFARE TO WORK DEVOLUTION IN ENGLAND

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This report reviews policy developments and evidence on the devolution of welfare to work policies in Britain, Canada, the USA, the Netherlands and Germany, and analyses proposals for further devolution in England.

Welfare to work devolution could play a critical role in the translation of growth-related increased economic activity into improved jobs and incomes for poorer residents in disadvantaged areas.

The report finds that:

- In other countries, the devolution of welfare to work spurred local actors to integrate the delivery of employment, training and other services and to improve performance.
- Devolution of the Work Programme (WP) and other welfare to work services should be tailored to local governance capacity and should be an explicit aim of City and Growth Deals, rather than a tacit local objective.
- There should be further devolution of the working relationship between Jobcentres and local government and more coherent partnership agreements to help facilitate integrated service delivery.
- Central accountability and greater local control can be aligned through negotiated agreements, performance reporting systems, and the incentives and sanctions embedded in conditional central funding such as block grants and black box contracts.
- Variation in service delivery should be accommodated but welfare to work devolution must be underpinned by transparent national minimum standards, especially where participation is mandatory.
- Performance requirements should help shape devolution in ways that are likely to contribute to poverty reduction, and future welfare to work provision should reward job entry, retention and progression rather than only caseload reduction.

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EXECUTIVE SUMMARY

This report considers the devolution of welfare to work policies in Britain and in selected comparator countries and reviews proposals for further devolution in England.

The governance of the British welfare to work system is highly centralised and, in comparative terms, the benefits, employment services and skills system is characterised by prescriptive national programmes and administrative processes. Despite some variation in Northern Ireland, Scotland and Wales, UK ministers and senior civil servants in Whitehall continue to control the main levers of welfare to work policy and, in contrast to most other Organisation for Economic Co-operation and Development (OECD) countries, local government plays only a limited role.

There has been much criticism of these institutional arrangements, the fragmentation of public sector delivery, and the lack of flexibility and devolution in the welfare to work system. Such criticisms have suggested that greater local control and flexibility would enable local government and/or employer-led partnerships to improve policy effectiveness, increase value for money and better adapt 'mainstream' policies, especially the Work Programme, to local conditions.

Central control and local delivery of British welfare to work programmes

Central control of the welfare to work system has been tempered by successive efforts by British governments to better align strong national departmental control with different types of local flexibility and partnership working. Successive reforms to governance and funding arrangements included the introduction of early area advisory bodies in 1983, their replacement by devolved employer-led Training and Enterprise Councils (TECs), and subsequent efforts to secure improved co-ordination of welfare to work programmes with other local provision through varied forms of multi-agency partnerships. The reforms aimed, to a greater or lesser extent, to encourage different public agencies and employers, especially local authorities and Jobcentre Plus, to develop joint plans, align budgets, and tackle unemployment and worklessness.

The policy experiences from these periods reveal tensions at the heart of localising welfare to work policies. It is contended that centrally prescribed programmes and contracts have continued to restrict the capacity of providers and partners to tailor service delivery to local circumstances and priorities. Explicit devolution reforms and more or less complex pilots offering greater flexibility often have been short-lived. The case for greater devolution has increased, however, because of the limited success of mainstream welfare to work provision, the scale and complexity of tackling worklessness, public expenditure cuts, and the pivotal contribution that integrated employment and skills provision can make to economic growth and to enabling local residents access to better-quality employment. At the same time, the significance of local government involvement has increased, reflecting its role in delivering employment, skills and related services and in economic development and area regeneration. Local government involvement gives greater legitimacy to often controversial national welfare to work programmes and may provide greater insight into how to tailor services to the needs and views of local communities.

The Coalition Government and welfare to work devolution

The approach of the Coalition Government to welfare to work devolution has been mixed. Growth Deals, City Deals and Community Budgets are innovations in the empowerment of Local Enterprise Partnerships (LEPs) and local authorities to analyse their areas, identify priorities and develop approaches with the potential to better co-ordinate fragmented employment and skills services, and improve outcomes and cost effectiveness. In practice, however, such negotiated deals represent a comparatively weak type of devolution, with critics noting that local stakeholders must ‘prove’ each of their propositions in a series of bilateral negotiations with individual departments and agencies while government retains the preponderance of powers, resources, flexibilities and influence. Implementation has barely started and it remains to be seen whether the highly conditional commitments given by ministers, the Department of Work and Pensions (DWP) and other central government departments, translate into more flexible and targeted front-line service delivery.

A narrow approach to devolution appears particularly strong within the DWP, which has continued a strong ‘centralised’ approach to localism. Local flexibility given to Jobcentres and co-operation with LEPs has been organised in ways designed to secure national departmental targets and meet what DWP regards as its distinctive accountability for public funds. More extensive flexibility has been extended only through national black box payment-by-results programmes delivered by prime providers. Ministers and Whitehall appear reluctant to relax control and there appears to be scepticism about the capacity of local agencies to design employment services and commission them in ways that are transparent, avoid high transaction costs and improve employment outcomes. The DWP is concerned in particular that national ‘work first’ priorities should not be undermined by divergent local interests and/or capabilities and this has constrained local integration and partnership working. Flexibility is intended to complement mainstream services, and joint working largely concerns provision for those workless people who are not covered or are poorly served by mainstream programmes.

Welfare to work devolution in other countries

This report reviews experience from other countries where there has been a strong trend towards the decentralisation of welfare to work provision alongside the development of ‘work first’ systems intended to assist benefit claimants into jobs. It considers devolution reforms in four countries cited frequently in recent UK literature – Canada, the USA, the Netherlands and Germany – where different approaches have driven inter-institutional collaboration, especially between the Public Employment Service (PES) and lower tiers of government. Decentralisation reforms have been associated with other public management trends, and in each of the countries there has been significant national and local change in contracting out important aspects of the system, including case management, employment support and skills services and, in some US states, eligibility determination. The new systems have also seen increased reliance on performance management for ensuring accountability in decentralised and privatised systems. Each case study gives insight into policy design, funding frameworks and performance management, and considers findings on the impact of devolution reforms on the delivery and integration of front-line services.

It is difficult to disentangle particular impacts of governance reforms, but evaluations suggest that in the comparator countries devolution acted as the catalyst around which lower tiers of government and local actors sought to integrate the delivery of employment, training and other services. The process of integration required significant investment of time and resources, at least initially, with a sharp and continuous learning curve for administrators and providers. Over time, however, evidence suggests well-managed devolution improved performance, encouraged innovation and enabled local actors to design and provide services better tailored to the needs of local communities and employers.

Proposals for further welfare to work devolution in England

In the past two years, there has been a plethora of reports from local government organisations, think tanks and some academics outlining a diverse range of proposals for further welfare to work devolution. Many of the proposed reforms, especially from local government stakeholders, are focused on future devolution of the Work Programme, but some think tanks and other organisations propose also that, apart from benefit administration and claimant profiling, all employment services provision should be contracted out, as occurs in Australia. A few voices have called explicitly for Jobcentre privatisation and for lower tiers of government to be able to vary benefit conditionality and set differential benefit rates.

The proposals from local government stakeholders typically suggest that some or all DWP employment programmes and national skills programmes be devolved and commissioned on the basis of LEP boundaries or those of combined local authorities. This would have several advantages. It would facilitate ‘pooling’ of fragmented budgets and data sharing. It would align provision with functional economic areas promoting connections between welfare to work services and local growth strategies, facilitating partnership working with local government, skills and other service providers. For DWP programmes, the increase in the number of areas and the reduction in the size of contracts also would open up the mainstream welfare to work delivery market to a potentially more diverse group of providers.

The Conservative and Liberal Democrat Parties have not yet made their position clear but the Labour Party has committed, if elected, to devolve the WP and skills budgets to LEPs and city-county regions. Any such devolution will overlap with more co-working between local government and Jobcentres as they implement Universal Credit (UC)-related employment-focused local support services.

The challenges and opportunities associated with welfare to work devolution

Service delivery improvements may be achieved in decentralised settings but the success of welfare to work devolution relies on managing critical challenges.

The first issue concerns accountability. Welfare to work policies have national significance, and central government is accountable for setting priorities, providing resources and managing unemployment and welfare caseloads. National objectives often are the basis for negotiated agreements and targets with lower tiers of government and, as in the USA or Canada, may be monitored and managed through performance reporting systems; central or regional scrutiny and evaluation; and the incentives and sanctions embedded in conditional central funding. Such mechanisms are important to mitigate the potential for misaligned or conflicting incentives, especially the risk that in multi-tiered policy systems some levels may have strong incentives to shift costs and resist central reform.

The design of funding and performance reporting mechanisms is critical for accountability. Funding proposals for devolving welfare to work services in England vary. Most suggest that where local councils and partnerships become responsible for particular claimant groups, especially the most disadvantaged, they should offer higher performance and, by investing some of their own resources, assume greater financial risk for service delivery. The most radical propose that, in return, local areas would receive a share of the central benefit expenditure saved. Such an approach is analogous to block grant and black box funding, which give lower tiers of government or providers flexibility and incentives to increase efficiency, and have been associated with reduced welfare caseloads. In contrast to Canada and the USA, the block grant model in the Netherlands illustrates how devolution, local flexibility and caseload reductions may be secured while retaining strong national benefit entitlements. Other mechanisms – such as the maintenance of effort requirement in USA welfare funding – may also counter local pressures to reduce provision and ensure that central funding is not simply used to substitute for existing investment.

National funding systems and performance requirements may also help shape delivery in ways more likely to contribute to poverty reduction by, for example, focusing on the quality as well as the duration of the employment gained as in the earnings and hours measures tracked in the US workforce development system.

A further issue concerns the potential for fragmentation and the development of more effective ways of securing local co-operation. The Community Budget approach, if implemented, may meet the need for greater flexibility in national departmental performance and budgetary frameworks. This should help foster co-operation among a range of relevant actors providing training, social and health services, local economic development and employment. One significant outcome should be improved service delivery through co-ordination and/or co-location.

Little attention has been given to devolution of the Jobcentre network even though it remains the dominant provider of local welfare to work services. The role of Jobcentres is changing rapidly but there are marked variations in how DWP districts and individual Jobcentres engage with partnerships, councils and contracted providers. The development of UC-related local support services requires greater partnership working by Jobcentres, and local authorities are likely to seek better integration of employment and benefits advice services. Greater devolution of how Jobcentres work with local government is required and more coherent partnership agreements would help facilitate integrated and locally accountable service delivery.

A further challenge concerns differential management and delivery capacity. Designing devolution must consider the personnel; organisational and fiscal capabilities of local authorities; and, at least initially, the centre should facilitate capacity building, evaluation and transfer of best practice. The differential Canadian approach to Labour Market Agreements (LMAs) and the US use of state-based waivers, allowed provincial and state governments to negotiate different levels of responsibility and to test, evaluate and develop new approaches to local design and delivery before moving to fuller devolution.

Devolution proposals for England recognise that local administrative and governance capacity varies, and proponents typically suggest a staged approach to reform which would offer local partnerships different levels of devolution according to their appetite for change and their capacity to deliver and to assume risk. Such a differentiated and experimental approach should be an explicit national policy for City and Growth Deals, rather than a tacit local objective, thereby helping to establish a clearer pathway for the further devolution of welfare to work policies in England.

A final challenge concerns equity. There is a potential conflict between the norm of equal treatment and the devolution of employment services and benefit entitlements. This has emerged in the UK with the patchwork of varied support systems that local authorities have established in place of Council Tax Benefit and local emergency welfare assistance. The key issue in publicly and privately delivered welfare to work services is the extent to which variety can be accommodated while ensuring common or minimum service standards for eligible participants. There also should be some regulatory oversight for ensuring that local services promote job entry, retention and progression rather than simple caseload reduction.

Equity concerns also should be reflected in the design of the budgetary mechanisms through which national resources are allocated to and targeted at local areas and should be commensurate with levels of unemployment and disadvantage, including poverty rates. The lessons from welfare to work devolution in the comparator countries (and from UK experience) highlight the importance of budgetary systems that balance performance-related incentives and sanctions with the necessity for maintaining investment in and provision of support for service users, especially in areas with weak labour markets. Funding formulas need to protect against abrupt changes in local allocations, militate against any 'race to the bottom' and provide for the impact of 'economic shocks'.

1 INTRODUCTION

In the past three decades the British welfare state has changed radically. Recent governments have shared a common aim to create a ‘work first’ benefit regime with policies that ‘make work pay’.

The rights and responsibilities of most working-age adults receiving out-of-work benefits have been redefined and work-related conditionality has been extended to cover a more diverse group of claimants, including lone parents, partners and people with disabilities and/or health-related problems. Welfare to work policies have been coupled with organisational reforms that have greatly altered the national agencies and contracted service providers responsible for delivering and administering cash benefits and employment services.

Welfare to work reform is linked to the parallel debate on how the benefits of economic growth could be more evenly distributed. New institutional arrangements have been introduced to drive local growth strategies, especially in England, where a national network of some 39 employer-led partnerships has been established. It is not yet clear, however, how Local Enterprise Partnerships, and related City Deals and Growth Deals, will align with mainstream welfare to work policies or how greater economic growth will contribute to poverty reduction.

Welfare to work policies will play a critical role in the translation of growth-related increased economic activity into employment, incomes and opportunities for poorer residents in disadvantaged areas. The poverty-reduction effects of growth strategies will depend on two key factors. The first concerns the quality of employment created, including the level of work-related income paid, the hours and conditions of work, and the duration of jobs. The second concerns the effectiveness of the welfare to work, employment and training measures in place to ensure that poor residents have the opportunity to prepare for, obtain and retain jobs and to make income progression once they have obtained employment. Comparative studies suggest that greater flexibility and control of services would enable local actors to better tackle the problems associated with low productivity jobs and in-work poverty and develop more effective provision for groups with more complex disadvantages (Froy, *et al.*, 2011; Froy and Giguère, 2010; Potter, 2008).

Despite reforms, the British welfare to work policy and delivery system remain some of the most centralised in the OECD (Mosley, 2012; Weishaupt, 2011). In the absence of a written constitution and fewer restraints on the executive, the government has an enhanced capacity to redesign benefits and programmes, create organisations and mould institutions to meet its policy objectives. The design and delivery of cash benefits for all British citizens is largely centralised and employment services are mainly controlled centrally and delivered through the Department for Work and Pensions' (DWP) network of Jobcentres and contracted providers.¹ In England, skills policy is largely the responsibility of the Department for Business, Innovation and Skills (BIS), with national programme budgets distributed to colleges and training providers by several national agencies. Skills budgets are devolved to Scotland and Wales but skills policy remains centrally managed by each country's administration.

There are contending views on the effectiveness of UK welfare to work policies and related employment services and training programmes and their contribution to poverty reduction. There has been much debate on how to improve the effectiveness of Jobcentre Plus (JCP) and the Work Programme, and their capacity to place, sustain and progress benefit claimants into better-quality employment (WPC, 2013; 2014). There has been criticism of the highly centralised British system and growing interest in how welfare to work devolution might improve performance through more effective integration of employment and skills programmes and wider support services. Proponents of reform suggest that devolution and greater flexibility in national programmes would enable local government and/or other partnerships to improve policy effectiveness, value for money and better adapt mainstream policies to local conditions (Key Cities, 2014; CCN, 2014; Peace Commission, 2014; Core Cities, 2013; London Councils, 2013; LGA, 2013).

In this context, the Joseph Rowntree Foundation (JRF) commissioned this report to review the local dimension of welfare to work reforms and proposals specifically for further devolution in England. The report reviews many developments concerning British welfare to work policies and while the focus is on England many of the findings are relevant to arrangements in Scotland, Wales and Northern Ireland.

The research project is part of the JRF's wider Cities, Growth and Poverty programme, which considers how people in poverty may benefit from economic growth in city-regions, including how poor people can be linked to newly created jobs. This report complements the findings from two companion reviews, one of which comprises an evidence review of local-level approaches to connecting the unemployed to better jobs; the other assesses the devolution and alignment of skills provision in cities (City Growth Commission, 2014).

The research

This study reviews research findings on the devolution of welfare to work policies in Britain and in selected comparator countries. It reviews previous efforts to devolve welfare to work provision in England and how such reforms sought to align incentives for and manage the tension between central and local priorities. The report considers the following issues:

- the aspects of welfare to work that have been decentralised and on what geographic scale;

- the different approaches that have been proposed and tested, including local oversight, co-commissioning, and local commissioning;
- the changes that have been made at the centre to support welfare to work devolution including, for example, changes in the structure of DWP contracts, the management of JCP, and the role of other departments;
- the different options for funding decentralised welfare that have been proposed and tested, including, for example, central block grants, incentive payments and payment-by-results (PbR); and
- how reform efforts have sought to balance accountability for performance and equity in service delivery and which mechanisms may be needed to protect weak labour markets and/or areas with small populations should further devolution occur.

The research for this study combined a targeted review of official reports and evaluations, independent studies and peer-reviewed research, concerning welfare to work devolution. It included a small number of interviews with key stakeholders, including representatives from DWP, local government, and welfare to work providers. The report also draws on findings from earlier comparative research and country case studies undertaken by the author.

What is devolution and what is devolved?

International reviews, such as those published by the World Bank,² use the terms devolution and decentralisation interchangeably, but they typically concern assessments of several distinct governance reforms which are each at play in contemporary UK welfare to work policy. The first element concerns what may be characterised as **managerial or administrative decentralisation**, in which national agencies, such as the DWP, give local managers increased operational flexibility in implementing central policy objectives. The second element may be characterised as **economic decentralisation**, through which the national government, as in Australia and Britain, enters into contracts with private and voluntary-sector agencies that may have greater discretion in how they deliver employment services previously delivered by the public sector. Finally, there is **political decentralisation or devolution**, under which specified policy authority and resources are transferred to lower, more autonomous tiers of government, which then can play a more significant role in welfare to work design, implementation and, in some countries, policy formation.

Comparative reviews of decentralisation reveal a wide variety of reforms through which a range of powers and resources have been devolved to different tiers of government. The studies that specifically consider welfare to work, employment and skills, and economic development point to the following aspects of policy and/or delivery that have been devolved in varying ways in different countries:

- budget flexibility (e.g., funding from block grants; ability to move funds between budgets; retention of surpluses; performance penalties and bonuses);
- benefit design, including the freedom to determine or vary eligibility rules, payment levels, sanctions and delivery methods;
- ability to design local services or adapt national programmes, rules and target groups to local needs;

- organisation of service delivery and recruitment and management of personnel; and
- contract design and subcontracting with providers.

International evidence reviews on the impact of such reforms on public services frequently report a paucity of empirical research, with the findings available often revealing ambiguous and contradictory findings (Weishaupt, 2014; Mosley, 2012; Tomaney, *et al.*, 2011; Atkinson, 2010; Scott, 2009; Robinson, 2007). The reviews indicate that the effects of decentralisation are shaped by policy aims, design, context and implementation, and must be analysed within the political context in which they are implemented. The cumulative findings suggest that academics and experts are only at the stage of 'clarifying links between decentralisation, service delivery, economic development and social cohesion' (Scott, 2009, p. 5).

This review assesses findings from primarily descriptive studies of how different decentralisation processes have helped shape the delivery of British welfare to work policies. It also makes use of the limited findings available on the impacts attributable to such reforms. The study further reviews the findings available in the case-study countries where the implementation of welfare to work devolution has been subject to greater assessment and evaluation.

The report

The first substantive chapter of this report considers the development of the welfare to work system in England and the different ways in which previous governments have sought to decentralise and align the national employment services system with other programmes targeted at promoting economic growth and regenerating deprived areas. This chapter gives historical insight into how the tensions between central welfare to work programmes and local delivery have previously been managed. It outlines the institutional context and delivery landscape which emerged and within which current welfare to work and devolution reforms are being implemented. **Readers concerned only with recent policy developments are advised to start with the subsequent chapter and then go to the conclusion.**

The second substantive chapter considers the relationships between, and alignment of, the Coalition Government's welfare to work reforms with local growth strategies. It reviews the delivery of employment services and the local impact of Universal Credit and related benefit changes. It reviews the employment services and skills aspects of City Deals and Growth Deals which local authorities and LEPs have negotiated with central government. The deals are putting in place local delivery arrangements that test new ways in which employment, skills and support services can be combined, especially for people on disability benefits. The results from these local approaches could help shape the future design and delivery of the welfare to work system.

The third chapter reviews other national approaches, with a particular focus on the devolution of powers over employment services and cash benefits to regional and local government. It reviews how four selected comparator countries – Canada, the USA, the Netherlands and Germany – have devolved aspects of welfare to work policy and promoted inter-institutional collaboration, especially between the Public Employment Service and local government.

A final chapter assesses how welfare to work policies in England could be further devolved and considers what features and safeguards are needed to ensure that such devolution is effective and better contributes to poverty reduction.

2 WELFARE TO WORK DEVOLUTION IN ENGLAND BEFORE 2010

This chapter reviews the design of the welfare to work system in England and the different ways in which previous governments sought to decentralise and align welfare to work programmes with other programmes targeted at deprived areas.

The chapter briefly assesses the transition from the large-scale employment and training programmes delivered through the corporatist Manpower Services Commission (MSC) and the subsequent devolved delivery of such programmes through area-based employer-led TECs. It considers in more detail how the previous Labour Government sought to devolve aspects of welfare to work policy delivery in the New Deals and later City Strategy Pathfinders alongside the development of the prime contractor welfare to work delivery market.

This chapter considers also the role of local partnerships and target setting systems that aimed, to a greater or lesser extent, to encourage different public agencies, especially local authorities and JCP, to develop joint plans, pool budgets, and tackle unemployment and worklessness in disadvantaged areas. This period saw the development of organisational processes, funding systems and differentiated governance approaches which have helped shape current collaboration and co-ordination between local government and the welfare to work delivery system.

The centralisation of the British welfare to work system

The high degree of centralisation in the British social security system stems in part from the legacy of nineteenth-century Poor Laws and the system of ‘outdoor relief’. In the first half of the twentieth century, less stigmatising

institutional arrangements were gradually put in place to provide income protection for some of the unemployed, but many of the long-term unemployed and other workless families relied on means-tested support and 'relief'. The key modernising elements included the introduction and gradual extension of a centralised Unemployment Insurance (UI) system, its administration through a national network of Labour Exchanges and, in 1934, the transfer of responsibility for means-tested Unemployment Assistance benefits to the Unemployment (later National) Assistance Board.

The Public Assistance Committees of local authorities had direct responsibility for the means-tested 'relief' system for a short period after the abolition of separately elected Poor Law Boards in 1929. There was almost immediate controversy about local variation in means testing and the treatment of the unemployed, with councils often applying harsh approaches that had previously made the Poor Law system so unpopular. In some areas councillors and officials were sympathetic to the unemployed and/or were under pressure from local campaigns. At the same time, in the 1930s era of austerity, local areas faced pressure from central government to restrict benefit levels and apply rigorous means tests. This led to political conflict and contributed to Prime Minister Chamberlain's decision to 'depoliticise' the issue of unemployment relief and take it out of the hands of local government (Stevenson, 1984).

This early centralisation of the UK benefit system had longer-term significance in signalling the responsibility of central government for provision of a national and uniform minimum subsistence income, initially only for the unemployed 'but destined to play a fundamental role in the postwar development of the British welfare state' (Lynes, 2011, p. 232). This contrasts markedly with the experience of most other OECD countries, where local government retains responsibility for administering and often partial financing of means-tested social assistance for working-age people.

Since 1945, the British benefit system has been characterised by national contributory benefits for the insured and means-tested benefits for those ineligible for insurance benefits. Since the 1980s, coverage of insurance-based benefits for people of working age has declined significantly and payment levels have been aligned with their means-tested equivalents. Until recently, there has been little variation in benefit entitlements, although Housing and Council Tax Benefits, which are administered by local authorities, reflect varying local costs.

The British employment services and skills system also has been characterised by highly prescriptive national processes and programmes. The centralisation of the system was tempered by the existence of local advisory mechanisms and, from the 1980s, by successive efforts to better align employment and training programmes with other services to meet the needs of local employers and communities. These reforms created the institutional settings for contemporary devolution reforms.

The Manpower Services Commission and devolution to employer-led Training and Enterprise Councils

Post-war local Employment Committees had little direct influence on the delivery of employment services until 1983, when they were reconstituted as Area Manpower Boards (AMBs). In this era the 'corporatist' Manpower Services Commission (MSC), responsible for apprenticeships and work-based skills policy, grew into a major public sector agency, largely due to its position as the main response mechanism to rapidly rising youth and long-term adult unemployment.

The MSC was a statutory national body established by the Employment and Training Act (1973) and responsible to the Secretary of State for Employment for the co-ordination and management of the public employment and training system. It comprised an equal number of employer and trade-union representatives, with minority representation from local government and the voluntary sector. The MSC was supported and staffed by civil servants and operated through a public sector network of regional, district and local offices. It was tasked with modernising the employment and training system, which most visibly included the development of a new national network of high-street Jobcentres designed to deliver labour market services for all employers and job seekers, including the unemployed. The MSC had no direct responsibility for unemployment benefits, which continued to be delivered by the Department of Employment (DE) through a national network of Unemployment Benefit Offices (UBOs).

The composition of the local AMBs reflected that of the corporatist national MSC, with minority local government and voluntary-sector representation. Between 1983 and 1987, 54 AMBs played a key role in the approval and implementation of large-scale and controversial training and temporary employment programmes. The presence of local government on the Boards was significant. It reflected the growing role local authorities had in delivering training and employment schemes for the most disadvantaged, and it gave local democratic legitimacy for the MSC with local government AMB members, providing insights into the needs and views of local communities (Fullick, 1986).

The MSC's responsibility for Jobcentres brought it into conflict with central government because it was often critical of the Department of Employment's gradual introduction of a 'stricter benefit regime'. In the 1980s, the administrative link between job search and benefit receipt had weakened significantly and there was evidence that increased unemployment durations were partly attributable to lax implementation of benefit conditionality and weak front-line connections between UBOs and Jobcentres (Wells, 2001). Consequently, the government embarked on 'work first' reforms, which included more explicit job-search requirements for the unemployed, increased sanctions and mandatory participation in some programmes. More expensive training and employment programmes were replaced by less costly job-search assistance, and central controls were imposed on the employment services system to ensure it implemented and monitored increased benefit conditionality. Ministerial and departmental concerns about any weakening of the link between benefit administration and job-search requirements have since been a major factor limiting local initiatives perceived to be undermining the 'work first' benefit regime.

In the late 1980s, there was significant change. The MSC was abolished after conflict between the government and the Trades Union Congress over the introduction of compulsory training programmes. In 1987 the government created a unified Employment Service (ES), centralising and merging the previously separate network of Jobcentres and UBOs. In contrast, training programmes for the young and long-term unemployed were decentralised to a network of 82 employer-led Training and Enterprise Councils in England and Wales, and 22 Local Enterprise Companies (LECs) in Scotland.³

The TECs were incorporated as private companies, with an employer chair and a two-thirds employer majority. They were allocated significant budgets and were designed to facilitate a leading role for employers in the local design and delivery of training, enterprise and economic development. Their ten-year existence, however, was marred by constant friction over

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the degree of central control over their activities. The relationship of the TECs with central government was based on formal contracts, operating agreements and performance targets negotiated annually with the national Department of Employment. Instead of the strategic autonomy and flexibility they thought they would enjoy, the TECs found that ministers and the DE treated them primarily as a delivery mechanism. One detailed evaluation of the experience of TECs concluded that the 'structure represents a single system in which responsibility has been devolved without an equivalent decentralisation of power' (Bennett, *et al.*, 1994, p. 112).

TECs did not directly deliver services but acted as area-based prime contractors. They had flexibility in some of the services they procured and the prices paid but their contracts with providers had to reflect detailed eligibility and operating specifications documented in their own contracts with the DE. By 1994, there was pressure to cut costs and variation in TEC pricing strategies, with providers increasingly paid for qualifications and jobs secured. It was reported that the viability of specialist voluntary and public sector providers, which continued to work with harder-to-place participants, was undermined (ESC, 1996, p. xi).

TECs had some flexibility over their budgets including a limited ability to vire funds between programmes and the capacity to generate surpluses, although these had to be spent in meeting wider TEC objectives. In addition, TECs were given a smaller allocation for a Local Initiative Fund, often used in part for targeted provision for particular groups including, for example, minority communities or otherwise harder-to-help populations.

There are mixed reviews of TEC performance and the impact of their programmes (for reviews, see Jones, 1999; Bennet, *et al.*, 1994). There was controversy about the funding system and, over time, the focus of youth and adult training shifted towards lower-cost provision. There were differences in how each TEC determined its priorities, with some attaching little importance to special-needs training. The outcome was significant variation in the availability and adequacy of provision for the most disadvantaged, even in neighbouring areas. Given the political controversies that emerged, many TEC directors themselves felt 'under siege' on these issues, subject to conflicting demands and pressures from different interest groups on the one hand and conflicting or ambiguous requirements from the DE on the other (Meager, 1995; ESC, 1996).

Following the change in government in 1997, TECs continued to deliver services but a 1999 white paper criticised the 'complex funding, administration and contracting system for TECs' (DfEE, 1999, p. 19). The white paper announced that TEC operating licences would end in April 2001 and that central control would be re-established through a national Learning and Skills Council (LSC), which was given responsibility for distributing funding for all post-compulsory school-age education and training (apart from Higher Education).

Regeneration policy, partnerships and the Single Regeneration Budget

During the 1980s, the design and delivery of urban and inner-city regeneration policy was transformed. This involved a phase of centralisation, with the gradual transfer of powers and finance from local to central government, and responsibilities transferred also to a plethora of centrally appointed employer-led bodies such as Urban Development Corporations. Following this period, characterised by political conflict between the

Thatcher Government and Labour-led local authorities, a more co-operative phase emerged in the early 1990s. This was to lead to new institutional arrangements with multi-agency partnerships seeking to align and pool the budgets of different public agencies. This approach has been a mainstay of successive efforts through which central government has sought to reduce policy fragmentation, increase flexibility and tackle local deprivation.

Following a series of reviews in the late 1980s, urban policy shifted from a narrow focus on property-based interventions towards an emphasis on the needs of disadvantaged groups and individuals at the local level (see, for example, Audit Commission, 1989). These reviews highlighted the lack of co-ordination in central government policy, the limitations of private sector-led agencies, the fragmentation of the public sector and the absence of effective community involvement. The response was the introduction of City Challenge in 1991 and later of the Single Regeneration Budget (SRB) Challenge in England, with parallel initiatives in Wales and Scotland. The new approach developed by then Secretary of State for the Environment, Michael Heseltine, departed from the reactive, project-driven approach of the previous decade.⁴

City Challenge established a process that involved three principles which have since been central to many regeneration programmes and efforts to decentralise welfare to work. **Partnership working** would establish common aims and help reduce fragmentation. Where budgets could not be pooled, agencies would seek **alignment** with mainstream programmes so that they complemented partnership efforts and were more focused on local needs. Devolution was to be accompanied also by **competition**, intended to encourage innovation with any best practice identified and transferred or adapted for other areas.

City Challenge laid the ground for the Single Regeneration Budget, which was to be the main source of support for local area regeneration in England between 1995 and 2001 (Rhodes, *et al.*, 2007). The SRB brought together 20 separate programmes into a single budget with the intention of promoting a more flexible response to urban problems. There were several competitive rounds of SRB bids and each proposed plan had to address key themes, including unemployment, and be supported by an inclusive cross-sectoral partnership.⁵

Once an SRB partnership secured funding, it was responsible for the management and operation of the scheme, reporting on a six-monthly basis to Government Offices for the Regions in the early years and subsequently to the Regional Development Agencies (RDAs). The new delivery partnerships usually were formally constituted as trusts or limited companies and had a management board on which a wide range of partner interests were represented, a tighter executive committee of core partners and a full-time partnership team (Geddes, 1997).

The new approach to tackling regeneration and unemployment through partnership working was reinforced by developments in European Commission funding which stressed partnership bidding, requiring local authorities, TECs and other private-sector interests and the voluntary sector, to work together on local strategies for tackling unemployment and exclusion. The ability of local authorities and TECs to match their own public funds with the European Social Fund in particular gave them some genuine autonomy. This flexibility was used to support a broad range of local and non-governmental organisations to provide small-scale training and employment initiatives working with women and lone parents, refugees, ethnic minorities, the homeless and the young and long-term unemployed. Many of these organisations appeared to secure impressive job entry and progression rates (Turok and Webster, 1998, p. 324).

The National Strategy for Neighbourhood Renewal, Local Strategic Partnerships and Area Agreements

The election of the Labour Government in 1997 led to changes in regeneration policy, funding and institutional arrangements, although partnership working remained central to the delivery system. Control of SRB was given to RDAs and from 2002–03 several funding streams were combined into a ‘single funding pot’. Among other priorities, the RDAs had to target their most deprived wards and were free to fund SRB-type programmes should they so choose. The government also introduced a more targeted and longer-term New Deal for Communities (NDC) in 1998–9. Local NDC partnerships developed ten-year plans to ‘turn round’ the prospects of 39 severely deprived areas across the country, each comprising about 10,000 residents (Batty, *et al.*, 2010).

Further systemic change was announced in 2001 following publication of the ‘National Strategy Action Plan’ for Neighbourhood Renewal (CO, 2001). The strategy aimed to ensure that central government departments realised their commitments to improve service delivery in deprived neighbourhoods as stated in their Treasury-agreed Public Service Agreements (PSAs). The strategy introduced Local Strategic Partnerships (LSPs) with a key role especially in relation to a new Neighbourhood Renewal Fund (NRF), which was allocated to local authorities in 88 eligible areas. This fund was designed as a ‘top up’ to be used flexibly to improve core public services in the most deprived neighbourhoods. The LSPs brought together local authorities and other public services as well as residents and private, voluntary and community-sector organisations. Their remit was to identify which neighbourhoods should be prioritised, assess the root causes of neighbourhood decline, develop strategies and implement agreed actions for their amelioration.

LSPs subsequently were given a central role in shaping the priorities of local authorities in England through three-year Local Area Agreements (LAA). This reform aimed to create a new form of negotiated contract between central and local government, in response to much criticism of inflexible ‘top down’ departmental targets. After a pilot phase, LAAs were made a statutory responsibility of all upper-tier local authorities in England.⁶ A significant development was the introduction of a ‘duty to co-operate’, which required specified public sector organisations, including JCP and the LSC, to commit to LAAs and work with LSPs.

The LAA framework was constructed of four blocks, one of which concerned economic development and employment. LAAs had to contain national key targets but partnerships had freedom to select local ‘improvement targets’. The LAAs set out the priorities for each local area and identified funding streams, freedoms and flexibilities needed to support delivery. The final deals were negotiated and agreed between regional government offices, the local authority and LSP and the main public sector organisations in each area. Where an LAA prioritised tackling worklessness and committed to ‘stretching targets’, mainstream local authority budgets could be utilised to provide investment to meet these targets. Critics suggested that the LAA framework relegated other local priorities and created a two-tier partnership by giving priority to public sector partners that had most influence over delivery. Scepticism among some local agencies was shared by some government departments ‘with “silo” behaviour still much in evidence’ (Geddes, 2008, p. 122). This behaviour meant that despite central efforts to promote partnership, working departments such as the DWP continued to give priority to their own more narrowly defined

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The new approach to negotiated contracts between central and local government extended also to the development of voluntary Multi Area Agreements (MAAs), which allowed councils to work with other councils 'at a level that makes good economic sense' (CLG and DWP, 2007, p. 17). This development reflected a growing consensus on the importance of sub-regional and city-based partnerships in promoting employment, enterprise and skills. A key aspect of the MAAs, and LAAs, was that sub-regional partnerships and local authorities would commit to more stretching outcome targets in return for greater flexibilities from the government.

The Employment Service, New Deal Delivery Partnerships and Jobcentre Plus

In the early 1990s, the Employment Service was responsible for the delivery of the 'stricter benefit regime' and standardised national services and programmes. While the agency worked closely with TECs, it was only weakly connected with the work of the new regeneration-related partnerships. Many components of the ES delivery system had been contracted out but the agency retained direct control of advisory interviews, job broking and vacancy placement. Outright privatisation had been rejected by the Conservative Government (Price, 2000, p. 304).

The Labour Government appreciated the strategic value of the ES, and its track record for swift national implementation, and chose the agency to deliver its 'flagship' New Deal programmes. Ministers and senior managers recognised, however, that the local implementation of the New Deals would be quicker and more effective if delivered through a partnership-based approach.

In 2007, the ES assumed a leadership role in creating a national network of New Deal partnerships. In this early implementation phase District Managers were required to consult widely, to form local partnerships and to develop District Delivery Plans that were reviewed by Regional Assessment Panels. At their best these plans included a rigorous analysis of the area which defined priorities and shaped the services and provision on offer; the active participation of key partners, at senior level; the commitment by business of resources and expertise, in addition to offers of vacancies; and the integration of the New Deal with other funding streams, such as ESF and skills budgets. There were significant weaknesses, however, with the ES acknowledging that the approach represented a significant challenge for staff and managers with relatively little experience of partnerships and who were exposed to 'much more open discussion about policy and delivery' and had to 'very rapidly' develop 'new skills of working with and influencing others' (ESC, 1988, Vol. II, p. 188).

The commitment to direct partnership building quickly dissipated, as did most of the New Deal partnership arrangements, and the ES was soon subject to familiar criticisms concerning its 'top down' relationship with providers and other local agencies. Such criticisms focused on the lack of flexibility in New Deal design and implementation and the limited capacity of District Managers to negotiate with partners since they had little autonomy over their budgets or control of mainstream contracts (ESC, 1998).

The Department for Education and Employment (DfEE), as it then was, introduced more targeting in the form of nationally designed complementary programmes. Key developments included the introduction of Action Teams

in areas of highest unemployment and Ethnic Minority Outreach services (and later the DWP introduced a Working Neighbourhoods pilot). Other specialist employment programmes were targeted at particular groups rather than areas (such as claimants with substance abuse problems). These programmes created further complexity in local delivery systems.

The most significant area-based variation concerned Employment Zones (EZs). The first prototype zones had been implemented through local partnerships led by the ES and local authorities in areas with high concentrations of unemployment (Haughton, *et al.*, 2000). In 2001 this partnership approach was replaced by a radically different model through which the DfEE sought to attract new private providers into the British welfare to work market. The contracting model involved PbR, greater flexibility in service delivery design and, uniquely, a direct transfer of resources of savings in benefit payments to providers in a way that rewarded early job placement but penalised a failure to place participants into work. The new zones became the 'flagship' PbR welfare to work programme and its relative success reinforced calls for greater flexibility in mainstream Jobcentre and New Deal services.

An 'employment first' welfare state, Jobcentre Plus and the policy context for welfare to work localism

The orientation of the British social security system was reshaped following the government's 1998 decision to create an 'employment first' welfare state. This involved greater integration of employment services and benefit administration and the subsequent extension of work-related activity requirements to claimants on previously 'inactive benefits', especially lone parents and recipients of disability benefits.

A new delivery approach was first tested through the 'One' service, which combined benefit delivery and employment assistance previously delivered separately by the ES, the Benefits Agency (BA) and local authorities. The new service was piloted in twelve areas and, at the time, was associated with speculation that local councils or the private sector might be given responsibility for the welfare system.⁷ Before the pilot phase was completed, however, the government announced the creation of the DWP and the civil service delivered JCP. The new agency, which commenced in April 2002, integrated only the BA and the ES, leaving the separate delivery of Housing and Council Tax Benefit with local authorities.

Although specific New Deal partnerships were now defunct, JCP was, from its inception, required to work with an array of strategic and operational 'partnerships', both nationally and locally. Local partnership arrangements largely were the responsibility of District Managers and senior staff who worked with local authorities, LSPs, RDAs and the LSC. Operational partnerships mostly involved co-ordination, referral and attachment arrangements with contracted providers that delivered standardised national contracts awarded and directly managed through regional offices.

Despite criticism of the lack of flexibility in DWP provision, a new approach was signalled when the DWP and Local Government Association (LGA) agreed a Partnership Accord (Simmonds and Westwood, 2008). This committed the DWP and JCP to work flexibly with local government to deliver improved employment outcomes and to reduce poverty. It was especially important that local Accord agreements were signed off by council leaders and DWP ministers in the largest cities, and that these agreements

facilitated implementation of LAAs. These accords also set the context for the development of City Strategy Pathfinders, which in 2006 became the first direct experiment in devolving aspects of DWP-related welfare to work policy to local government (see City Strategy Pathfinders below).

The new approach to welfare to work localism took place within the context of wider developments through which the Labour Government formulated new objectives and policies that involved changes in the design and delivery of welfare to work programmes; the activation of more working-age claimants through a ‘personalised conditionality regime’; improved integration of employment and skills provision; and some devolution of the design and delivery of programmes. The most significant policies and delivery shifts that occurred in the period are shown in the form of a timeline (see Table 1) and are considered in more detail in the following sections. They serve to illustrate the continual development and flux in welfare to work policy within which local delivery was designed and implemented.

Table 1: Timeline of key policies, drivers and delivery changes shaping welfare to work devolution 2006–2010

Year	Policy and drivers	Delivery shifts/programmes
2006	- Leitch Review of Skills – Employment and Skills Boards - A New Deal: Empowering People to Work – initiates consultation on next phase of activation and programme reforms	Local Area and Multi Area Agreements
2007	- The Freud Review of Welfare to Work – proposes prime contractor-led welfare to work market - Treasury Review of Sub-National Economic Development and Regeneration – highlights role of city-regions in economic growth	- Pathways to Work – new prime contractor variant of the programme targeted at people on disability benefits - Working Neighbourhoods Fund - City Strategy Pathfinders implemented
2008	<i>Raising Expectations and Increasing Support</i> white paper – proposes three levels of devolution - Employment and Support Allowance introduced and lone parent work-conditionality extended	DWP Commissioning Strategy
2009	The Houghton Review – proposes local authority based Work and Skills Plans	- Flexible New Deal – Phase 1 - Recession responses – Future Jobs Fund - Total Place pilots
2010	- Child Poverty Act 2010 requires local authorities and named partners to ‘co-operate’ in preparing local needs assessments and developing joint child poverty strategies <i>Building Bridges to Work</i> white paper – commits DWP to build and deepen local partnerships and implement the three-tier approach to welfare to work devolution	- Flexible New Deal – Phase 2 - Personalised Employment Programme pilots – to test multi-claimant contracts and funding providers from benefit savings

Source: Adapted from Figure 2.1, Green and Adam, 2011

City-regions, sub-regional partnerships and integrating employment and skills

Two Treasury-led reviews confirmed the growing importance attached by the Labour Government to integrating employment and skills provision and to sub-regional city strategies for promoting economic and employment growth.

The Leitch Report (2006), a review of the skill needs of the UK economy, highlighted the weak connections between the 'employment first' welfare to work system and the separately funded and delivered vocational skills system, especially programmes targeted at the employers of low-skilled adult workers. This fragmentation was considered to exacerbate poor employment retention rates and benefit recycling among those leaving the benefit system, with many 'successful' job entrants with few transferable skills or qualifications being 'trapped in low paid, entry-level work' (Leitch, 2006, p. 118). The report pointed out that poor levels of employer engagement meant that much of the welfare to work system was not responding to the market effectively. Among other recommendations, the report proposed the creation of an integrated employment and skills system and the development of a national network of employer-led Employment and Skills Boards (ESBs).

In its response, the government announced a wide range of changes, including the introduction of 'skills checks' and assessments delivered by JCP, which was expected also to support the work of a new adult careers and guidance service. In three areas, pilot programmes were developed to test delivery of a 'tailored employment and skills offer' that would create a 'single customer journey, from poor skills or worklessness to sustainable employment and the skills to progress' (HMG, 2007, p. 25).

The subsequent Treasury *Review of Sub-National Economic Development and Regeneration* built on a series of studies underlining the importance of policy settings in city-regions for overall growth, employment levels and productivity (HMT, 2007). The Review proposed a statutory duty for local authorities to promote economic development and for local authorities to work across boundaries with other agencies to boost sub-regional economies. In many parts of the country, especially the core cities,⁸ sub-regional partnerships involving local councils and employers already existed but their coverage was extended and their activity given greater authority through the negotiation of MAAs, the first of which were then being agreed.⁹ The Sub-National Review also supported the local development of ESBs, which were to build on existing employer-related partnerships and reflect local conditions.

In a 2008 joint policy paper, the DWP and the then Department for Innovation, Universities and Skills committed to improving the interaction of the welfare and skills systems while devolving 'much more responsibility to local councils'. The departments stressed, however, that such devolution would only be given if there was strong employer representation within the partnership responsible for an MAA, including an 'employer-dominated body' (HMG, 2008, p. 38).

Within two years, most sub-regional partnerships had developed such employer-led bodies (Croden and Simmonds, 2008). There was no prescribed model for ESBs but their typical role involved engaging local employers, articulating labour market needs, scrutinising local provision and recommending improvements to integrate welfare to work and skills services. By the time of the 2010 election, the different ESBs had a variable record in shaping local skills and employment services for employers and jobseekers and in influencing the delivery of JCP and skills services. In

some areas, where partnerships had a strong track record, such as Greater Manchester and the West Midlands, there was the start of bringing together the complementary commissioning and delivery of employment and skills services.

The Working Neighbourhood Fund

Within the DWP, the government focus on further 'devolution' was reflected in two particular developments. These concerned the role of more flexible programme funds targeted at areas with high concentrations of worklessness and the parallel development of partnership-led City Strategy Pathfinders.

The DWP Deprived Areas Fund (DAF) was a £90 million fund introduced in 2006¹⁰ that 'pooled' together the earlier more prescriptive area-based programmes that JCP had been delivering. It was allocated to cover 903 local authority wards with the lowest employment rates, and 272 wards with the highest proportions of minority ethnic groups. JCP District Managers were given flexibility to tailor support for local residents but procurement remained with the region. Around half of DAF funds were allocated to City Strategy Pathfinders and were subsequently devolved as grants to the partnerships which started up in 2007–08 (see City Strategy Pathfinders below).

The remaining DAF funding was subsequently absorbed into the more substantial Working Neighbourhoods Fund (WNF), which also replaced the NRF of the Department for Communities and Local Government (DCLG).¹¹ It was suggested that the National Strategy for Neighbourhood Renewal had been effective, with Whitehall departments now having a clear focus on deprived areas and the mainstreaming of successful innovations developed through the NRF (CLG and DWP, 2007). Worklessness, however, remained a particular problem and the 'pooled' CLG and DWP fund, worth £1.5 billion over three years, was more narrowly focused on supporting efforts to tackle unemployment and low levels of skills and enterprise in deprived areas.

WNF was a distinct element of a new Area Based Grant. This was a new block grant designed to give local authorities more flexibility over their mainstream resources by moving some £5 billion of former specific-grant support into non-ring-fenced allocations. Although WNF was not ring-fenced CLG had a 'strong expectation' that areas receiving the fund would include targets on tackling worklessness in their LAA, which would then drive resource allocation and service delivery. An evaluation of subsequent implementation in 24 out of the 61 areas receiving WNF found that it took time to develop local strategy and commission services, with many councils only commencing delivery three years after the fund was allocated. Most areas were considered to be addressing the purposes of the fund but others had used the funding to support a wider range of LAA activity that only tackled 'worklessness to a degree' (CLG, 2010, p. 6). It was significant too that the availability of WNF and its flexibility was appreciated because it enabled many areas to respond more quickly to the impact of the recession and increased unemployment.

City Strategy Pathfinders

The City Strategy was initially announced in the green paper *A New Deal for Welfare* (DWP, 2006). This experiment in welfare to work devolution

was a response to growing pressure from local government and the leading core cities, which argued that, in return for welfare to work devolution and increased flexibility, they would be able to more effectively increase employment rates and reduce welfare dependency in their areas.

The City Strategy was based on the assumption that local partners could deliver more if they combined and aligned their efforts (and funding) behind shared priorities, and had more freedom to test new ideas and to tailor services in response to local need. At the time, ministers suggested that the new approach being tested was not a short-term 'fix' but 'an important platform of delivering a localised welfare system for the long term' (WPC, 2007, p. 42).

The DWP invited bids from partnerships in local areas to become City Strategy Pathfinders. The stakeholders were free to define the most appropriate geography in which to work. Following submission of expressions of interest, 15 areas were selected, three in Scotland and two in Wales, with two-year contracts commencing in April 2007 (subsequently extended to March 2011).

The City Strategy Pathfinders (CSPs) were often built on existing partnerships and would variously include more or less senior representation from local authorities, employers, health services, the voluntary sector and JCP. The partnerships submitted business plans which, among other things, identified implementation barriers to improving local employment rates and contained a series of 'asks' of DWP for related flexibilities. The requested flexibilities varied across areas, reflecting local priorities, but could be grouped into four themes (Crighton, *et al.*, 2009, p. 60):

- improved data sharing to enable better targeting of provision;
- improved access to training for individuals who needed it;
- improved transitions from benefits to employment programmes and to employment; and
- improved approaches to funding, contracting and the development of local targets.

The DWP established an Enabling Measures Board, with representation from CSPs, which considered the varied requests. Ministers had already made clear that flexibility would not be allowed in the 'core rights and responsibilities agenda' or the level of benefits payable. There was improvement in data sharing by the DWP, some increased influence on local training and employment programmes, and £32 million in DAF funding was awarded once CSPs had committed to 'stretching' local targets. The lack of progress on most other measures demonstrated, however, the 'substantial difficulty' the DWP had in offering the freedoms and flexibilities requested (Crighton, *et al.*, 2009, p. 59). This was compounded by the limited capacity of JCP and the variable willingness of District Managers to change and tailor their mainstream activities across the CSPs.

There was no progress on the more radical proposition that CSP areas should be rewarded for high performance by receiving a proportion of any additional benefit payments saved attributable to their interventions – a proposition that the DWP only considered for funding contracted providers (see Work Programme contract design and incentives in Chapter 3). Instead, a simple £5 million 'reward fund' was created for distribution to the 15 CSPs in the event of meeting their agreed targets. All the CSPs agreed two standard targets – specifying a 3% reduction in the numbers on working-age benefits and an equivalent increase in local employment rates – with other targets tailored to fit local circumstances and priorities.

An early aim of the City Strategy was to allow the pooling of existing regeneration, skills, and employment budgets, with several CSPs wanting joint commissioning processes (WPC, 2007, pp. 50–1). In practice, it was far easier for CSPs to seek to ‘align’ existing budgets rather than persuade agencies to contribute funds to a ‘single pot’. The formal evaluation found some examples of joint commissioning between, for example, CSPs and health service providers, but more commonly the CSP sought to influence the procurement of mainstream employment and skills services through dialogue (Adam and Green, 2012).

CSP innovation was constrained because the partnerships delivering the pathfinders were not given the local enabling measures requested, but they did have an impact on local service provision. Some CSPs focused on delivery, developing particular projects aimed at different client groups in different areas. Some services were delivered conventionally but targeted at new or under-served groups. In other instances, CSPs instituted new delivery models, including the co-location of wraparound services, such as welfare and benefits advice, to complement mainstream provision.¹² Several CSPs adopted a ‘pipeline’ model of provision, commissioning services to provide more balanced local provision, especially around engagement activities or working with disability benefit claimants. While individual services may have been similar ‘the marshalling of them into a more coherent system ... often was new’ (Adam and Green, 2012, p. 508).

The City Strategy was implemented in very different economic circumstances to those envisaged when the business plans were developed, with increased unemployment making it impossible to meet the original targets. Nevertheless, the final evaluation found that the partnerships acted as a focal point for different agencies, improved the co-ordination of local provision, and gave partnerships the opportunity to test different localised approaches. The risk was that the knowledge gained through partnership working was at risk of being lost following change in central government in 2010 (Adam and Green, 2012).

Centralising DWP procurement and the developing role of prime contractors

Developments in the ‘economic decentralisation’ of DWP programmes were more radical and involved new flexibilities that were not extended to the CSPs. The process commenced in 2006 when 1,000 individual New Deal contracts were awarded to 94 ‘prime contractors’ who were responsible for delivering all standardised New Deal ‘options’ in JCP districts. Subsequently, in 2007, procurement of all employment programmes was centralised. Previously, JCP had purchased and managed contracted services through its regional offices, and DWP had been directly responsible only for procuring experimental programmes, such as EZs, which were testing alternatives to JCP provision. The decision to centralise was taken to reduce complexity, achieve more consistent contracting standards and eliminate a perceived conflict of interest in JCP’s role in both awarding contracts and providing services.

More radical change was then proposed by the independent Freud Report (2007). The report suggested little change to JCP-delivered work-first services for the short-term unemployed but proposed radical change in how services were commissioned for the longer-term unemployed and other groups.

A central proposition in the Report concerned a different approach to funding. The aim was to revise a long-standing HM Treasury rule that demand-driven entitlement cash benefits and cash-limited employment programmes were funded from separate budgets.¹³ Freud proposed instead a funding model under which large prime providers would invest their own resources in services up front and would be paid from the future benefit savings that would accrue from placing claimants into sustained employment. This risk transfer would align DWP and provider incentives and enable the department to ‘uncap’ and extend welfare to work programmes to cover many more workless people, especially those receiving disability benefits.

The government accepted Freud’s proposals and, after a further consultation process, DWP published its Commissioning Strategy in February 2008. When announcing the strategy, the Secretary of State for Employment emphasised that the government was ‘creating a market for the long term’ that would ‘free’ providers ‘from central control and allow them to innovate’ (Purnell, 2008). The core elements of the new procurement approach comprised the following:

- Contract scale and duration: the system would be made attractive to larger scale, well-capitalised prime providers that would be awarded long-term (typically five-year) and higher value contracts. Contract Package Areas (CPA) would be geographically large in order to provide the scale of participant volumes required. The consequence was that DWP would contract for services with fewer providers delivering over much larger areas which straddled multiple local authorities.
- An outcome-based funding model: the payment system would largely reward job outcomes and employment retention with payments differentiated, recognising that helping some groups was more costly than helping others. A prime contractor had to arrange the finance, invest ‘up front’ and assume a greater share of the risk but would have an income stream from future outcome and sustainment payments.
- Partners and supply chains: prime providers would be responsible for working with other local organisations and for marshalling and managing an appropriate blend of subcontractors to deliver services for a wide variety of participants. Most existing DWP providers, including many local authority agencies, would no longer have a direct contractual relationship with the department.

Implementation of the new contracting model commenced with the Flexible New Deal (FND) that started to replace New Deal and EZ provision for the long-term unemployed in 2009, and paid for six-month job outcomes. Labour ministers were more wary, however, about longer-term outcome payments and about funding employment programmes directly from benefit savings, simply announcing that the approach would be tested through pilot schemes from 2011.

A new strategy for welfare to work devolution

In 2008, the DWP launched a consultation and in 2009 published a white Paper; together they outlined the government’s approach to a multiple ‘devolution’ as a way to transform standardised national welfare to work services into a more ‘personalised’ and locally tailored system. The new approach involved devolving more power to individual service users (through testing an individual budget¹⁴) and to providers, JCP advisers, and to local partnerships.

Providers would be given freedom in service delivery through the black box approach to contracting. JCP would have more flexibility, with pilots subsequently established in four districts where managers and advisers were given greater latitude over the support offered to and the responsibilities required from service users. JCP advisers were also able to implement new ways of integrating employment with skills support, and in-work advisory support was tested with some groups (DWP, 2009).

The welfare to work devolution proposed for partnerships and city-regions was conditional and would work in a context where a national core of services would be maintained country-wide. Three levels of devolution would be available to partnership bodies established at local authority or sub-regional level:

- In the 'core model', local partners would be consulted on the organisation of JCP services and the commissioning of DWP programmes, including the evaluation of bids and subsequent contract management.
- At the second tier, partners could supplement the spine of national provision with additional wraparound services to address specific local issues. The DWP would 'co-commission' mainstream services and align these with the funded services of local authorities, skills funding agencies and regional development bodies.
- A third 'joint venture' tier involved devolution of a role in the making of contracts and, in the most committed areas, experimentation with 'a fully devolved model'. For these areas, the DWP would be a partner in a local procurement exercise, specifying the outcome requirements but devolving some or all of the commissioning, funding and contract management arrangements to a local partner or joint commissioning body.

The DWP was emphatic that there was 'something for something' and that it would only devolve power where it would lead to increased job outcomes – it was 'not for devolution's own sake' (DWP, 2008, p. 122).

The DWP tiered approach to welfare to work devolution was complemented by the subsequent Houghton Report (2009). This proposed a new duty whereby local authorities would develop Worklessness Assessments for their areas. Those authorities that wanted to align budgets and co-commission services would develop Work and Skills Plans. Areas with 'robust partnerships' would be able to create Work and Skills Integrated Budgets through which central and local government would be able to pool and align budgets and co-commission with a substantial portion of relevant funds. If such areas did not already have employer-led ESBs, they would be required to establish them.

The welfare to work devolution strategy had emerged just as the UK entered recession and experienced subsequent rapid increases in unemployment. JCP and local authorities played a major role in ensuring benefits were paid and in speedily delivering a new range of national recession-related employment programmes, including the Future Jobs Fund. In combination with mainstream provision, these programmes played a significant role in mitigating increased unemployment. Nevertheless, unemployment increased most in the communities which already had the highest unemployment (Tunstall and Fenton, 2009).

These factors underpinned the Labour Government's commitment to continuing 'to build and deepen local partnership arrangements' and to ensure that 'no place is left behind as we emerge from the recession' (DWP, 2010, pp. 56; 61). A 2010 White Paper reaffirmed the commitment

to implement the three-tier approach to devolution, pointing to examples where sub-regional partnerships in Liverpool and Nottingham, and the Manchester Forerunner City Region, had already undertaken some co-commissioning of JCP services.

This white paper also connected the development of a new Total Place initiative with the government's previous implementation of the Houghton Report, whereby upper-tier local authorities now had a duty to undertake worklessness assessments, and develop work and skills plans. Total Place was being pioneered in 13 local areas, and testing ways of bringing agencies together locally to develop cost-effective front-line solutions to securing shared outcomes. The DWP had committed JCP to testing co-location of services with local authorities, and the white paper suggested that some areas might also use work and skills plans to identify similar synergies and cost savings in welfare to work funding and service delivery (DWP, 2010, p. 120).

The final development referred to in the white paper concerned the new role for local partners in tackling child poverty. This highlighted the statutory responsibility of local authorities to develop joint strategies setting out how they would co-ordinate services to reduce child poverty in their areas up to 2020. Such strategies placed much emphasis on increasing employment rates among workless households through the improved co-ordination of local employment, training and support services.

Conclusion

This chapter has considered the different ways in which earlier governments sought to make a highly centralised welfare to work delivery system more responsive to local conditions and better aligned with regeneration and skills policies. Reforms comprised different types of governance and funding arrangements. These included the transition from early area advisory bodies to employer-led boards, which controlled devolved budgets, alongside the development of multi-agency partnerships which, among other things, sought to align employment and skills services and funding. Each wave of institutional and programme reform saw the increased involvement of local authorities as the major place-based strategic partner in tackling worklessness in high unemployment areas.

Central government models for funding employment and related services evolved from the early disaggregation of national budgets to fund local provision and the payment of grants and awards to external providers. By 2010, there were more competitive public and private funding arrangements in place which sought to improve performance, share risk and, in the case of private contractors delivering employment programmes, partially share the proceeds of benefit savings generated by employment outcomes. Competition was also extended to financing regeneration programmes, where local government played a key role in partnership formation between employers and public agencies and in the preparation of competitive bids. Through these bidding processes, local government typically analysed local needs and circumstances and increasingly outlined strategies and services through which partnerships could co-ordinate and improve provision for tackling worklessness and benefit dependency.

The policy experiences from these periods reveal tensions at the heart of localising welfare to work policies. The most significant concerned the long-standing wariness of DWP ministers and senior civil servants to cede influence or control over Jobcentres and the target-driven core 'rights

and responsibilities' agenda. The DWP acknowledged the need to work more closely with local government but in this context the three tiers of devolution proposed merely committed to different levels of consultation with local partners invited to help design and fund supplementary provision for groups poorly served by mainstream programmes.

The DWP's approach to greater localism was driven also by growing pressure from local government. By 2010, more ambitious devolution strategies had been outlined by the London Mayor, the Core Cities (2009), the Local Government Association (LGA, 2009), Kent County Council (2010) and the New Local Government Network (Brand, *et al.*, 2008). The strategies were built on the experience of the various pilots and approaches local authorities had helped test in the previous decade. The proposals variously suggested that local authority-led partnerships were best placed to improve the performance of fragmented employment and skills programmes. The central element of the 'deal' being proposed was that mainstream welfare to work and skills programmes should be devolved and co-commissioned by sub-regional or local partnerships with capable governance structures. These partnerships would commit to improved employment and skills outcomes, in return for which they would be given the flexibility to vary national rules. Programme budgets would be devolved and pooled, with partnerships enjoying flexibility to re-invest surpluses they generated. Devolution should also be accompanied by greater information and data sharing between public agencies, with local JCP and LSC managers freed from central targets and with flexibility to fully engage with their local partnerships.

More radical proposals were also advocated by some local authority leaders, Conservative MPs and right-of-centre think tanks, calling for the benefit system itself to be localised. For example, a 2009 submission from Essex County Council to the LGA proposed that local authorities should receive a welfare block grant with powers to determine for themselves how much should be spent on benefits and employment programmes, and who would be eligible. Other reports pointed directly to the apparent success of welfare devolution in the USA, typically proposing that responsibility for the benefit system be devolved to lower tiers of government with freedom to develop and commission local work-based welfare systems (see, for example, Hannan and Carswell, 2009; CPS and DD, 2007). These proposals were linked at the time to Conservative Party plans to devolve power locally¹⁵ but were not adopted. The Conservative Party was instead proposing other radical changes and the decentralisation envisaged was to be through welfare to work prime contractors not through local partnerships.

3 WELFARE REFORM, LOCALISM AND WELFARE TO WORK DEVOLUTION IN ENGLAND

Following the 2010 election, the Coalition Government placed welfare reform at the heart of its plans to reduce ‘dependency’ and public expenditure. The Coalition Agreement also committed to ‘localism’ and a radical approach to devolution, giving new powers and opportunities to ‘councils, communities, neighbourhoods and individuals’.

Both these ambitions have been reflected in wide-ranging policy changes, with welfare reform in particular intended to reduce expenditure on social security and encourage employment as the primary pathway out of poverty. This chapter considers the Coalition Government’s welfare to work reforms and their alignment with local growth policies. It reviews how DWP ministers and officials have given a local dimension to national welfare reforms, with local government given new devolved responsibility for aspects of the benefit system. It assesses also the developing role of local authorities and LEPs and the ways in which these stakeholders are using City Deals and Growth Deals to influence and shape local employment and skills provision. It concludes by reviewing proposals made by local government stakeholders and others calling for more comprehensive devolution of welfare to work provision after 2015.

The most significant policies and delivery shifts that occurred in the period are shown in the form of a timeline (see Table 2) and are considered in more detail in the following sections. They illustrate that the rapid rate

of change in national welfare to work and related localism policies further intensified under the Coalition Government.

Table 2: Timeline of key policies, drivers and delivery changes shaping welfare to work devolution 2010–2014

Year	Policy and drivers	Delivery shifts/programmes
2010	- Welfare reform white paper outlining case for Universal Credit - Abolition of Regional Development Agencies - Ministerial letter to local council and business leaders about formation of Local Enterprise Partnerships	- Cancellation of Flexible New Deal phase 2 - Notice of termination of New Deals and other mainstream employment programmes - Competition for the Employment Related Support Services Framework completed and successful preferred suppliers notified - Work Programme competition commences
2011	- Localism Act – Core Cities Amendment and removal of statutory requirements concerning Local and Multi Area Agreements and Local Strategic Partnerships <i>Unlocking Growth in Cities</i> document released, leading to City Deals - Community Budgets prospectus published	- Work Programme prime providers selected and commence delivery - Jobcentre Plus Offer launched, underpinned by the new JCP Performance Management Framework - JCP Flexible Support Fund replaces Deprived Areas and other discretionary funds - End of JCP Executive Agency Status and of City Strategy Pathfinders - First 16 Community Budgets for families with multiple problems established 4 Whole Place Community Budgets and 10 Neighbourhood Community Budgets announced
2012	- Welfare Reform Act – provides for the introduction of Universal Credit - Lord Heseltine's <i>No Stone Unturned</i> report – case for increased 'single pot' funding for LEPs, including devolution of skills and employment programmes	- First wave of City Deals for 8 Core Cities agreed 4 Whole Place Community Budget areas publish operational plans setting out how they intend to reform some public services in their areas over the next five years - The Department for Communities and Local Government launches four-year Troubled Families programme - The DWP launches three-year Families with Multiple Problems programme
2013	- Universal Credit Local Support Services Framework published - Release of initial guidance to LEPs on Growth Deals and European Structural and Investment Fund strategies	- Universal Credit implementation starts in pathfinder areas in April; gradual national roll-out from October (anticipated completion now delayed from 2017 to 2019) - Council Tax Benefit replaced by Council Tax Support - Elements of Social Fund replaced by discretionary local welfare arrangements 20 City Deals negotiated in wave 2
2014	- Revised DWP Commissioning Strategy 'Greater Manchester Agreement', announcing the devolution of some powers over skills and employment services to the Combined Authority 'Smith Commission' indicates that the Work Programme and some other employment programmes will be devolved to the Scottish government	39 Local Enterprise Partnership Growth Deals announced - DWP announces Work Programme contract in Scotland to be extended for a year to 2017

Welfare reform and supporting local economic growth

Welfare reform has been led by the DWP and has comprised multiple changes to the benefit system, employment services and contracted-out programmes. These changes have intensified a reform process which is reshaping individual work incentives and transforming the organisational landscape of the welfare state. JCP staffing has been reduced and its regional tier of management removed, with 37 large districts now each working with multiple local authorities.¹⁶ Service delivery is being reorganised through greater use of digital channels for managing job search, communications, and benefit transactions.¹⁷ A small number of largely for-profit prime providers now deliver most mainstream employment programmes either directly or through subcontractor supply chains.

There has also been a complete change in the structures and funding mechanisms to support local economic growth, with the government devolving some budgets and powers and envisaging a future in which LEPs formulate local growth strategies and local authorities put 'economic development at the heart of all they do' (CLG and DWP, 2014, p. 4).¹⁸ This local devolution only partly offsets the cuts in economic development funding associated with the abolition of RDAs, which also saw the recentralisation of many economic development functions, such as 'inward investment, business support, innovation, venture capital, sector support and aspects of skills and European policy' (Bentley, *et al.*, 2010).

Devolution to local government has been more extensive and involved, among other things, the creation of a 'general power of competence' for local authorities; the removal of 'ring fences' on central government grants; ending targets associated with 'the old, top-down local performance framework'; and the development of Community Budgets (which replaced Total Place initiatives) to test ways of integrating public service delivery at local level. The Localism Act (2010) also contained a clause known as the Core Cities Amendment. This provision allows local authorities to make the case for receiving new powers to promote local economic growth which, among other things, is the basis on which powers may be devolved through City and Growth Deals (CO, 2011, p. 4).

Local government reform is being driven also by the scale of reductions in central government funding and by associated changes in how that funding is allocated among local authorities. This includes the localisation of Council Tax Benefit (see Devolution of the Social Fund and Council Tax Benefit) and a Business Rates Retention Scheme which allows councils to retain half of any increase in local business rates.¹⁹ These changes give local authorities greater incentives to develop their local economies but expose them to greater risks associated with variations in local economic development and potential (Sandford, 2014, p. 11).

Some consequences of these changes were multiple staff reductions, role changes and public sector reorganisations, causing disruption to existing partnerships and more integrated patterns of local service delivery. It has inevitably taken time for front-line managers and staff to settle into new roles and to develop and re-establish local partnership working within the new remits determined by central government.

Universal Credit delivery, local welfare reform, and employment and skills budgets

The implementation of welfare reform and the gradual introduction of UC are having an impact on the relationship between JCP and local authorities.²⁰ The first aspect of this change concerns benefit design and delivery with UC reforms centralising Housing Benefit administration while devolving responsibility for Council Tax support. The second aspect concerns the employment assistance now being given by local authorities to workless residents as a key way to 'mitigate' the impact of benefit reductions on local households.

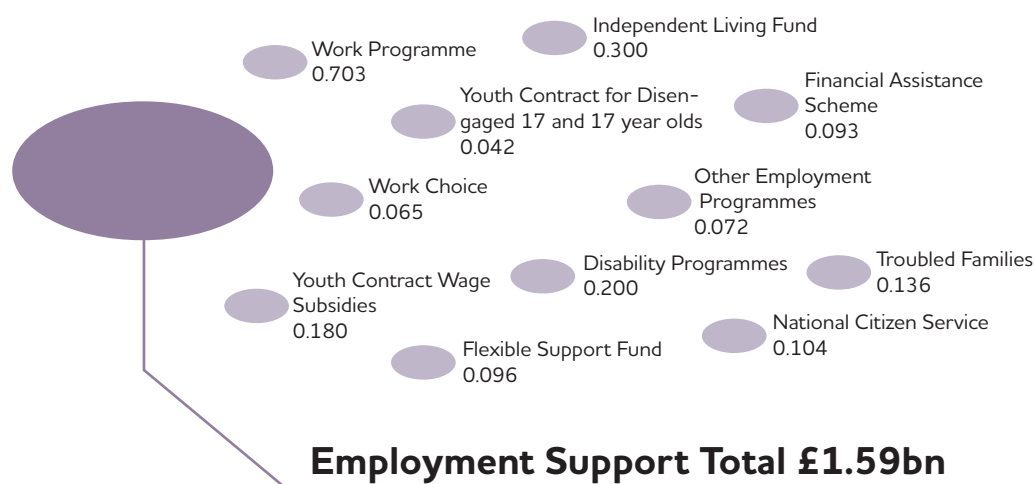
The DWP is implementing a 'digital by default' approach to making and managing benefit claims and it is envisaged that some 80% of UC claimants will manage all benefit-related aspects of their claim online. The DWP accepts that a significant group of claimants will experience transitional or longer-term difficulties in meeting the behavioural and financial requirements of the new UC system. It published a Universal Credit 'Local Support Services Framework' (LSSF) jointly with the LGA. This set out broadly how the DWP intends to share responsibility with local partnerships for developing services delivering assistance with digital inclusion, personal budgeting support, and 'bringing people closer to work'. The expectation is that each local authority will engage with its DWP Partnership Manager to bring together organisations with the appropriate skills to plan and provide local support services.

The department has funded LSSF pilots testing different delivery models, with local authorities and partnerships considering how to integrate benefit-related services with employment support (DWP, 2014a). In many areas there is uncertainty, however, about how partnerships will operate, with local actors awaiting clarity from the DWP on the responsibilities they are expected to assume and any funding to be made available (WPC, 2014). Delays in the national implementation timetable, related to problems in developing administrative and IT systems for UC, are further hampering the development of local support services. Large-scale roll-out of UC to existing claimants now seems unlikely before 2016.

The LGA argues that in order for claimants to respond to UC incentives and to mitigate the impact of benefit reductions, local authorities need greater control of welfare to work programmes. In an LGA-commissioned study Wilson, *et al.* (2013) estimate that, on existing trends and policy settings, only a quarter of welfare recipients would be in a position to mitigate benefit reductions by finding work or moving to cheaper accommodation. The LGA concludes that without greater powers over employment, skills and housing provision councils will struggle to meet the increased demands that their other services and budgets are likely to experience.

The national employment and skills budgets highlighted by the LGA remain large even after expenditure cuts. One study estimated that in the current spending period, national departments continue to invest annual funding of £1.59 billion in employment support programmes and a further £11.36 billion in skills-related provision (LGA-CESI, 2014, p. 37). Much of this employment services and skills expenditure continues to be channelled into local areas through multiple contracts with national agencies, and the poor local targeting and co-ordination of these services have fuelled growing demands from local government stakeholders for greater devolution. Figure 1 gives the data for employment programmes commonly proposed for devolution.

Figure 1: Funding for employment and skills programmes in England



Devolution of the Social Fund and Council Tax Benefit

Welfare reform has already been accompanied by the devolution of two significant elements of the national benefit system. The devolution of responsibility for, and funding of, elements of the Social Fund and former Council Tax Benefit has involved the replacement of demand-driven centrally financed cash benefits with more discretionary forms of local support.

In April 2013, the Crisis Loan and Community Grant elements of the Social Fund were abolished, with central government providing a one-year transitional grant to English local authorities and the devolved national governments. Ministers removed the national programme to control costs and on the assumption that councils were best placed to judge the types of emergency support needed by local people (CESI-LGA, 2014). In England, the resulting 'local welfare schemes' vary; councils take different approaches to eligibility criteria, access arrangements, application procedures, decision-making and appeals processes. Local councils sought to combine different forms of support and many local funds now offer only in-kind support (such as payment cards or vouchers) rather than cash loans or grants. There were reports of confused front-line responsibilities, especially with Jobcentres, but councils have since reported being able to reduce repeat demand for assistance by moving resources into more preventative work and doing more to meet the underlying needs of applicants (CESI-LGA, 2014). More critical reviews have found marked variations in take-up and in the level of support given, resulting in a 'postcode lottery' of local welfare support throughout England (Gibbons, 2013; Butler, *et al.*, 2014). Both councils and welfare rights organisations have proposed that government should continue to specifically fund arrangements to meet emergency needs but this seems unlikely.

Council Tax Benefit (CTB) was abolished in 2013 and replaced by Council Tax support schemes designed and administered by over 300 English local authorities. The projected CTB budget was cut by 10% (or £490 million per year), with funding no longer paid through a separate needs-based central government grant but from more general resources. Although councils were given flexibility, the legislation mandates that they offer the same levels of Council Tax support to pensioners and war pensioners previously available under the national system. This means the burden of adjustment

either passed on to the 2.5 million working-age CTB claimants or other local budgets. In 2013–14, most councils reduced the support available with over 70% introducing small charges for previously protected working-age claimants (NAO, 2013b).

Council Tax localisation has advantages, and councils have an interest in designing support schemes that make work pay, but the change has created ‘undesirable incentives for councils as well as desirable ones’ (Adam and Browne, 2012). Variation across the country also has reduced the simplicity that UC is supposed to bring, by introducing a separate administrative process for in-work and out-of-work benefit claimants to navigate and a separate taper that may undermine the financial incentives to work created by UC (NAO, 2013b; Bushe, *et al.*, 2013).²¹

Delivering employment services – Jobcentres and the Flexible Support Fund

The DWP mainstream welfare to work delivery system is now comprised of a national network of over 700 Jobcentres and a mixed economy of contracted providers. Despite expenditure cuts, the government still spent some £2 billion on active labour market support delivered through these services in 2012–13, making it by far the largest provider of welfare to work and employment support services in local areas (HMG, 2014, p. 48). Most of the budget is spent on Jobcentre operating costs and their related advisory services and programmes.

The DWP has made major organisational changes since 2010 and suggests that these have enabled the organisation to secure the efficiency gains of a national delivery and contracting system while giving Jobcentres and prime contractors ‘freedoms and flexibilities’ that facilitate co-ordinated local service delivery and better engagement with LEPs and local authorities.

The Jobcentre Plus Offer introduced limited flexibility in the activation regime by giving District Managers and front-line advisers some discretion over the frequency of interviews required and the employment support made available. This approach is supported by the Flexible Support Fund (FSF), which replaced earlier targeted discretionary funds (expenditure estimated at £122 million in 2012–13). The fund can be used to provide individual support directly to jobseekers or managers can use it to procure small-scale programmes for specific target groups (OECD, 2014a, p. 141). This discretionary funding includes the availability of responsive ‘partnership opportunities’ through which the DWP may award grants of up to £50,000 to test new approaches targeted at harder-to-place groups. Little is known about the outcomes secured through these discretionary funding streams.

The local flexibilities of Jobcentres continue to be exercised within a clear national (vertical) accountability framework in which front-line staff must contribute to meeting the DWP’s national targets (Wilson and Gallagher, 2013). These are to ‘move people off benefit, into employment, as quickly as possible’ and reduce the monetary value of fraud and error. The first target is measured only through off-benefit flows (measured at 13, 26, 39 and 52 weeks) with JCP tasked to ensure some 88.5% of those claiming Jobseeker’s Allowance (JSA) cease claiming within a year. Early positive evaluation results of the more flexible regime have been overshadowed, however, by concerns of perverse target-driven behaviour, such as preferential treatment for those claimants thought most likely to contribute to meet short-term targets or applying inappropriate pressure on people to drop their benefit claims (WPC, 2014; NAO, 2013c). The implementation

of the core benefit regime and concerns about the 'off-benefit' target have also been a source of tension between the DWP, Jobcentres and local partners and in many high unemployment areas weaken the willingness of other organisations (such as health services) to engage too closely with DWP provision (WPC, 2014).

Local Jobcentres continue also to deliver or refer service users to a range of nationally designed support measures: pre-employment training and work experience placements; Work Clubs; self-employment support; and the WP. While some options are sourced locally most of the services are procured through a national framework with more expensive provision, such as mandatory work experience, delivered through prime contractors. The national framework excludes many smaller local providers (see Prime contractors and the Work Programme below).

A further development has concerned changes to push the employment and skills systems together (Simmonds, 2012; Devins, *et al.*, 2011). JCP, for example, now screens claimants for basic and English language skills and can mandate people to attend courses. It delivers sector-based academies with training providers, and the JSA '16 hour rule' which limited the training that could be undertaken has been partly relaxed. Much local adult skills provision is, however, funded through the Skills Funding Agency (SFA)²² and continues to be commissioned separately from welfare to work programmes, as does training and advice provision for young people (now procured by the Education Funding Agency and National Apprenticeship Service). The result is that the commissioning and delivery of skills and employment support remains highly complex involving different departments funding programmes with varied eligibility criteria, targeting and rewarding different outcomes, and delivering across differing geographical areas.

Mainstream welfare to work provision for the unemployed remains tightly focused on implementing the benefit regime but DWP Districts and Jobcentres can play an important role in seeking better ways to deliver and co-ordinate services and to support and work with local partnerships.

Innovations in service delivery have been strongest when working with groups not covered by mandatory requirements and not well served by mainstream provision, such as 'troubled families', people on disability benefits and disadvantaged young people. Two significant service delivery aspects concern outreach, with DWP advisory services delivered from over 1,100 locations, including community centres and prisons, and experiments in co-location where, for example, skills, careers and JCP employment support are delivered alongside each other. The DWP has also tested 'co-design' pilots where DWP and local Jobcentres worked with local councils and other partners and which extended the principles of the earlier Total Place initiative (DWP, 2011). These pilots tested different approaches to partnership work in co-ordinating mainstream welfare to work provision with wraparound services, with most focused on improving employment pathways for harder-to-help service users.

District Managers and specialist Partnership Managers also engage strategically with local stakeholders, councils and the LEPs, with the DWP often providing information on benefit changes, the nature of the local labour market, the profile of workless claimants and the nature of demand from employers. DWP Districts are expected also to support the integration of employment and skills provision and to co-ordinate partnership priorities with the activities of WP prime providers and their subcontractors (DWP, 2011). The commitment to partnership working is largely voluntary, however, and local authorities, and now LEPs, have no direct role in the design or commissioning of JCP support and only limited influence on how resources are deployed to meet local needs (Wilson and Gallagher, 2013).

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Prime contractors and the Work Programme

In May 2010, the Coalition Government announced that it would establish a single Work Programme to replace some 13 contracted-out employment programmes. Ministers suggested that the WP represented a 'revolution in back to work support' and it is estimated that some 2.2 million participants could be assisted over the five-year contract running from 2011 to 2016.

Before procurement of the WP, the DWP introduced a competition for organisations to be included in a 'framework agreement'.²³ This established a core of 40 potential prime providers from which the department would contract most employment programmes over a four-year period. The qualifying conditions for the framework included a commitment to deliver services across one or more CPA areas; accept the risk of PbR contracts; and have a minimum annual turnover of £20 million. These criteria were designed for the WP. They effectively excluded most voluntary organisations and local authorities from being prime providers and from bidding for contracts subsequently offered under the framework. Some lower value DWP contracts have, however, subsequently been commissioned outside the framework, allowing smaller providers to compete directly for some national provision.

In the subsequent WP competition, 18 prime contractors were selected to deliver 40 separate contracts, with two or more primes competing in each CPA (NAO, 2012). Prime providers were able to select their own subcontractors but were expected to work with supply chains with the capacity to meet the needs of the different groups eligible for the programme. The largest group are young and long-term unemployed people receiving JSA and those claiming Employment and Support Allowance (ESA) who are assessed as capable of work-related activity.²⁴ Participation is mandatory for most participants, who must undertake the activities agreed with their WP provider.

In terms of service delivery, two different prime provider models emerged. The first model comprises **prime managing agents**, providing no direct services themselves and delivering all WP activities through a supply chain of subcontractors. The other predominant model is the **prime delivery agent**, which combines direct delivery with subcontracting to a supply chain. There are wide variations in how much service delivery is subcontracted by these primes, often within as well as across regions, ranging from a low of 15% through to a more typical 30% to 40% of provision. The composition of supply chains varies but includes private, voluntary sector and some public sector and local authority-related organisations.

Work Programme contract design and incentives

The development of the WP has included a series of innovations in the design, procurement and delivery of outsourced employment services and it has acted as the template for other related national PbR programmes, such as those targeted at ex-offenders and troubled families. Many local authorities and partnerships have developed their own variants of PbR contracts for procuring employment and placement services from providers, and it has been suggested that in future the WP funding model could be used by the DWP to contract with local authorities or groups of local authorities that would act as prime contractors.

The DWP and Treasury negotiated a unique WP funding arrangement which supplements core departmental funding (up to £2 billion between

2011–12 to 2014–15) with additional Treasury funding released as claimants stop claiming benefits (NAO, 2012). This arrangement was contingent on Treasury agreement to a WP funding model that was intended to ensure higher levels of performance.

The WP funding model includes differential prices, with participants divided into nine payment groups, based on age and the benefit the person is receiving when they start with the provider. The payment groups act as a proxy for the relative employability of participants, with higher prices paid to support those furthest from the labour market.

The payments made to WP contractors have comprised four elements:

- An **attachment** or start payment. This is a small fee of £400 or £600 paid when a claimant referred from JCP is successfully enrolled on the programme. The attachment fee helped with initial cash flow and ceased in 2014.
- A **job outcome payment**. Paid when a claimant has been in work for either a continuous or cumulative period of employment, of 13 weeks for harder-to-place groups and 26 weeks for most JSA claimants. The value of job outcome payments for JSA claimant groups is reduced in the later years of the contract.
- A **sustainment outcome payment**. A further payment every four weeks for keeping a claimant in employment, with up to 26 monthly sustainment payments possible for the hardest-to-place groups.
- An **incentive payment**. For jobs delivered beyond a given performance level – defined by the DWP as 30% above the number of claimants who would have found employment without WP support.

The WP Invitation to Tender set clear performance targets, in terms of the number of people getting jobs and keeping them and, when making bids, prime providers were able to offer higher levels of performance and offer ‘price discounts’ on some of the payments. There has been much criticism of the basis on which these original performance assumptions were set; some observers also argued that the DWP gave too much weight to price discounts when it awarded the contracts (WPC, 2013; NAO, 2012).

After the programme commenced, prime contractors were required to meet the minimal performance levels set in each CPA or be subject to detailed performance improvement plans and ultimately risk losing a contract should results not improve.²⁵ A further innovation, adapted from the Australian model and intended to intensify competition, has been ‘market share shifting’, under which the DWP is able to move some 5% of new referrals **within** each CPA from low to high performers. The first such changes commenced in ten CPAs in 2013.

Work Programme performance

The implementation of the WP has attracted much criticism and been punctuated by negative media coverage about poor performance, the poor quality of services for harder-to-place jobseekers and the negative impact of the PbR funding model on third-sector and specialist subcontractors. Much of the criticism of the WP concerned its failure to meet its first-year targets. The position subsequently improved and by 2014 job outcome and retention performance for the long-term unemployed was above minimum targets, especially for young people aged 18 to 24. Performance remained significantly below the Minimum Performance Level (MPL) for disability

benefit claimants, however. There were also marked geographical variations in WP performance, with results often lowest in local authorities and areas within CPAs which have the highest levels of unemployment (CESI, 2014; Davies and Raikes, 2014; NAO, 2014).

There are mixed views of how well WP prime contractors have performed but systemic flaws in the funding design have emerged, fuelling calls for a radical change in 2016 (NAO, 2014). Varied assessments have now highlighted the 'counter-productive' WP funding regime where, because of lower than expected performance, and less income from job outcomes, primes have fewer resources to invest in the hardest-to-help participants and in high unemployment areas (Riley, *et al.*, 2014; Davies and Raikes, 2014). Primes may be able to cross-subsidise their resources between the different client payment groups and local areas but they have limited incentives to do so. By contrast, it is suggested that local authorities and partnerships are better placed and motivated to tackle such inequalities if given greater control of the WP and related resources.

The Work Programme, localism and the DWP Commissioning Strategy

Prime providers are expected to engage with local partnerships and ensure that delivery arrangements reflect local needs. They have flexibility in how they do this and, as with JCP, programme accountabilities are vertical to the DWP. Local authorities and related partnerships had no formal role in the commissioning of the WP or in its oversight, and they are given access only to publicly available performance data. The previous government had planned to give local authorities a role in co-commissioning the FND but after the General Election the new Conservative minister considered that too many councils would want to be involved in WP procurement and this would be impractical (CLGC, 2011, p. 16). The minister's expectation was that selected prime contractors would want to form partnerships with local authorities at local level, but such joint working remains fragmented at best. The minister argued that DWP-led 'localism' was not about giving powers to other organisations but about the centre 'interfering less' and giving District Managers and prime contractors local flexibility.

In evidence to the House of Commons Communities and Local Government Committee, local government representatives were highly critical of the way that the DWP designed and procured the WP, arguing that organising contracts on a 'regional' (CPA) basis was 'strikingly centralised'. The committee itself concluded that government definitions of localism were elastic, which had 'allowed individual departments to adopt definitions of localism that suit their policy aims', with the DWP remaining 'notably more centralised than others'. The committee considered that while local flexibility in JCP and the WP may be good management practice, 'giving centrally controlled civil servants or contractors more freedom is not localism but administrative decentralisation' (CLGC, 2011, p. 3; p. 17).

After a period of consultation in 2014, the DWP published a revised Commissioning Strategy that sets the broad framework within which it intends to design and procure replacements for its existing contracts, including the WP, which are due to stop receiving referrals over the next two to three years. The strategy reaffirms the department's commitment to competitive tendering, longer-term contracts and to working centrally with prime providers that can deliver larger national PbR programmes. It also re-commits the DWP to partnership working and to moving to more

‘integrated forms of commissioning at the national, sub-national and local level, especially to support those furthest from the labour market’ (DWP, 2014b, p. 23). The department also suggests that local partners may play a more significant role in commissioning but, as with other commitments, this is expressed in a vague intention to ‘seek assurance from partners cited in bids and ... seek partners’ input in the performance management of contracts’. Despite the stress on partnership working, it is interesting to note that the department’s future Commissioning Strategy makes only one direct reference to working with LEPs, which briefly considers the role these partnerships now have in the procurement, co-commissioning and management of ESF-funded provision (DWP, 2014b, p. 13).

Local Enterprise Partnerships and local government

A national network of 39 LEPs now constitutes an important part of the local delivery landscape in England.²⁶ They are non-statutory bodies which cover a self-defined ‘functional economic geography’, have the support of business and local government, and are tasked to provide strategic leadership and set out economic priorities for their areas. An important part of their remit is to ensure the skills system supports local economic growth and they are also expected to work with local employers, the DWP and learning providers to help workless people into jobs (Ward, 2014, p. 5). LEPs are ‘steered’ primarily by the BIS and CLG, and the DWP has little direct national involvement.

Varied reviews have identified the ‘pivotal’ importance of the relationship between LEPs and their constituent local authorities (which often act as ‘accountable bodies’ for LEP funding). Six of the largest LEPs (15% of the total) are a subset of mayoral and combined authority governance arrangements; a third operate as de facto business-led arms-length organisations of local authorities’ leaders’ boards;²⁷ with the remainder ‘finding their way’ and currently sitting beside often newly formed local authority leadership structures (Pike, *et al.*, 2013). One review suggests that the most effective LEPs inherited their strategy and support system from previous area-based economic strategies framed by a RDA sub-regional partnership or by a local authority Local Economic Assessment – with many such areas retaining already established ESBs as LEP subcommittees.

Local Enterprise Partnerships and Growth Deals

The initial development of LEPs was fragmented as they quickly acquired a range of responsibilities, including the management of an array of enterprise zones, competitive programmes and funds (PAC, 2014a). Their performance improved after the award of core funding and their responsibilities have further developed following Lord Heseltine’s (2012) *No Stone Unturned* report. This made the case for a major rebalancing of responsibilities for economic development between central and local government. The report recommended that after a competitive bidding process, LEPs should be given control of a large number of budgets amalgamated into single economic development-related funding pots for local areas.

It was envisaged that the budgets to comprise the single pot would total £49 billion over four years and that this would include all public funding for apprenticeships, adult skills and employment support provision (including all contracted-out DWP programmes). The report made no mention of the role

of JCP but did suggest the SFA would become redundant. The government accepted many of the Heseltine Report's recommendations but the annual £2 billion 'single pot' Local Growth Fund introduced is smaller than anticipated, with critics reporting that elements of the fund remain heavily constrained by central departmental requirements (Pike, *et al.*, 2013).

LEP spending priorities and budgets are shaped by two strategic documents which they have to produce. In these documents, the British Government and European Commission require LEPs to analyse local circumstances, articulate their strategies and identify growth and employment-related priorities.

The key requirement for LEPs is to develop multi-year Strategic Economic Plans. These form the basis on which they have negotiated Local Growth Deals with central government and which will commence delivery in April 2015. The methodology for Growth Deals builds on the approach towards City Deals which some LEPs and local authorities had already agreed with central government (see City Deals and Community Budgets below). In these negotiations, LEPs sought 'freedoms, flexibilities and influence' and 'new levers' through which to shape and better co-ordinate local growth strategies and the delivery of national programmes. In return, central government required 'commitments' from LEPs, local authorities and the private sector; a demonstration of their organisational capacity; and provision of 'a strong rationale and compelling' performance offer as expected in the City Deal process (HMG, 2013).

The other strategic LEP planning requirement concerns their responsibility to guide the delivery of an estimated £5 billion in EU Structural and Investment Funds for 2014–2020.²⁸ European funding will be distributed alongside the Local Growth Fund, giving LEPs flexibility to use resources on combined or complementary activities. These European funds will play an important role in shaping much of the discretionary funding available to local authorities and the voluntary sector for investing in skills and employment programmes for workless residents.

Skills funding has remained largely centralised but LEPs have been given levers which should allow them to exercise 'real influence' over vocational education and skills providers in meeting perceived business needs (BIS, 2013). LEP influence on DWP programmes is less direct but the DWP is committed to assisting LEPs to develop their strategic plans and to working with them through its Jobcentre network. This builds on the department's existing joint activity with LEPs organised through City Deals.

City Deals and Community Budgets

LEP development overlapped with the introduction of other government approaches to devolving control over budgets to cities and local authorities. City Deals and Community Budgets have both been designed to pool previously separate funding streams but City Deals (as with LEP Growth Deals) take the form of agreements brokered with central government while Community Budgets are designed to more directly facilitate local joint working between public bodies.

The government's approach to City Deals was set out in 'Unlocking growth in cities' (CO, 2011), which signalled it was 'open to bold ideas and a genuine transfer of power'. The proposition was that cities could be given powers and freedoms relating to economic growth, infrastructure development, housing and planning, skills and employment, in return for commitments to deliver better results on local growth and jobs. It was

envisaged that deals would be made with cities that had strong governance and accountability structures and which planned their priorities with the private sector, and that the cities should be prepared to risk their own resources as well as 'reap rewards'.²⁹

Individual City Deals were brokered in negotiation with the Treasury. A specialist inter-departmental Cities Unit provided advice to cities and negotiated the proposed deals and 'asks' with individual departments, with one team specialising in proposals concerning 'work and skills'.

The first wave of City Deals was agreed with the eight core cities and their LEPs in 2012. Their published format is similar, with each deal divided into economic development themes under which the partnership outlines its targets and summarises the actions and commitments of the city alongside parallel commitments from central departments. In return for the greater control and funds awarded, the eight cities committed to actions expected to create 175,000 jobs and 37,000 new apprenticeships over two decades. Two of the deals were led by the LEP, the others by local authorities. A further 20 areas were invited to negotiate individual deals during 2013–14; some were agreed and others superseded by LEP-led Growth Deals.

The Community Budget approach to devolution is different. The focus has been on giving local public services greater freedom to use existing powers to work together to 'improve outcomes, join up services and reduce duplication and waste' (CLGC, 2013). The approach was initially tested by the CLG on pilots that aimed at drawing together the services of agencies involved in working with families with multiple problems.³⁰ A second wave of Community Budgets tested neighbourhood and 'whole place' approaches. In the 'whole place' pilots, four local authority partnerships were selected after a competitive process. In each area, local authority staff worked with central government officials on selected themes to produce full business cases each setting out the problem being tackled, the proposed new delivery model and the return public bodies might expect for their investment, supported by a rigorous cost benefit analysis (NAO, 2013a). The 'whole place' pilots had varied objectives but each considered economic growth and employment and proposed significant changes in the local design and delivery of aspects of skills and welfare to work provision.

The pilot 'whole place' programme ended in October 2012 with the publication of local business cases. Each pilot area identified how improved co-ordination and delivery of services would produce significant savings and improvements in outcomes. The areas generally planned to implement their proposals within existing structures and using existing powers but they highlighted a number of issues on which continued local and national leadership and collaboration were deemed necessary. These issues included practical measures within existing structures, for example, encouraging data sharing between public bodies, and dialogue around potential longer-term and systemic reforms, including financial incentives for partners to invest in public service reform across organisational boundaries (NAO, 2013a).³¹

If fully implemented, the impact of community budgets may be significant. The LGA commissioned a study from Ernst and Young (2013) to assess potential savings if the estimates given by the pilot areas could be rolled out and obtained by other local authorities. The study made important caveats – these were estimates not actual savings – but suggested that the projected net benefit from proposed changes in the delivery of health and social care, support to families with complex needs and integration of work and skills over five years was between £9.4 billion and £20.6 billion. Potential annual 'steady state' net benefits from the 'work and skills' proposals alone would amount to between £1 billion and £1.7 billion. The LGA has used the report's

findings to reinforce the case both for devolution and for local government being given a greater share in the savings generated by such locally driven service delivery reforms. It was pointed out, for example, that while councils would make greater investments, 85% of the net benefit savings would flow directly to the DWP, as would a significant portion of the 15% savings on programme expenditure.

‘Work and skills’ services developed through local partnership deals

It was not possible, within the terms of this research project, to undertake a detailed review of the varied ‘work and skills’ proposals in the City Deals, Community Budgets and Growth Deals. A rapid scrutiny of those available online in June 2014 reveals varied proposals arising from an analysis of key challenges facing local areas around low skill levels, youth and long-term unemployment, ‘inactive’ welfare caseloads, and poor opportunities for in-work progression. The proposals combine unique elements, related to the circumstances and growth opportunities in each area, alongside more common proposals reflecting the shared challenges faced by cities and LEPs. The proposals are structured in ways that complement or supplement, rather than radically change, mainstream employment and skills programmes.

One common theme is the commitment to increase the number of apprenticeships available and to reduce the Not in Education, Employment or Training (NEET) population and youth unemployment. Proposed interventions include improving school to work transitions and careers advice, combined with the development of apprenticeship or youth employment ‘hubs’ that would, in some cities, involve co-location of relevant services. These youth-related strategies aim to better co-ordinate existing fragmented provision delivered through an estimated 40 separate funding streams. The youth focus was boosted previously when the eight core cities were given the opportunity to draw on central funds made available because of a significant underspend in the DWP-delivered national Youth Contract budget. By contrast, however, only three core cities were invited to deliver the separate Department for Education PbR Youth Contract provision for 16 and 17 year olds, with the bulk of the programme in England delivered by six prime contractors in twelve regional ‘lots’. An evaluation subsequently reported little variance in performance and that there was ‘remarkable consistency’ in the types of support offered to 16 and 17 years olds by local councils and prime contractors (Newton, *et al.*, 2014).

Another theme concerns giving local employers, through the LEP and/or an ESB, more influence and control over skills funding, with new approaches aimed at increasing the availability and targeting of apprenticeships, including their take-up by small- and medium-sized enterprises (City Growth Commission, 2014). Some projects propose the devolution of aspects of SFA skills funding to local partnerships with which they plan to commission services with contracts that would include a greater emphasis on rewarding providers for placing people in sustained employment in addition to securing qualifications.

A third ‘work and skills’ theme provides for greater partnership working, allowing cities to create joint structures and enhanced options around Jobcentre services and DWP-contracted provision. In Newcastle, for example, this includes a long-term commitment by the local authority and the DWP District to a joint service working with harder-to-place residents. In this co-located service, front-line advisers focus on securing longer-

term outcomes 'rather than trying to move people off benefits as soon as possible'.³² Many deals also include commitments to test and develop new programme approaches for ESA claimants, especially those who remain on benefits after exiting the WP.

City and Growth Deals and Welfare to Work devolution

The next phase in welfare to work and skills devolution is being anticipated in the varied proposals that have been developed to support the City Deals and Growth Deals. The core cities, and London in particular, have articulated longer-term ambitions; the interim innovations and programmes being tested through the deal process are seen as pathways to greater welfare to work devolution.

This longer-term ambition is especially clear in the approach of the Greater Manchester Combined Authority. Through the City Deal, Community Budget and bilateral agreements, the authority has developed a series of innovations intended as a prelude to further welfare to work devolution. The ambition is to develop and deliver more integrated and effective welfare to work services shaped by findings from co-designed experimental pilots, undertaken with the DWP and others.³³ The first aspect concerns pilots that will reduce the high number of residents claiming ESA by reducing the inflow, through a Fit to Work Service, and increase the outflow into employment, with enhancements to the WP (intended to inform the co-design of DWP WP contracts for 2016).³⁴ A second theme is to improve learning pathways, qualifications and work opportunities for young people, particularly those not in employment or training, and includes a proposal to test a 'qualifications outcome payment' with WP providers. A third theme is to increase progression in the labour market for low-skilled people, especially those who have had repeated spells on JSA and who now claim UC. Related service delivery themes include further co-location and the development of 'employment, benefits and skills hubs' across the city; improved data matching; and testing earlier more in-depth assessment of claimants (which will require co-operation from the DWP). This strategy culminated in the 'Greater Manchester Agreement' brokered between HM Treasury and the Combined Authority which, among other things, commits to giving Manchester control of some skills budgets and an expanded Working Well pilot, with an 'opportunity' to be a joint commissioner with the DWP for the next phase of the WP (HMT-GMCA, 2014, p.1).

London Councils (2013) and the London LEP (2014) have also made detailed cases outlining how devolution of welfare to work could be implemented. In its Growth Plan for London, the LEP made ambitious proposals to overcome the barriers and complexity created by national commissioning³⁵ and enable the development of 'clear journeys between welfare and work', multi-agency wraparound services, and targeted support for the hardest to help. The LEP proposed that it be given control of a 'single employment services pot' to devolve to multi-borough Employment Support Units (ESUs) through a needs-based funding formula. The LEP would be responsible for agreeing ESU plans, performance management, labour market intelligence, and brokering relationships with major London employers.

The proposed 'single pot' would include all the DWP and skills budgets earmarked in the earlier Heseltine Report, devolved progressively as national contracts came to an end. The pot would eventually be comprised of co-commissioned mainstream funding (between DWP and the ESUs)

and targeted funds which would be devolved fully, such as LSSF funds. The ESUs would bring employment and skills provision across London into one governance and management system that would embed 'sustainable employment and progression at the heart of all commissioning and employment delivery' (London LEP, 2014, p. 115).

The London LEP proposed an interim strategy prior to full devolution and the formal Growth Deal agreed in 2014 appears to support the approach. The most significant element concerns a large-scale pilot, to be tested in four areas, which targets support at ESA WP leavers (similar to the approach being tested in Manchester and also agreed for some other LEP areas). The intention is to test London's capacity to deliver 'at significant scale' and, if successful, will 'unlock a series of progressive steps towards further local service integration' and 'open discussions on ways for London Government to play a greater role' in the design and commissioning 'of the next phase of (DWP) employment support programmes' (CO and DPM, 2014, p. 6).

Conclusion – proposals for future welfare to work devolution in England

The period from 2010 has been characterised by continuing flux in welfare to work policy settings with local government stakeholders seeking greater control so that they may develop employment, skills and related welfare to work services in ways that better meet the needs of their local economies and residents. The most important processes through which local authorities have been able to exercise influence have been in their partnerships with LEPs and through related Growth Deals, City Deals and Community Budgets. Through these mechanisms, stakeholders have started to identify local priorities and better ways to co-ordinate fragmented services and pool or align budgets to potentially improve outcomes and cost effectiveness.

Considerable momentum has developed around aspects of welfare to work devolution but it has to be stressed that much 'deal'-related activity to date concerns planning rather than implementation and delivery. Research with representatives from the core cities has found, for example, that post-City Deal negotiations with at least some departments are 'slow and resource intensive'. There was praise for the efforts of the Treasury-based Cities Unit, but in negotiations, cities have reported that some 'departments focused their efforts on proving cities wrong rather than working with them to develop their ideas' (CfC, 2013, p. 3). A careful reading of the agreed deals reveals also highly conditional commitments given by ministers, the DWP, funding agencies and other central government departments, and it remains to be seen how local innovation and development will translate into greater devolution and wider changes in employment support and skills service delivery. As it is, there continue to be marked variations in how DWP providers, JCP Districts and individual Jobcentres engage with partnerships, councils and local employers, with positive partnership working in some local areas contrasting with more negative experiences elsewhere.

Slow progress has not dampened demands for more rapid and extensive reform, with many of the largest local authorities viewing the local welfare programmes they are developing as stepping stones to a more radical devolution. Particular emphasis has been placed on options for major changes to the WP when current contracts end in 2016, including 'devolution' of how it is commissioned and managed. Most interventions envisage future commissioning of the WP on LEP and combined authority boundaries with co-commissioning by local authorities. Among these

Slow progress has not dampened demands for more rapid and extensive reform, with many of the largest local authorities viewing the local welfare programmes they are developing as stepping stones to a more radical devolution.

proposals, the Institute for Public Policy Research has outlined a strategy for devolution of the WP and DWP provision which would offer local councils different options according to their appetite for change and capacity to deliver and take on risk (Davies and Raikes, 2014; Lawton, *et al.*, 2014). This echoes the Labour Party's framework, if elected, for devolving commissioning of the WP and skills budgets to LEPs and city-county regions (Timms, 2014).³⁶

The Jobcentre network remains at the centre of local welfare to work services and proposals from local government stakeholders focus most on securing improved co-ordination. This includes policies that would promote greater joint working, including co-commissioning and co-location of local services, with the 23-strong Key Cities (2014) proposing also that Jobcentres (and other public bodies) be given a 'duty to co-operate' with local authorities to better align local services. Only the County Councils Network has explicitly proposed merging JCP with council services, as part of a 'whole-place approach', although its programme for the next government offers no further detail on what this might entail (CCN, 2014).

Radical options for Jobcentre and benefit devolution have been outlined by several think tanks, but most involve further marketisation rather than local control of employment support.³⁷ ResPublica, by contrast, has proposed a radical Devo-Max approach to future public service delivery in English cities, which envisages full devolution of JCP and the benefit system. It proposes that this process should commence with Manchester, with its 'well-evidenced growth potential and mature governance structures' (Blond and Morrin, 2014, p. 2). The ambition is that within five years from the start of the next parliament, Greater Manchester should receive a full place-based settlement for its entire proportion of public spend, including welfare benefits, with powers to reinvest fiscal savings generated through reform. Manchester should be 'immediately empowered' to further develop its localised welfare to work services and by 2020, all DWP employment programmes should be devolved and JCP 'brought under local control'.

An earlier Policy Exchange report proposed a variant more analogous to the model of welfare to work devolution in the Netherlands, under which English cities would be encouraged to bid for greater autonomy over the functioning of Jobcentres and employment programmes. Under these proposals cities could be awarded and be given a 'duty of care' for benefit spending for whole groups of individuals with 'entire estates being put in the hands of cities' (Tinsley, 2013, p. 9). Total expected benefit spending for a group of individuals over a given period would be transferred, incentivising cities to invest in more flexible and integrated back to work services by allowing them to keep any benefit savings accrued from helping additional people back into employment.

In making the case for more powers, local government and other stakeholders have frequently cited the experience of other countries where devolution has been associated with falling welfare caseloads and expenditure and improved employment outcomes. The following chapter considers briefly lessons on welfare to work devolution from four countries frequently cited in UK debates.

4 WELFARE TO WORK DEVOLUTION IN CANADA, THE USA, GERMANY AND THE NETHERLANDS

This chapter briefly reviews welfare to work devolution in four countries cited frequently in the UK literature: Canada, the USA, the Netherlands and Germany.

There has been a strong trend towards welfare to work devolution and decentralisation in Europe and other OECD countries (Mosley, 2011; Froy, *et al.*, 2011). Advocates of such devolution in the UK highlight international exemplars where such reforms have been associated with reductions in benefit caseloads, public expenditure reductions and increased employment. The examples chosen each illustrate aspects of policy and practice that give insights into how welfare to work policy has been devolved and the impact of such reforms on the delivery and integration of front-line services.

Welfare to work devolution and the case-study countries

Much of the international literature on welfare to work devolution is concerned with two patterns of decentralisation through which aspects of policy responsibility have been devolved. The first concerns devolution of responsibility for employment, skills and welfare policy to the regional or provincial level, especially in the federal states of North America. The second concerns new patterns of policy responsibility for social assistance and the long-term unemployed between the national PES and municipal

government, especially in Europe. These different approaches have characterised reforms in the four case-study countries where lower, more autonomous tiers of government play a more central role in implementation and, in some cases, policy formation. Table 3 gives brief details of the rationale for and scope of devolution in the four countries, which are considered in more detail in the following sections.

Each of the countries reviewed has two distinct systems of income support for working-age people, although levels of adequacy and coverage vary. Each country has an unemployment insurance system covering people in regular employment, funded mainly by employee and/or employer contributions. This typically provides time-limited unemployment benefits. Each country also has a minimum income system that provides a means-tested safety net of income support for households that do not qualify for, or who exhaust, their insurance-based entitlements, with work requirements for people judged capable of work. These benefits are delivered by various organisations which are connected with a range of public and private organisations delivering employment, training and other welfare to work services.

In each of the four comparator countries, different types of political devolution and co-ordination have been motivated by a range of factors and implemented within different national traditions, benefit systems and socio-economic contexts. They have also been implemented through varied funding and performance frameworks, ranging from the full devolution of budgets to the co-financing of co-located services.

Developments in Canada and the USA have already attracted British interest, with US welfare and workforce development reforms having had significant influence on policy development (Waldfoegel, 2010; Dolowitz, 1998). In both these countries, the devolution of employment and skills programmes has been through negotiated agreements, while the approach to welfare has been more radical, with block grants replacing federal matched funding for entitlement-based programmes. These block grants give lower tiers of government great discretion and related welfare to work reforms have been associated with significant caseload reductions.

In the European municipal cases, devolution reforms have been largely driven by an increased emphasis on the activation of long-term unemployed or inactive social assistance recipients.

In Germany and the Netherlands this led to policy-driven organisational changes creating decentralised delivery systems for activation and welfare to work services. In the German local joint agencies, this has taken the form of mandated co-operation between municipal social services and PES branch offices. In the Netherlands and the 110 separate German 'opt out' municipalities, responsibility lies with local government.

Table 3: Decentralisation of employment services in Canada, the USA, the Netherlands and Germany: type, reasons and degree

	Canada	USA	Netherlands	Germany
Decentralisation type	- Regionalisation (Federalism: 13 PESs in provinces and territories) - Intergovernmental agreements	- Regionalisation (Federalism: 50 states) - Statutory federal-state-local partnerships	- Statutory - About 400 municipalities; all uninsured claimants - National PES for insured unemployed	- Statutory - About 430 joint PES-municipal or fully devolved municipal agencies for basic-income recipients - National PES for insured unemployed
What has been decentralised?	Employment services for insured and uninsured unemployed and social assistance benefits (a)	Employment services and benefits for all unemployed and for those on 'temporary assistance' (b)	Employment services and benefits for social assistance clients	Employment services and benefits for the long-term unemployed
Reasons for decentralisation	Federalism; also regional/ethnic tensions (c)	Federalism; flexible and locally based delivery system; facilitation of local co-operation/ one-stop-shops in multi-level governance	Activation of social assistance clients; integration of employment services	Activation of social assistance clients; integration of employment services
Regional or municipal flexibility in employment service delivery	High: Provincial government can formulate policy and shape design and delivery of employment services. Separate federal funding stream for insured unemployed. Province has full discretion over social assistance and welfare to work services, which are block grant funded.	Medium/high: Flexibility in programme design and delivery and in allocating funds for employment services. National eligibility, performance, reporting and administrative requirements. Higher flexibility under Temporary Assistance for Needy Families (social assistance) compared to the Workforce Investment Act insured and other unemployed.	Medium/high: Municipalities in own Jobcentres have full management flexibility over programmes, delivery and resource allocation for employment services but are subject to strong financial incentives not to exceed their expenditure ceiling for social assistance benefits. (d)	Low: (joint agencies) (e) PES is a highly centralised national agency and dominant partner. Local budgets are flexible and programme mix is locally decided. 10% of funds can in principle be used for innovative programmes not in pre-defined national menu. Some flexibility in work organisation but follows PES.

Source: derived from Annex 1, Parts A and B, Mosley, 2011, with limited updating and editing

Notes

- a Federal entitlement rules on social assistance came to an end in 1996, and benefits and services are now an exclusive provincial responsibility, although the provinces still receive a block grant towards the cost of social assistance.
- b There are three legal instruments and various federal-state matched funding streams for (1) placement services and UI benefits for insured unemployed; (2) Workforce Investment Boards for labour market training for disadvantaged and redundant workers and (3) welfare to work services for people, mostly lone-parent heads of households on Temporary Assistance for Needy Families.
- c Administrative devolution driven by federal funding crisis and by secession campaigns in Quebec.
- d They must finance higher expenditure out of their own budgets and are free to use any surplus for other municipal purposes. This is supposed to give them an incentive to control expenditure and to conform with the government's 'work before benefits' policy.
- e National performance targets for PES negotiated at local level with municipalities who are part of joint agencies. Municipalities retain control over their own employees and joint agencies can outsource at their own discretion. National performance targets for 110 'opt out' municipalities are negotiated with the regional state government which negotiates municipal targets.

Welfare to work devolution in Canada

In Canada, political events as well as major economic developments in the 1990s combined to produce a transformation in federal and provincial responsibilities for organising and financing social assistance, unemployment insurance, employment services and labour market programmes.

In 1996, federal match funding of safety-net social assistance payments was replaced by a block grant which cut funding levels while giving provinces and territories scope to introduce work-based eligibility requirements. At the same time, a passive system of unemployment benefit was replaced by Employment Insurance (EI) which has tighter eligibility rules and stricter job search requirements. Funding of federal employment and training services for the insured unemployed was gradually devolved to provinces and territories. The reforms were designed to increase the availability of employment services for those eligible for EI and to ensure that claimants entered employment swiftly.

Although provinces and territories have some flexibility, EI continues to be funded from contributions and is controlled by the federal government. EI benefit is time-limited and designed to provide only temporary assistance. It is administered through Service Canada, a national agency providing multiple service channels with a priority given to online application, reporting and job matching facilities. Service Canada also has a national network of in-person services, including outreach sites and some larger one-stop centres, through which it delivers a number of federal programmes. Provinces and territories are responsible for delivering and determining social assistance eligibility rules.

Devolution of social assistance and the National Child Benefit

Between the 1960s and 1980s, the federal government of Canada had funded social assistance as a demand-led programme. It matched provincial or territorial expenditure at a dollar-for-dollar rate while also ensuring comparable quality across provinces. Social assistance caseloads increased in the 1980s and between 1990 and 1994 grew by a further 55%, peaking at over 3 million beneficiaries (Kneebone and White, 2014, Table 1). Matched federal funding and entitlement rules were considered to be 'conducive to rising expenditures' (Gray, 2003). The federal government initially sought to place a cap on the spending of the largest provinces but in 1996 replaced the earlier system with a largely unconditional block grant. In doing so, the federal government removed requirements concerning social assistance benefit rates and eligibility, and after devolution, provinces were given freedom to introduce work-based conditionality rules and to develop welfare to work programmes.³⁸

Initially, the block grant included funding for health and social services, but from 2004 a separate Canada Social Transfer (CST) grant provided federal funding for support for children, post-secondary education and other social programmes including social assistance. The payment of CST to provinces and territories takes the form of a cash grant and local tax revenue with regional allocations determined on a simple per capita basis, but within a complex equalisation formula (Gauthier, 2012). The CST budget is notionally allocated to broad categories of spending but there is no federal oversight or reporting system for assessing or evaluating how the transferred funding is used or the effects of the spending (CASW, 2012). The block grant is not based on any needs assessment or measure of adequacy but since 2007 has been increased by 3% per annum.

Another factor contributing to increased employment rates, especially of lone parents, was the introduction of a means-tested National Child Benefit (NCB) in 1997. This was designed to supplement an existing 'core' Child Tax Benefit by giving poor families greater work incentives, and provinces and territories increased capacity to provide work-enabling services. Provinces and territories are free to reduce their social assistance rates to reflect the NCB payment to non-working families but may only spend the funds generated by these deductions on services and benefits that share the legislative work incentive and child poverty reduction goals of the supplement (HRSDC, 2013a).

Labour Market Development Agreements and Labour Market Agreements

The Canadian Ministry implemented devolution of EI-funded employment and training programmes for the unemployed through a different process of Labour Market Development Agreements (LMDAs). The initial agreements were either co-managed or devolved. In the co-managed variant, the province or territory and the federal department shared responsibility for labour market activities. In the devolved situation, the province or territory had sole responsibility for the design and delivery of interventions. Since February 2010, all LMDAs have been fully devolved (O'Leary, *et al.*, 2011; Froy, *et al.*, 2011). The agreements provided not only for a transfer of funding, but also for the transfer of federal staff and assets to the provincial and territorial governments, with those federal staff remaining in Service Canada often co-located with provincial services (Mosley, 2012). In addition to EI administration, the federal government retained responsibility for pan-Canadian programmes, related, for example, to youth, migration and aboriginal peoples.

The 1996 legislation specified the types of programmes that could be financed from EI funds, ranging from job search support through to skills training, but the LMDAs allowed provinces considerable scope in the design and blend of their services. The legislation required also that the agreements should be 'results based' and incorporate an evaluation of outcomes. Early 'formative' evaluations assessed process and operational issues involved in the transfer, such as governance, access and the development of joint 'single-window' services. 'Summative' evaluations were published after three years and assessed the longer-term impacts and cost effectiveness of the services and programmes delivered. Thereafter, evaluations are expected to be undertaken as a regular feature within each wave of LMDAs (Rymes, 2003).

The federal department developed new results-based indicators for LMDAs, with each agreement containing annual numerical targets for participants served and for benefit savings secured for the EI fund. The primary performance indicator concerns the number of participants who obtain employment after programme participation. Although some of the performance parameters are negotiated, they are mostly determined by federal government (Froy, *et al.*, 2011, p. 25). Provinces and territories must submit financial statements and report on their performance in annual reports. LMDA performance management is designed to enable federal managers to track progress, measure outcomes and support evaluation, with lower tiers supplementing core performance management requirements with their own provincial or territorial indicators.

The LMDAs also require provinces and territories to:

- promote co-operation and partnership with labour market partners, such as employers and community-based organisations;
- feature local decision-making;
- eliminate unnecessary overlap and duplication; and
- encourage individuals to take personal responsibility for finding employment.

As LMDAs are funded from insurance contributions, the C\$1.95 billion annual budget can be spent only on services for the 37% of unemployed Canadians who qualify for EI. In 2007, the federal government introduced a further six-year federal-provincial partnership – Labour Market Agreement (LMA) – designed to ‘supplement’ existing provincial employment services for the uninsured unemployed. The LMA budget was C\$500m a year, and the funds have been used for employment services, basic skills and training programmes targeted at low-skilled workers and the uninsured unemployed, including some social assistance recipients. The LMAs were also structured as performance agreements, providing regular reports on outcomes and subject to formative and summative evaluation (HRSDC, 2013b). LMA funds were allocated by the federal government on a per capita basis, in contrast to LMDAs, under which funding was distributed based on historical allocations and labour market variables (Froy, *et al.*, 2011, p. 44).

There are specific federal-provincial agreements targeted at older workers and disabled persons, and a separate federal Youth Employment Strategy. Additional federal funding was also distributed through short-term agreements in response to the impact of the global financial crisis on unemployment. In total, some 85% of federal employment and training funds are distributed through the various agreements (Froy, *et al.*, 2011, p. 18).

Each province and territory has its own separate governance and delivery arrangements, reflecting different political and policy choices. In Ontario, for example, the last province to take over full control, a unified Ministry of Training, Colleges and Universities is responsible for delivery of employment and training services through Employment Ontario (OECD, 2014b). This delivery network is comprised of 170 contracted providers – public, private and non-profit – which manage over 400 service delivery locations through which they provide self-service and supported job search and provide referrals to other services. The ministry controls policy centrally but takes advice from a separate network of 25 Workforce Planning Boards. These boards include employers and promote partnership activity and initiatives aimed at tackling local needs.

In 2013, the federal government unilaterally announced a major ‘centralising’ reform to the Labour Market Agreements, provoking a one-year ‘stand-off’ between federal and provincial governments (Mendelson and Zon, 2013). A large part of the LMA budget, which was to be renewed from 2014–15, was to be devoted to a new Canada Job Grant, targeted at meeting employer skill needs and to be co-funded equally by the employer, federal and provincial/territory government. After much debate, so-called Job Fund Agreements now protect more of the previous LMA funding at risk for harder-to-place recipients and provide greater flexibility in the terms of the new grant (with no provincial or territorial contribution, and reduced contribution rates for small employers).

The impacts of welfare to work devolution in Canada

The evaluations of the various federal Labour Market Agreements show that they have acted as the catalyst for provinces and territories to integrate the delivery of employment and training provision, with evaluations finding the creation of a more 'seamless service for clients'. The formative studies of LMDAs exposed some short-term and some enduring implementation problems requiring adjustments in partnerships, work processes and accountability structures. They also show that the process of integration demanded, at least initially, a 'large investment of time and energy from all involved' (Rymes, 2003, p. 183). A synthesis of many of the individual studies reported that over the past decade, the federal agreements had given provinces and territories flexibility through which they had been able to design and adapt cost-effective services in response to changing circumstances (O'Leary, *et al.*, 2011).³⁹

The agreements also established a distinctive approach to accountability, including performance reporting and evaluation requirements targeted at measuring immediate and longer-term outcomes. In the first agreements provinces and territories were required to work with federal representatives in Joint Evaluation Committees, which prepared and signed off an evaluation framework, undertook evaluations, and approved third-party evaluation contracts and evaluation reports. There were also formal agreements on information and data sharing that outline how each party should co-operate, analyse, produce, disseminate and use labour market information to support economic development (consistent with a nationally defined labour market information methodology).

The system has some significant weaknesses, however. The federal reporting requirements on LMDAs are less detailed than those for LMAs, and it is difficult to make inter-regional comparisons of performance because of variations and inconsistencies in how services, results and outcomes are reported (CHBA, 2012). The funding formula for the distribution of insurance-based LMDA resources has also not been updated and is 'based on decades-old assessments of provincial need' (Mendelson, 2012, p. 16). Analysts suggest the allocations and eligibility rules have not kept pace with labour market and population changes; some suggest that consequently, low-skilled and uninsured unemployed people who need services are ineligible and provinces such as Ontario get a lower share of resources than their level of unemployment might suggest (Mendelson and Zon, 2013).

There are no official federal evaluations of the impact of devolved social assistance on poverty or of the direct contribution it made to falling caseloads and increased employment after implementation (Kneebone and White, 2014). Caseload reductions were particularly strong in the late 1990s, when the combination of tightened work-based eligibility rules, rate cuts and a strong economy saw the number of beneficiaries fall from a peak of over 3 million to less than 2 million in 2001, while aggregate social assistance expenditure fell from C\$14.3 billion in 1994 to C\$10.4 billion in 2001 (Lightman, *et al.*, 2010). The lone parent employment rate increased by 19% between 1998 and 2003 and the number of beneficiaries continued to fall to a low point of 1.64 million in 2008 (Crisp and Fletcher, 2008; Kneebone and White, 2014). Although family income increased for most welfare leavers, it declined for a third; detailed provincial studies found that while the majority of leavers entered full-time stable jobs, many of the jobs were low paid and significant minorities worked part time or recycled into the welfare system after periods in casual, temporary and seasonal employment (Lightman, *et al.*, 2010).

Recent assessments show that the coverage and value of social assistance payment rates has fallen since 1996, relative to low-income thresholds calculated by Statistics Canada. Although work requirements are now common, there have been significant differences in provincial policy choices, with British Columbia the only one to introduce US-style time limits in 2002. Some analysts argue that a trend towards harsher policy choices has been exacerbated by inter-provincial competition which has contributed to 'a significant downwards convergence of both caseloads and costs' (Wood, 2013). Concerns about the reduced coverage of social assistance have prompted the demand of anti-poverty campaigns for the introduction of minimum Canada-wide standards on eligibility and adequacy and for an accountability mechanism that requires devolved governments to explain how federal funding is spent and the impact it has (CASW, 2012).

Welfare to work devolution in the USA

The devolution of the US welfare to work and employment services system has been shaped by the Workforce Investment Act (WIA) (1998) and the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (1996). These federal programmes are managed by separate departments at the national (and often the state) levels, with the Department of Labor (DoL) responsible for WIA and the Department of Health and Human Services (HHS) responsible for welfare reform. The WIA legislation created a structured federal model for the decentralised delivery and co-ordination of employment and training services. The PRWORA legislation introduced more radical devolution with the replacement of a national entitlement programme by Temporary Assistance for Needy Families (TANF). This replaced an open-ended federal matching grant with a block grant and gave states power to shape their own welfare to work systems.

The local workforce development system and one-stop centres

The US WIA workforce development system is a partnership between three levels of government – federal, state and local (OECD, 2014c). Key goals of the WIA were to streamline services, create greater accountability, and give state and local government more flexibility in procuring employment and training services (Bradley, 2013).

The decentralised system places most of the responsibility for the actual delivery of training and employment support services at the local level. The legislation required each state governor to establish and appoint the membership of local Workforce Investment Boards (WIB), of which there are some 600. Each board has majority employer membership (at least 51%) and is chaired by a business leader. They are also expected to include leaders from other relevant organisations, including local government, economic development and trade unions. Board composition varies but may include up to 50 members, and with multiple subcommittees, governance arrangements are often cumbersome.

WIBs are organised either at city or county level, although states with smaller populations often have a single state-wide board. Local WIBs are usually an extension of a local government unit, typically at county or city level, and local governments may form partnerships through inter-local agreements through which the WIB may service their respective areas. Each local WIB has a master contract with the sponsoring local government entity (OECD, 2014c, p. 23).

The WIBs commission and oversee the work of some 3,000 one-stop centres (now known as American Job Centers). One-stops provide general labour market information and matching services through self service and online channels, with more expensive WIA programmes restricted to eligible disadvantaged groups. Another federal programme provides separate funding for state Employment Services which also deliver job-matching services and some employment-assistance programmes to job seekers and employers. In combination these programmes serve more than 27 million individuals, with expenditures of nearly US\$3.5 billion annually (OECD, 2014c, p. 20).

WIA programmes for eligible adults and redundant workers provide for three levels of service: core, intensive and training. Core services include basic job search assistance; intensive services include activities such as comprehensive assessments and case management. Skills training is provided through individual accounts that participants can use to access courses delivered by providers registered with the WIB. The 'work first' character of the WIA system is reinforced by the requirement that participants can access more expensive skills provision only after engaging with job search and counselling services (Bradley, 2013). Youth services have a greater emphasis on education and training outcomes. WIBs cannot normally provide direct services to participants so one-stops and core services are typically provided through a network of contracted public, non-profit and private organisations.

In addition to core services, WIA required states and WIBs to co-ordinate 16 federally funded employment and training services into a single delivery system. WIA allows flexibility in the way that mandatory programme partners provide services through the one-stop system, either on site or through referrals. The participation of state Employment Services varies, and in a significant number of states they operate through a separate office network. States can voluntarily co-locate other services in one-stops, such as those for welfare recipients receiving TANF.

Only organisations delivering WIA funded services have a contract with the WIB. Relationships with one-stop partnering organisations are organised through a Memorandum of Understanding (MoU). This agreement establishes joint processes and procedures designed to enable partners to co-ordinate or integrate resources and service delivery. By entering the MoU, the parties agree to abide by the terms, conditions, goals, policies and principles established through WIA. The partners cover a share of the service costs proportionate to the use of the system attributable to the partner's programme (OECD, 2014c, p. 25). WIBs can also act as catalysts at times of crisis, bringing together a wider range of local organisations concerned with workforce development issues.

States submit and agree five-year workforce development plans with the DoL. State plans will typically assess the skills and economic development needs of the area, set targets and outline the strategy and programmes for meeting identified objectives. The WIA provided for greater accountability by establishing new performance measures to gauge the results of the programmes with the low-cost use of quarterly UI wage data to monitor outcome performance.⁴⁰ Key performance measures for adults and 'dislocated workers' include entry into unsubsidised employment, retention and earnings after six months, and states also are required to test satisfaction ratings by both individuals seeking employment and employers looking for qualified workers.

'State adjusted levels of performance' are negotiated for each of the core WIA indicators, reflecting historical data, economic conditions and services

provided. State plans must show progress towards 'continuous improvement' and be designed to ensure high levels of user and employer satisfaction, with performance benchmarked against the performance of comparable states. When agreed, the goals are incorporated into the plan. States have some discretion to decide which eligibility groups should be given priority and can add their own performance standards (Bradley, 2013). At the local level, WIBs produce a local plan and procure WIA-funded services. Local plans must include a description of the activities the WIB will pursue, the MoU established between the WIB and each of its one-stop partners, and performance targets negotiated between the local board and the state governor (OECD, 2014c, p. 26).

A state that fails to meet its agreed level of performance for one year is given remedial support and technical assistance. After two years of failure, it may be subject to a 5% reduction in its annual WIA grant. If a state meets or exceeds its performance targets, it is eligible for 'high performance grants' (Wander and Wiseman, 2009). Similar conditions and performance standards apply to WIB contracts with public and private providers.

The federal government provides grants to states to operate WIA programmes. About 85% of federal WIA funds are passed from the state to local WIBs. The remaining 15% 'set-aside' of WIA funds are used by state governors for activities such as state-wide evaluations of workforce programmes and incentive grants for local areas. This allows state governors to fund an array of activities, including innovative training programmes for employed workers, research and demonstration projects, and capacity building and technical assistance. Innovation and adaptation has been facilitated by the extensive use of waivers from WIA rules which are negotiated with the federal DoL. Waivers were particularly important during the recession and have also enabled some WIBs to directly deliver services, transfer funds between different budget lines, target particular under-served groups, and provide customised on-the-job training for some employers (OECD, 2014c, p.27).

There are some variations in how WIA grants are calculated for young people, 'dislocated' and 'disadvantaged' workers, but the criteria include levels of unemployment and disadvantage measured through official poverty rates. A detailed assessment of the WIA funding formula and the earlier system it replaced found that, over time, state allocations had changed markedly in response to changing unemployment levels. States were protected, however, from abrupt reductions in their allocations through a transitional and minimum provision process (Jacobson, *et al.*, 2002).

Welfare reform and devolution in the USA

WIA implementation occurred alongside welfare reform and the devolution of support for poor families. In 1996, the previous 'safety-net' entitlement cash assistance programme was replaced by the time-limited TANF. States had always had the freedom to set benefit levels but the new system also gave them flexibility to determine eligibility rules, work incentives, work requirements, sanctions, time limits and service design. TANF replaced earlier match-funding arrangements with a block grant, frozen on the cash basis of federal and state spending in 1994.

The 1996 TANF legislation, and its subsequent re-authorisation, established limited federal rules and priorities, which are enforced through a national performance framework. HHS utilises a range of measures to monitor and assess state performance but there is particular emphasis on the work participation rate; the legislation requires states to enrol 50% of all families and 90% of two-parent families in work or work-related activities

for specified hours per week. HHS also assesses state progress on moving TANF recipients into work through outcome measures on job entry, job retention and earnings gain, and monitors any increase in the number of children living in married, two-parent families. Although the federal TANF allocation is no longer designed to respond to fluctuations in caseloads, the legislation replaced the earlier match-funding requirement with a maintenance of effort obligation. This requires that each state maintain at least 80% of its 1994 spending on the welfare benefit TANF replaced and if it fails to do so, it faces fiscal penalties (in some cases the requirement can be reduced to 75%).

The federal agency has a number of other incentives and penalties to steer state performance. Incentives include a High Performance Bonus system, under which states may be paid up to a maximum of 5% of their annual federal TANF award. Penalties apply only, however, to work participation rates which give these standards a higher priority. Where participation rates are unmet, HHS will send a penalty notice to the state concerned. The state then has the opportunity to avoid a penalty by providing reasonable cause or submitting a compliance plan indicating how it will ensure that parents receiving cash benefits will meet the required work participation requirements.

The impacts of welfare to work devolution in the USA

US welfare reform attracted much interest in the UK, and in other OECD countries, because it was associated with a rapid reduction in the number of families receiving cash welfare payments, which fell from a peak of 5.1 million in 1994 to less than 2 million in 2000. Reform coincided with employment growth and the expansion of in-work tax credits and other work supports. Analysts such as Danielson and Klerman (2004) suggest that about 20% of the decline in caseloads could be attributed to time limits and benefit sanctions, about 25% to the economy and about 30% to a 'residual policy bundle', including tax credits, with the remaining impact unexplained.

TANF had been introduced amid concern that the greater flexibility given to states might induce a 'race to the bottom' in which states with more generous welfare benefits or policies might reduce them to avoid migration of poor populations from neighbouring states (Brueckner, 2000; Schram and Beer, 1999). The evidence suggests that any welfare migration effect was negligible, and although there was evidence that states strategically set their welfare policies in relation to those of their neighbours, there was no simple downward convergence. There was instead 'substantial heterogeneity' in state policy choices and evidence of much policy innovation, especially between 1996 and 1998, with many states shifting the distribution of cash benefits away from people without income towards those with at least some earnings (Weaver and Gais, 2002). Researchers pointed out that in the first decade of implementation, the design of TANF maintenance of effort requirements and a strong economy may have reduced downward pressures, whereas later analysis finds that welfare competition among neighbouring states may have been a 'factor behind downward trends in welfare generosity' (Burns, 2012, p. 22).

While many studies consider the variable impacts of US welfare reform between different states, there are few studies that assess decentralisation within states. An exception is the analysis undertaken by Kim and Fording (2010), in which they study the effects of what they describe as 'second-order' devolution in those states where significant elements of 'policy authority' were devolved to county or city governments or to WIBs. In this analysis, the researchers test competing claims made by advocates

and opponents of decentralisation. Advocates of decentralisation suggest that because local government and boards know the needs of their poor residents better than central government they would implement TANF more effectively. The opposing contention is that decentralisation within states might also lead to a 'race to the bottom', with second-order administrations likely to implement more restrictive and punitive measures.

The researchers identified 14 states, including New York, California and Florida, where there had been significant second-order devolution, including fixed block grants, to either county or city governments (8) or to WIBs (6). They then tested decentralisation effects by measuring TANF caseload declines, the use of sanctions, and several work-related outcomes among recipients between 1980 and 2003. After controlling results for variables, such as unemployment rates and 'government ideology', the analysis showed support for both contentions on decentralisation. They found that states with second-order devolution experienced greater falls in caseloads; were more likely to use punitive policy tools, such as sanctions; and had higher rates of exits to employment and earnings gains among their TANF recipients. The analysis did not allow the researchers to identify causal mechanisms at work but the authors suggest that the use of block grants within decentralised states gave local government or WIBs strong incentives to reduce caseloads (as they otherwise had to pay any costs above the block grant from their own resources). They also surmise that policy-makers in decentralised settings may have been able to mobilise local resources, modify programme requirements and better target services at local claimants and employers. A separate study of welfare devolution to local government within North Carolina found that counties which were given more flexibility spent 'dramatically less' than others which was partly attributable to the state failing, over many years, to penalise local government for not meeting their maintenance of effort obligations (Berner, 2005).

There are contending views on how well the devolved US welfare system responded to the rapid increase in unemployment and hardship associated with the Great Recession of 2007–09. Pavetti, *et al.* (2013) found that TANF was a less effective 'safety net' than the entitlement cash benefit it replaced and coverage increased 'only modestly' during the recession. It actually fell in some states where, in response to budget pressures, benefit levels were reduced, time limits shortened or other cutbacks introduced. Haskins, *et al.* (2014) come to different conclusions. They cite data showing that the increase in TANF coverage during the 2007–09 recession was greater than that which occurred in the earlier 1990 recession when the earlier entitlement cash benefit was in operation. They conclude that the 'system of balancing work requirements and welfare benefits worked fairly well', with poor families finding other jobs and/or supporting themselves through the wider US safety net system, including unemployment benefits, tax credits and food stamps (Haskins, *et al.*, 2014, p. 6). Another analysis concluded that the decline in welfare caseloads had now 'become permanent' but the feared race to the bottom had not materialised because of maintenance of effort requirements and the development of other state and federal work-based income support programmes, especially tax credits (Sutter, 2013).

Policy-makers in decentralised settings may have been able to mobilise local resources, modify programme requirements and better target services at local claimants and employers.

The integration of US welfare and workforce development systems

One of the factors associated with the relative success of decentralised welfare to work delivery concerns the capacity of implementing authorities to coordinate and/or integrate WIA, TANF and related services. The extent of such cooperation has varied, with studies reporting that categorical

federal funding streams and programme goals that create different eligibility rules, programme definitions, reporting requirements, performance measures, and service priorities, hampered the coordination or integration of front-line services (Barnow, 2009). Nevertheless, many states made full use of the flexibilities available, including acquiring additional waivers from federal requirements.

Studies have found varied patterns of such coordination and integration at state and local levels. Several decentralised states, such as Florida and Texas, merged their welfare and workforce development programmes. Other states made use of a variety of contracts, financial agreements, MoUs and other service-level agreements to coordinate activities between state welfare and workforce development agencies. Such coordination typically included co-location of or electronic linkages between welfare and workforce development services in one-stops (as in much of Wisconsin); blending of separate funding streams; and the development of more seamless service delivery through staff training across different one-stop services; common application processes, integrated intake; shared computer systems and shared action plans for service users (Blank, 2009; Noyes and Corbett, 2005; Ranghelli, *et al.*, 2003).

There has been much criticism of continuing fragmentation, overlap, and duplication within US employment and training programmes, culminating in new legislation replacing WIA from July 2015. Provisions in the Workforce Investment and Opportunity Act (WIOA) (2014) should help resolve some service delivery, coordination and integration issues. The legislation modifies the structure of WIBs, allowing them to be smaller (19 members) and empowering them with more responsibility to be strategic actors in developing labour market capacity and allowing them a greater role in fostering partnerships between workforce development, education and economic development. The Act, for example, now includes TANF as a mandatory one-stop partner, and state Employment Services will be required to deliver their services within one-stops rather than through separate offices. If local areas fail to reach an agreement on shared costs to fund the one-stop infrastructure, a state funding protocol for allocating costs will be imposed.

The legislation integrates a number of separate federal skills and employment programmes and also standardises performance accountability with the creation of six common core measures for adult programmes and a related set of measures for young people. This will allow for greater coordination and assessment of relative performance. Adult measures will include entry into unsubsidised employment; median earnings after six months; measurable skills gains toward a credential or employment; and employer engagement. A more rigorous comparative methodology will be used to adjust state performance expectations taking into account local economic conditions and participant characteristics. States will continue to be able to set their own supplementary performance indicators.

The 'work first' mandatory sequencing of adult services will be eliminated, and core and intensive activities will be combined into a 'career services' category in which workforce staff will have the flexibility to better meet the individual needs of job seekers. The legislation will allow some expenditure on employed workers and contains provision also for greater future emphasis on progression. In particular, it encourages WIBs to further develop sector based 'career pathways' and, among other things, authorises funding for a multi-state study to develop and implement career advancement models for low-wage health care providers and providers of early education and childcare.⁴¹

The OECD concludes that the WIOA reforms build on and update existing state-local partnerships, further developing a better co-ordinated system 'that is decentralised, flexible, locally focused, and with an emphasis on inclusion' (2014c, p. 21).

Welfare to work devolution in the Netherlands

There have been extensive reforms to the Dutch social insurance and means-tested social assistance systems since the late 1980s. Activation reforms targeted at the unemployed and those claiming social assistance have been designed to prioritise 'work before benefits'. There has been major institutional change, involving the national social insurance agency (UWV) and devolution of budgets to municipalities.

In 2009, the UWV was made responsible for front-line employment services and its performance is assessed in relation to benefit off-flows and satisfaction levels among job seekers and employers. UWV districts and local branches have some flexibility in how they spend centrally allocated funds and purchase services from private providers. UWV 'work coaches' are responsible for giving employment support to the insured unemployed and those receiving disability benefits. There have been significant austerity-driven reductions in UWV budgets since 2012, leading to major change in service delivery and the termination of most contracted-out employment services (Froy, *et al.*, 2011). Front-line employment services and benefit administration now are largely delivered online with face-to-face services restricted to those without digital skills or most likely to become long-term unemployed.⁴²

The municipalities, of which there are over 450, deliver social assistance through 'work and income' sections in their Social Services Departments. Case managers carry out assessments and channel eligible participants into employment assistance. Until 2001, central government reimbursed 90% of municipal social assistance expenditure and, at this point, activation programmes were targeted at centrally determined priority groups. In 2001, the proportion of social assistance funding reimbursed by the centre was reduced to 75% in order to increase the incentive for municipalities to place people in employment. This incentive was sharpened further in 2004 with the introduction of block grant funding by the Work and Income Act (2003). The legislation requires municipalities to provide social assistance to poor people but gives them great freedom in service design and delivery. It also stipulates that employable claimants are under an obligation to co-operate with reintegration services and to seek 'generally acceptable' rather than the previous 'suitable' employment.

Legislation requires the UWV and municipalities to cooperate in promoting the reintegration of service users and, over time, both institutions have been subject to requirements to purchase more intensive services from private providers (Tergeest and Grubb, 2006). The organisations were also required to co-locate and co-ordinate service delivery for claimants and employers in a national network of one-stop Work Squares, of which there were 127 in 2010. These integrated offices are co-managed by the local UWV and Social Services Directors, who enter into operating agreements. Local joint targets are agreed and cascaded to work coaches and case managers, who are expected to meet certain requirements. In 2010 some of the offices had integrated teams but co-ordination of service delivery was hampered by the different accountability and funding rules of the agencies involved (Froy, *et al.*, 2011). Following austerity cuts that commenced in

2012, the number of Work Squares was reduced to the 30 located in the largest municipalities.

The Work and Income Fund and municipal 'work first' strategies

The municipal Work and Income Fund has two components. The Income Fund pays for means-tested assistance and is determined on the basis of economic and social indicators (see Box 1). A separate flexible Work Fund is designed to pay for reintegration services and can be used only to pay for such services. Any surplus in the Work Fund is returned to central government. In contrast, if the municipality pays less than it is allocated in the Income Fund, it can use the surplus as it sees fit. The risk is that if it overspends on benefits, it has to subsidise these payments from its own resources. The municipality thus has a powerful incentive to reduce the number of people claiming social assistance but must do so in the context of national eligibility rules and welfare benefit levels that are uniform throughout the country. Municipal strategies have focused primarily on more rigorous testing of eligibility, fraud reduction strategies and the introduction of 'work first' and workfare activation programmes (analogous to the welfare to work programmes implemented by US states).

Box 1: The Netherlands block grant for welfare payments

In the Netherlands, the national budget available for welfare block grants is calculated annually on the basis of independent forecasts of eligible individuals. Forecasts are based on the number of existing welfare beneficiaries, unemployment trends, and legislative changes that might affect caseload volumes. The macro budget is allocated between municipalities according to a regression formula which reflects the size of municipality and demographic and labour market characteristics, with some variation for smaller municipalities (for which reliable data is not available, so previous expenditure level is also used). The formula is updated annually. As the allocation is not legally designed to reimburse actual social assistance expenditure, municipalities are free to retain any surplus, but strict rules ensure they meet over-spending from their own resources and they can return to central government for additional funding only in exceptional circumstances. Analysts suggest that despite some problems, the Dutch funding formula, when combined with a strong cultural commitment to equal access, has ensured that the system has reaped 'the benefits of decentralisation while at the same time ensuring a high degree of similarity in service standards across the country' (Allers, 2011, p. 8).

Despite local variation, a common feature of 'work first' strategies is the requirement that employable social assistance recipients engage with work-related activities before or immediately after they claim benefit. Failure to comply results in sanctions or benefit withdrawal. These interventions are often supplemented by mandatory work experience or workfare for those harder to place in jobs. According to municipalities, these mandatory programmes serve two different goals. They minimise demands on social assistance through deterrence and maximise the outflow into work through employment assistance. The cumulative impact of legislative and service delivery reforms has been a significant 'cultural change' in local government, with staff now working 'in a more result-oriented manner' and more focused on preventing fraud and on assisting applicants to enter employment.

The impact of welfare to work devolution in the Netherlands

Evaluations report that the early impact of the changes to social assistance in the Netherlands were sharpest at the entry point to the system, with more intensive 'gatekeeping' combined with a strong emphasis on ensuring that young people engage in education, training and work experience, rather than enter the benefit system (Tergeest and Grubb, 2006). By contrast, there was less provision made for the harder-to-place groups that previously had to be serviced under the earlier centrally defined priority targets (van Berkel, 2006). Subsequent evaluations report that, following the initial focus on 'quick wins', there was evidence of better municipal performance in targeting services at the harder-to-place groups (Blommesteijn, *et al.*, 2012).

There is flexibility in the Dutch system, and in the exceptional circumstances following the recent recession, the national government introduced short-term increases in social assistance funding, including regional performance agreements with the 30 largest Dutch municipalities to combat youth unemployment. Expenditure was subsequently reduced and further austerity cuts implemented. At the same time, further welfare to work devolution is planned. The Work Capacity Act (2013) devolves responsibility to municipalities from 2015 for benefits and reintegration services for other groups, in particular for the increased number of young people now claiming centrally financed disability benefits (an increase some partially attribute to the effect of the earlier devolution reforms).

Municipal devolution in the Netherlands has illustrated some strengths... and weaknesses of local control. It has enhanced local ownership and political accountability for the system and enabled the municipalities to adapt reintegration services to diverse local populations and circumstances. Municipalities have experienced a sharp learning curve in how to activate recipients and procure from and work with private providers, and some have struggled to manage these new delivery arrangements. Despite national entitlements, local diversity has also resulted in some erosion of shared national equity, leading to the emergence of variations between different local welfare regimes (Blommesteijn, *et al.*, 2012; van Berkel, 2006).

Devolution...has enhanced local ownership and political accountability for the system and enabled the municipalities to adapt reintegration services to diverse local populations and circumstances.

Welfare to work devolution in Germany

In Germany, responsibility for employment and welfare to work policies is shared between federal, state and local governments. Federal government sets national targets and budgets which are negotiated, implemented and co-financed with state governments, municipalities and the public employment service.

The national Bundesagentur für Arbeit (BA; referred to here as the PES) is a quasi-independent agency, including strong representation of employer and trade union organisations, which operates under the jurisdiction of the Federal Ministry for Labour and Social Affairs. The PES is the central body responsible for labour market intelligence, the unemployment insurance system, and the delivery of employment assistance and labour market programmes. Prior to reform, local government was solely responsible for safety-net social assistance for the uninsured unemployed and for most related welfare to work services and programmes.

The national PES is composed of 10 regions with 178 district and 666 branch offices. The agency exercises considerable discretion, within the budgetary and legal framework established by social security law (Mosley, 2012). The agency enjoys significant policy autonomy derived from its institutional setting and its responsibility to levy, manage and administer

insurance funds. It has developed a strong performance management regime but target setting incorporates elements of dialogue, with some targets set autonomously at the regional level, and national 'framework targets' reported to be only one element in a more consultative style of performance assessment (Weishaupt, 2011; Nunn, 2012). The performance of each district is monitored monthly and Jobcentre performance benchmarked across comparable labour markets. Tripartite committees monitor local PES management and provide insight into the needs of local employers and employees. In contrast with the British JCP 'off benefit' measure PES performance is judged on actual job entry sustained for a minimum of seven days (Nunn, 2012, p. 45).⁴³

The Hartz reforms and basic income for jobseekers

The national PES has undergone a major transformation alongside and as part of the so-called Hartz reforms implemented between 2002 and 2005. The PES reforms strengthened centralisation and the rolling out of a new national service delivery model which was influenced by the preceding British reforms to JCP (Finn, *et al.*, 2005). Among other changes, the reform required local PES districts to contract with external providers through regional purchasing offices, which have made more rigorous use of competitive tendering and price competition. This change was perceived to have limited the capacity of local managers to tailor programmes to meet local needs although it may have increased efficiency by introducing more competition than existed under earlier arrangements (Mosley, 2010).

In 2005, the final Hartz reform created a new framework for the integrated provision of benefits and labour market services to the long-term unemployed and other employable social assistance recipients. Previously, the unemployment insurance fund had provided a wage-related unemployment benefit for the short-term unemployed, with a gradually reducing amount of federally financed unemployment assistance for those who were long-term unemployed. Municipalities provided separately funded social assistance for the poor and, over time, found their budgets under pressure as caseloads increased and because they were 'topping up' the insurance-related allowance payments of a growing number of long-term unemployed people.

The German benefit system is now comprised of unemployment insurance benefit, which normally lasts for up to a year for those who qualify, and a safety-net means-tested benefit – basic income support for jobseekers. Basic income support is now solely funded by the federal government and administered jointly by the PES and local authorities. Although it is a household benefit, all adult recipients of basic income support who are able to work for three or more hours a day or for 15 hours a week must be available for and seeking work. Each active claimant is allocated an individual counsellor and must agree an individual reintegration plan.⁴⁴

Joint PES and municipal Jobcentres

Local joint agencies deliver one-stop services through Jobcentres in most parts of Germany. The agencies are responsible for administering basic income support and work-related requirements and for delivering employment support and assistance, including access to services provided by local government. Political conflict between the social democratic government and opposition parties between 2002 and 2004 resulted in a compromise on the respective roles of the PES and municipalities. This meant that initially 69, and subsequently 110, opt-out municipalities assumed full devolved responsibility for basic income support claimants.

Related developments concerned the passage of a constitutional amendment to clarify the legal status of joint agencies and a reassertion of the role of regional state governments in relation to the opt-out municipalities. This means that national targets and budgets for the opt-out municipalities are negotiated between the federal and state government, with the state government then negotiating directly with local government.

The joint Jobcentres are established on the basis of a formal agreement between the local authority and the local PES. The appointment and powers of the chief executive of the joint agency are regulated by the agreement between the contracting parties. There are some mandatory requirements, such as providing an appeals procedure, but there is considerable discretion on the organisation of work processes. The local authority, for example, can carry out its responsibilities directly or delegate them to third parties. Each partner normally bears the costs of the services it provides in the joint centres (Mosley, 2005).

In joint agencies the PES is responsible for administering basic income support and for financing and implementing active measures and the municipal social welfare department is responsible for the administration and financing of rent and heating subsidies and complementary social services (e.g. debt advice, drug and psychological counselling and childcare provision). The transition to basic income support meant that the responsibility of municipalities to finance basic income support was reduced, but their continued responsibility for financing rent and heating allowances is designed to give them a continuing incentive to support the implementation of reintegration measures (Mosley, 2005). It is estimated that the budget for rent and heating allowances is almost as high as that for basic income support and local authorities have to pay 70% of the total with only 30% provided by the federal government. By contrast the federal share of core basic income-related spending is now about 70% (which has fallen marginally from an estimated 74% in 2006).

Federal resources for employment services and labour market programmes can be used flexibly and the national budget is allocated on the basis of a formula based on the number of claimants in the previous period. Local joint agencies are also allowed to transfer funds between their programme and administrative budgets. Federal basic income support payments are, however, a separate entitlement with no cap on the budget, which is responsive to local demand from eligible claimants. There was originally no performance variable in relation to the basic income support budget but there is now a performance indicator which is used to measure and encourage reductions in welfare caseloads.

The joint Jobcentres have their own management and governing board, in which the PES and municipal partners are equally represented. The formal agreement obliges both sides to engage in an ongoing process of co-ordination and negotiation of their business strategy. Mosley suggests that while this relationship is more than simple co-location, it is 'an incomplete organisation with serious structural difficulties'. It is highly dependent on good working relationships between the PES and municipalities, but the 'strong influence of the PES with its centralistic organisational culture greatly complicates decision-making in the Jobcenters' (Mosley, 2010, p. 5).

Performance management in the joint Jobcentres is embedded in the federal PES system of national targets and service standards, and monitored through their integrated IT system. Centrally disaggregated local targets must, however, be approved by the joint Jobcentres governing body. The local PES director has the responsibility of winning approval and of mediating any conflicts. Crucially, the special status of the joint Jobcentres gives 'the

local PES management itself more leverage to assert local discretion in dealing with the PES hierarchy' (Mosley, 2010, p. 9). Nevertheless, there has been friction between the national PES and joint Jobcentres, with the centre reported to be restricting the capacity of local agencies to adapt national employment programmes to the particular needs of basic income claimants. This centralising tendency has been reinforced by the approach of parliamentary scrutiny bodies and the German audit office; they are critical of the loss of transparency and oversight involved in moving away from clear national rules and standardised programmes and practices.

The national PES has helped shape the model adopted in most joint Jobcentres, where service delivery 'strongly resembles' that provided in PES offices for the insured unemployed. Key features include the separation of benefit administration and employment assistance and the differentiation of client services according to their assessed distance from the labour market. More employable jobseekers are assigned to placement counsellors, while young people or adults with greater barriers are assigned to specialised case managers. In contrast with opt-out municipalities, joint Jobcentres are characterised by higher uniformity and standardisation across different regions, and by the more frequent use of sanctions (ZEW, 2008). Some problems are reported to arise because there is no single local chain of command and only limited integration of PES and municipal IT systems and client data. It has taken significant effort to develop a common service culture, with tensions reported between the different approaches of PES counsellors and those of qualified social workers.

The opt-out municipalities

The 110 opt-out municipalities negotiate their local goals and operational targets with state government which agrees targets and budgets with the federal government. In these areas the municipality is responsible for providing benefits and services for basic income support recipients. These municipalities developed service delivery models separately and without access to the national PES IT infrastructure and support function available to the joint Jobcentres. Municipal advisory boards, with representation from the social partners and other welfare agencies, oversee local delivery.

Although they are subject to national financial and audit controls there is greater variation in service delivery in the opt-out municipalities, where there is less standardisation and more focus on personalisation. The municipalities also largely separate benefit administration and advisory services, with 'only very few' opting for integrated case management (Mosley, 2010). Opt-out municipalities are reported to make little use of competitive contracting when purchasing employment and training services whereas joint Jobcentres are required to use regional PES procurement centres.

Despite these organisational differences, it appears that in practice, similar goals are pursued under both models, with the municipalities giving somewhat less weight to rapid job placement and slightly more to maintaining or improving employability (Mosley, 2010, p. 10). There is evidence of 'organisational learning', with the performance of opt-out municipalities improving over time (Hörning, 2011).

The impact of welfare to work devolution in Germany

Evaluations of the Hartz reforms report mixed impacts from the different measures introduced, but that after the implementation phase, the package of reforms was found to have contributed to increased

employment and reductions in unemployment (Krebs and Scheffel, 2013; Eichhorst, *et al.*, 2008).

In terms of the local delivery of employment-related services, reviews of evidence of local variations reported that integration into unsubsidised jobs was faster and up to 25% higher in the localities with joint Jobcentres that had implemented more employment-focused service delivery strategies, backed up by sanctions (Konle-Seidl, 2009; Hörning, 2011). Another study reported that job placement by joint agencies was more cost effective and 3.8% higher than in the municipal models (ZEW, 2008). The study found also that the intensity of contact with the client and close relations with a counsellor positively improved labour market integration, and that results were better in integrated services where one counsellor was responsible for both employment assistance and job placement (although this model was not used extensively).

Both German models represent forms of political devolution in which the governance of implementation has been devolved to lower tiers of government, either partially in the joint Jobcentres or completely in the opt-out municipalities. Although the joint Jobcentres had less flexibility than might have been expected, their subjection to stronger national performance management and other aspects of PES accountability reduced central risk. There has been some debate on whether reform had the effect of devolving local delivery or centralising control of municipal activation policy, reducing local government to the provision of supplementary social services (Mosley, 2005).

Conclusion

In each of the case-study countries, policy authority over welfare to work systems has been at least partly devolved to local actors. Welfare reform has been associated with changes in the financing of social assistance benefits and responsibilities for employment and skills programmes. In three of the countries, lower tiers of government have been given greater freedom to design and organise benefits and welfare to work service delivery, which central governments finance through block grants. In the case of Germany, devolution has involved the creation of new local partnerships between the PES and municipalities, underpinned by a centralisation of responsibility for basic income support.

The introduction of block grants has been a significant driver of change. The new funding system allowed for local policy innovation and exposed lower tiers of government to the full costs of their eligibility decisions. The increased responsibility for financing welfare benefits increased the incentive to keep benefit caseloads and unemployment low. In the case of Canada, the USA and the Netherlands, caseloads fell for several years after the introduction of block grants, with new financial and legislative incentives facilitating the introduction and implementation of welfare to work measures (Grubb, 2009). There remain contending views on the poverty impact of these changes, with increased employment rates offset by increased in-work poverty and the ‘disconnection’ of some highly disadvantaged people from the system.

In each country, the delivery of employment and training services is now typically organised through a mixed economy of public and private organisations. The implementation process is shaped by a greater focus on performance measurement and on accountability for securing employment outcomes, often reinforced through incentives and penalties for public

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agencies and contracted providers. Work-related benefit requirements and intake processes have become more rigorous for employable claimants. Reductions in out-of-work benefit generosity have been partly balanced by more generous in-work supports. In each of the countries there has been an increase in the number of poor people combining welfare and work and increased concern about how to promote progression in employment.

The findings from the case studies highlight the impacts associated with welfare to work devolution and the challenges and risks that policy-makers have to manage well if they are to secure the gains associated with greater local control, flexibility and integration of welfare to work services (OECD, 2013; Mosley, 2011; Atkinson, 2010). These challenges concern how to manage risks to accountability, performance, service quality and equity, and lessons can be drawn from the case-study findings on how policy-makers in the four comparator countries have sought to resolve them. These lessons are of direct relevance to how welfare to work devolution might be taken forward in England and their implications are considered in more detail in the final part of this report.

5 CONCLUSION

International organisations such as the OECD (2014a) assess the British welfare to work system for jobseekers as highly effective in reducing benefit caseloads and in promoting high levels of employment. Despite success, there are significant weaknesses in this ‘work first regime’.

The system performs less well in disadvantaged areas and for the most disadvantaged groups, and it remains poorly integrated with skills and other wraparound services and with economic development activity. The need for improved co-ordination between Jobcentres, prime providers and complementary local services has been intensified by welfare reform, expenditure cuts and by changing welfare to work caseloads. In addition to the regular unemployed, Jobcentres and prime providers are now also expected to apply differentiated conditionality regimes to harder-to-place jobseekers, spouses/partners, claimants of disability benefits and, in future, to an estimated one million low-paid workers. At the same time, large numbers of young people and an increased proportion of the 900,000 long-term unemployed do not claim benefits and are disconnected from the employment, training and benefit systems (LGA-CESI, 2014, p. 18).

Welfare to work devolution is not a panacea for inadequate resources but there is evidence that it could improve the co-ordination, effectiveness and coverage of local service delivery systems. There are risks, however, that if poorly designed it could undermine the standard and effectiveness of national services while reducing transparency and central accountability.

The approach of the Coalition Government to welfare to work devolution has been in flux, with the DWP in particular adopting a more centralised approach than have other national departments. Growth Deals, City Deals and Community Budgets represent innovations in how LEPs and local authorities are being empowered to analyse their areas, identify priorities and develop approaches with the potential to better co-ordinate fragmented employment and skills services. In practice, however, such negotiated deals represent a comparatively weak type of devolution (Marlow, 2013). Local stakeholders have to ‘prove’ each of their propositions in a series of bilateral negotiations with individual departments and agencies in a process tightly controlled by central government. Civil servants are concerned to reduce

risk rather than respond 'to cities' ambition and capacity to take on greater responsibility' (City Growth Commission, 2014, p. 52).

Caution about welfare to work devolution appears particularly strong within the DWP. Ministers and Whitehall civil servants have encouraged administrative flexibility where it helps achieve departmental objectives but they appear reluctant to vary much of their control of the mainstream welfare to work delivery system. Flexible working largely concerns provision for groups not covered or well-served by mainstream programmes, with more extensive flexibility extended only to prime providers, delivering centrally commissioned programmes, that are themselves weakly connected to local government and LEPs.

The wariness of the DWP is shared by many in central government who are concerned about the risks involved in decentralisation. There remains a strong commitment to ensure that national 'work first' priorities and the pace of welfare reform should not be undermined by divergent local interests and/or capabilities and this has constrained local integration and partnership working. There also remains considerable scepticism about the evidence of improved impacts that devolution advocates cite and about the capacity of local agencies to design employment services and commission them in ways that are transparent, avoid high transaction costs and improve employment outcomes. A further concern is that local and regional disparities in employment and benefit caseloads could widen further in a more decentralised system.

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The impacts of welfare to work devolution

The quality of the impact evidence cited in the literature advocating greater welfare to work devolution is mixed. Many submissions from local government stakeholders, for example, typically assert the value of joint working and/or point to high self-reported job entry rates from local employment or skills programmes, many of which are small-scale and voluntary, and contrast these with headline results from mandatory large-scale DWP programmes, especially the early results from the WP. Few of these local studies, however, have meaningful comparison groups, and the National Audit Office (NAO) has also found little 'robust evidence' that 'joint or collaborative [partnership] working improved outcomes' (2013a, p. 8). Several City and Growth Deals commit local partnerships to undertaking higher-quality impact evaluations but it will be some time before meaningful results on these programmes are available.

By contrast, there is stronger evidence from the case-study countries reviewed. In each country, evaluations of devolved welfare to work arrangements show that it has contributed to reductions in caseloads and increases in employment, although there are contending views on the quality of the outcomes secured. It remains difficult to disentangle the particular impacts of institutional and service delivery reforms from those of the welfare to work policies that agencies and organisations implemented. There is little specific evidence on the particular impact of devolution, but positive evaluations suggest that giving lower tiers of government or partnerships responsibility for funding of services, benefit payments and responsibility for programmes encouraged innovation and enabled local actors to design and provide more co-ordinated services better tailored to the needs of local communities and employers (Froy, *et al.*, 2011; Kim and Fording, 2010; Seith, *et al.*, 2007). There is evidence also that devolved responsibility for financing benefit payments has given lower tiers of government stronger incentives to keep unemployment low.

The potential for welfare to work devolution in England

There is a plethora of reports from local authorities, local government organisations, think tanks and academics outlining a diverse range of proposals for further welfare to work devolution in England. Such devolution is now viewed also as a potential contributor to effective local growth strategies, with associated changes in employment and skills provision intended, at least from the perspective of local government, to ensure that poorer residents benefit from the increased employment and wealth associated with economic development.

The basic argument from a wide range of stakeholders is that despite recent reforms, the current systems for commissioning and delivering employment and skills are not structured to deliver the 'step change' in performance needed to meet the challenges faced by many city and county regions (LGA-CESI, 2014). By contrast, it is argued that sub-regional local government can better tailor welfare to work services for the benefit of local residents and employers. Many of the larger local authorities now have experience in commissioning and managing employment services, and these stakeholders claim also to have the capacity to better connect welfare to work services with skills, health and other wraparound services which are often critical in addressing the underlying issues faced by disadvantaged claimants.

Most of the proposals reviewed suggest that some or all DWP employment programmes be devolved and commissioned on the basis of LEP boundaries or those of combined authorities.⁴⁵ This would have two main advantages. The increase in the number of areas and the reduction in the size of contracts would open up the market to a potentially larger and more diverse group of providers. It would also align provision with functional economic areas and promote connections between welfare to work services and local growth strategies, facilitating partnership working with local skills and other service providers (Lawton, *et al.*, 2014; OECD, 2014a).

The Core Cities network has, among others, outlined an approach for the next parliament through which virtually all employment and skills budgets, including the WP, could be devolved and where each city would become a 'catalyst' to improve skills and employability. They propose that cities should develop five-year Skills and Labour Market Agreements with their LEPs and other local partners, with the North East Combined Authority leading on developments. These agreements are loosely modelled on those developed in Canada and comprise a 'single plan and investment framework', a 'common commissioning framework' and a 'whole system' approach that would integrate delivery of local skills and employment services (Core Cities, 2013).

Funding proposals for devolving welfare to work services vary. Most suggestions envisage that where local councils and partnerships become responsible for particular claimant groups, especially the most disadvantaged, they would offer higher performance and, by investing some of their own resources, assume greater financial risk for service delivery. In return, local areas would be awarded a share of the central benefit expenditure saved (with a 50–50 split proposed by the Key Cities, 2014). Such an approach requires careful design to ensure that local actors do not simply turn applicants away or focus mainly on new benefit applicants, as happened in the USA and initially in the Netherlands. Sharing benefit savings locally might, however, also help improve the legitimacy of performance-based contracts because, in contrast with existing DWP provision, a more significant proportion of any surplus could be reinvested in local services rather than be

taken as profit, and perceived to be taken out of the area, by private prime providers.

The major political parties are announcing more or less radical proposals for further devolution of economic growth powers to local authorities and LEPs in England after 2015. Although the Conservative⁴⁶ and Liberal Democrat Parties have not yet made their positions clear, the Labour Party has committed, if elected, to devolve the WP and skills budgets to LEPs and city-county regions. Any such process will overlap with other changes in the local delivery landscape driven by the development of employment-focused local support services, further welfare reform, and more co-working between local government and health services.

Managing the challenges and realising the opportunities associated with welfare to work devolution

Various improvements may be achieved in decentralised settings but realising the opportunities that may be attainable relies on managing critical challenges.

The first issue concerns accountability. Welfare to work policies have national significance, and central government is accountable for setting priorities, providing resources and managing unemployment and welfare caseloads. National objectives often are the basis for negotiated agreements and targets with lower tiers of government and, as in the USA or Canada, may be monitored and managed through performance reporting systems; central or regional scrutiny and evaluation; and the incentives and sanctions embedded in conditional central funding. Such mechanisms are important to mitigate the potential for misaligned or conflicting incentives, especially the risk that in multi-tiered policy systems some levels may have strong incentives to shift costs and resist central reform.⁴⁷

The design of funding and performance reporting mechanisms is critical for accountability and for shaping the priorities and behaviour of devolved welfare to work commissioners and providers. The development and design of block grants, which give local agencies flexibility and incentives to increase efficiency, have been strongly associated with the impacts of welfare reform. In contrast to Canada and the USA, the model in the Netherlands illustrates how devolution, local flexibility and caseload reductions may be secured while retaining strong national benefit entitlements. National reporting and performance requirements also may shape delivery in ways more likely to contribute to poverty reduction by, for example, focusing on the quality as well as the duration of the employment gained, as in the earnings and hours measures tracked in the US workforce development system.

A further accountability mechanism is for the centre to facilitate evaluation and encourage transparency and the spread of evidence-based best practice, as occurred in the formative and summative evaluations required of provinces in Canada. This requires that LEPs and local authorities define clear objectives for employment, skills and welfare to work activities and measure outcomes in comparable ways, allowing for the identification of which approaches work and might be transferable. Such core aims could be used to align welfare to work programme interventions and their effects with anti-poverty strategies (Crisp, *et al.*, 2014).

There is a key challenge also arising from the differential management, delivery and research capacity at different levels of government (Atkinson, 2010). Advocates of devolution argue that local actors and decision-makers are more informed and knowledgeable about local circumstances and needs,

whereas critics argue that such knowledge gives only partial insight and is insufficient for analysing needs and developing appropriate strategies. Designing devolution has to take into account the personnel, organisational and fiscal capabilities of local government and LEPs. It would not be feasible, for example, for local areas to immediately acquire the national and comparative expertise that the DWP has in the design of payment, procurement and performance management systems, and the department should facilitate capacity building, evaluation and transfer of best practice. The differential Canadian approach to labour market agreements and the US use of state-based waivers allowed provincial and state governments to negotiate different levels of responsibility and test, evaluate and develop new approaches to local design and delivery before moving to fuller devolution. Such a differentiated and experimental approach could be an explicit national policy for City and Growth Deals, rather than a tacit local objective, thereby helping to establish a clearer pathway for further devolution of welfare to work policies in England.

A further issue concerns the potential for fragmentation and the development of more effective ways of securing local co-operation. There is no automatic inter-relationship between devolution in employment services and more coherent service delivery. The local districts or delivery units of national PESs, which have, as in the UK, limited management discretion for working with external partners, may be unable to work effectively with other local actors. From the perspective of local welfare to work policy, there is a need for flexibility in national performance and budgetary frameworks to foster co-operation among a range of relevant actors providing training, social and health services, local economic development and employment support.

Despite contextual differences, findings from the comparator countries identify some design elements that can facilitate improved welfare to work service delivery, including different approaches to co-ordinating and/or co-locating services. In each of the countries, one significant factor concerns the development of local agreements outlining service protocols, working methods and respective organisational responsibilities. 'Legacy' IT systems and PES and local government data and service delivery protocols can facilitate (or hamper) co-ordination and 'user journeys'. At its best, investment in new information systems enables service providers to co-ordinate separate administrative data on clients, establish eligibility and referral mechanisms, track interventions and monitor subsequent progress. In the USA, for example, in some states one-stop services have consolidated case management and intake procedures across separately funded programmes through the use of shared action plans for service users and shared computer networks.

A final challenge concerns equity, or the risks of a 'postcode lottery'. There is a potential conflict between the norm of equal treatment and the devolution of employment services and benefit entitlements. This has emerged in the UK, with the patchwork of varied support systems that local authorities have established in place of Council Tax Benefit and local emergency welfare assistance. A similar development undermined TECs in the 1990s when variations emerged in the services made available to the most disadvantaged groups. The key issue in publicly and privately delivered welfare to work services is the extent to which variety can be accommodated while ensuring acceptable service standards for disadvantaged eligible participants.

Equity concerns also should be reflected in the design of the budgetary mechanisms through which national resources are allocated to and targeted

at local areas and should be commensurate with levels of unemployment and disadvantage, including poverty rates. The lessons from welfare to work devolution in the comparator countries (and from UK experience) highlight the importance of budgetary systems that balance performance-related incentives and sanctions with the necessity for maintaining investment in and provision of support for service users, especially in areas with weak labour markets. Funding formulas need to protect against abrupt changes in local allocations, mitigate against any 'race to the bottom' and provide for the impact of 'economic shocks'.

Whatever the outcome of the 2015 election, the challenge for the next British government will be how best to structure the welfare to work and skills system to allow for the flexible delivery of localised strategies within a coherent and equitable national policy. Any move towards devolved welfare to work budgets must, for example, secure a fair balance between incentives that encourage employment outcomes and expenditure savings and promote poverty reduction and more inclusive economic growth. In the absence of constitutional guarantees, such as those in Germany's 'basic law', devolution of welfare to work services should be underpinned also by transparent national minimum standards, especially where programmes are mandatory. This requires a transparent national regulatory regime for ensuring minimum standards are maintained and that local services promote job entry, retention and progression rather than simple caseload reduction.

ABBREVIATIONS

General

MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
PbR	Payment-by-results
PES	Public Employment Service
UI	Unemployment Insurance

United Kingdom

AMB	Area Manpower Board
BA	Benefits Agency
BIS	Department for Business, Innovation and Skills
CPA	Contract Package Area
CSP	City Strategy Pathfinder
CTB	Council Tax Benefit
DAF	Deprived Areas Fund
DCLG	Department for Communities and Local Government
DE	Department of Employment
DfEE	Department for Education and Employment
DWP	Department for Work and Pensions
ERSA	Employment Related Services Association
ESA	Employment and Support Allowance
ESB	Employment and Skills Board
ES	Employment Service
ESU	Employment Support Unit
EZ	Employment Zone
FND	Flexible New Deal
FSF	Flexible Support Fund

JCP	Jobcentre Plus
JRF	Joseph Rowntree Foundation
JSA	Jobseeker's Allowance
LAA	Local Area Agreement
LEC	Local Enterprise Company (Scotland)
LEGI	Local Enterprise Growth Initiative
LEP	Local Enterprise Partnership
LGA	Local Government Association
LSC	Learning and Skills Council
LSP	Local Strategic Partnership
LSSF	Local Support Services Framework
MAA	Multi Area Agreements
MPL	Minimum Performance Level
MSC	Manpower Services Commission
NAO	National Audit Office
NDC	New Deal for Communities
NEET	Not in Education, Employment or Training
NRF	Neighbourhood Renewal Fund
PAC	The House of Commons Public Accounts Committee
PSA	Public Service Agreement
RDA	Regional Development Agency
SFA	Skills Funding Agency
SRB	Single Regeneration Budget
TEC	Training and Enterprise Council (England and Wales)
UBO	Unemployment Benefit Office
UC	Universal Credit
WNF	Working Neighbourhoods Fund
WPC	The House of Commons Work and Pensions Committee
WP	Work Programme
YPLA	Young People's Learning Agency

Other countries

CST	Canada Social Transfer (Canada)
DoL	Department of Labor (USA)
EI	Employment Insurance (Canada)
HHS	Department of Health and Human Services (USA)
LMA	Labour Market Agreement (Canada)

LMDA	Labour Market Development Agreement (Canada)
NCB	National Child Benefit (Canada)
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act (1996) (USA)
TANF	Temporary Assistance for Needy Families (USA)
UWV	Institute for Employee Benefit Schemes (Netherlands)
WIA	Workforce Investment Act (1998) (USA)
WIOA	Workforce Investment and Opportunity Act (2014)
WIB	Workforce Investment Board (USA)

NOTES

- 1 The national benefit system applies throughout the United Kingdom but, in contrast with England, Wales and Scotland, the Northern Ireland devolved administration has greater flexibility over administrative arrangements and the delivery of welfare to work services.
- 2 See, for example, the online publications associated with the World Bank's programme on 'decentralization and subnational regional economics' at www1.worldbank.org/publicsector/decentralization/what.htm
- 3 TECs were modelled on the network of local employer-led Private Industry Councils in the USA, which were responsible for the implementation of many federal employment and training programmes (Jones, 1999).
- 4 Michael Heseltine was Secretary of State for the Environment twice, first between 1979 and 1983 and then between 1990 and 1992.
- 5 The most common lead partner was the local authority, accounting for 53% of all programmes, but there were also a significant number of bids led by joint partners and the voluntary sector.
- 6 Upper-tier local authorities are county councils, unitary councils, metropolitan district councils and London boroughs.
- 7 See, for example, the 1977 Fabian pamphlet on public sector reform by Liam Byrne, with foreword by Patricia Hewitt MP, proposing that control of BA and ES offices be handed over to local councils 'which can prove they are effective' (Byrne, 1997, p. 3).
- 8 The core cities network is comprised of England's major regional cities: Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield – see www.corecities.com
- 9 The Sub-National Review recognised that some sub-regions with developed partnerships would want to go beyond MAAs and subsequently this led to two 'enhanced city-regions' being piloted, based around Leeds and Greater Manchester. The subsequent Local Democracy, Economic Development and Construction Act (2009) allowed for the voluntary creation of 'combined authorities' where a group of local authorities could pool appropriate responsibility and receive certain delegated functions from central government in order to deliver transport and economic policy more effectively over a wider area.
- 10 In 2006, the government also introduced the Local Enterprise Growth Initiative (LEGI), which was a competitive fund targeted at supporting enterprise and business formation in deprived areas. The 20 LEGI programmes that operated until 2010 covered 30 local authorities and each was steered by some form of multi-agency partnership board with a line of reporting and accountability through to the LSP.
- 11 In Scotland and Wales, DAF continued to be administered by JCP District Managers because local government funding arrangements were a devolved responsibility.
- 12 Other examples of wraparound services include debt and money advice; childcare services; collaborative projects with health services; social enterprise and self-employment services; early intervention with 'troubled' families; outreach and community engagement; local labour clauses and local authority procurement activity; work with social landlords, and so on.
- 13 This is known as the DEL-AME division. Departmental Expenditure Limit (DEL) spending is planned with departments and controlled on a three-year basis in Spending Reviews. Annually Managed Expenditure (AME) typically consists of programmes which are large, volatile and demand-led, and which cannot reasonably be subject to firm multi-year limits. The biggest element is social security and tax credit spending.

- 14 The Right to Control was tested in eight areas and represented a way to give disabled people a legal right to control the way in which certain services are delivered to them.
- 15 'Tories plan to let benefit levels be set by local councils', Toby Helm, *The Observer*, 6 September 2009.
- 16 There had already been a significant decrease in the number of districts, which had fallen from the 144 Employment Service Districts through which the New Deals were originally delivered in 1998 to 48 JCP Districts in 2010.
- 17 During 2014, the DWP has been converting its existing offices into Digital Jobcentres, involving a redesign of existing space and the removal of traditional Jobpoints and 'warm' (public access) phones. The intention is for the front-line service to enable job seekers to use online services as the primary way of claiming benefits and seeking jobs. Jobseekers will be able to use their own WiFi or Web Access Devices or the personal computers available in the office to make benefit claims, set up their Universal Jobmatch account and search for employment. These changes may improve service access but they are designed also to increase available space to manage the increased 'footfall' anticipated as the department implements additional conditionality measures that the government has announced. These include, for example, weekly work-search reviews for JSA claimants and up to 13 weeks of daily reviews for selected WP returners.
- 18 Following the unsuccessful English mayoral referendums in 2012, combined authorities have been used as an alternative means to receive additional powers and funding as part of 'city deals' to metropolitan areas. The Greater Manchester Combined Authority was created in 2011, with three others established in April 2014. A further combined authority is proposed for the West Midlands around Birmingham.
- 19 The Business Rates Retention Scheme was introduced in April 2013. It provides a direct link between business rates growth and the amount of money councils have to spend on local services. This is designed to provide a strong financial incentive for councils to promote economic growth (Sandford, 2014).
- 20 The design of UC involves the merger of six means-tested benefits, including tax credits, into a single household payment paid on a monthly basis, with the element to cover rent costs paid direct to the claimant.
- 21 Further complexity may arise from how different departments and local authorities change eligibility for 'passport' benefits, such as free school meals, for in-work recipients of UC.
- 22 In 2010, the LSC was closed after the greater part of its £11.6 billion budget, for 16- to 19-year-olds, was transferred to local education authorities. It was replaced by the Young People's Learning Agency (YPLA), charged with helping local authorities work coherently together in providing for the 14–19 age bracket, and the Skills Funding Agency (SFA) was created to administer the flow of funding for skills to colleges and training providers. A separate National Apprenticeships Service was created with 'end-to-end' responsibility for the apprenticeships programme. In 2012, the YPLA was absorbed by the Education Funding Agency, which funds state-provided education for all children aged 3 to 16, and most young people aged 16 to 19.
- 23 This was formally called the Preferred Suppliers for the Employment Related Support Services Framework. The list of organisations included in the framework has since been removed from the DWP website and it is unclear whether providers will have to requalify for a revised framework agreement before bidding for the next WP contracts.
- 24 Due to lower than expected recruitment, WP eligibility criteria for ESA claimants was changed to include those assessed as being capable of work within a year. This increased provider income from the flow of higher attachment fees but providers were poorly prepared to deliver services needed by, or secure outcomes for, a wider group with major employment barriers.
- 25 While many prime providers have been subject to performance improvement activity, especially for the hardest-to-place groups, only one contract has been terminated. This was held by Newcastle College Group, coincidentally the only public sector entity to act as a WP prime provider. Technically, this provider did meet minimum performance standards but because these were flawed the DWP used another contractual right to be able to 'break' the contract with NCG (NAO, 2014).
- 26 There is significant variation in the organisational size, capacity and population coverage of LEPs with some, such as Dorset, covering single county areas, while others cover large city regions and have sub-groups, advisory panels, and 'task and finish' groups reporting to their boards. The average number of LEP board members is 15, with board membership varying

between 48 and 9. About half are from the private and public sectors, although this varies, with over 70% private sector on one board and 60% public sector on another board (Pike, *et al.* 2013, p. 12). Four LEPs have female chairs and in total there are 92 female board members, some 15% of the total (Ward, 2014, p. 19). There is no data on ethnic composition. Only 20 LEPs have board members with some connection to the voluntary and community sector (NCVO, 2013).

- 27 Local authority leaders' boards are voluntary associations of council leaders that were established as part of the previous government's 'Review of Sub-National Economic Development and Regeneration', 2008. The Coalition Government abolished the boards' statutory functions but indicated that the boards might continue as voluntary associations of council leaders.
- 28 This fund will incorporate the European Social Fund with other EU funding programmes, principally the European Regional Development Fund. The ESF supports Skills Funding Agency projects worth £874 million and other schemes run by the DWP and National Offender Management Service totalling £354.6 million.
- 29 Although central government accrues much of the benefit from increased economic growth, some of the deals include new ways for cities to share in future revenue growth. Newcastle and Gateshead, for example, will retain all growth in business rate income for 25 years from four development sites in which they invest. Greater Manchester will benefit from an 'Earnback' model whereby £1.2 billion in upfront infrastructure investment will be repaid to the Combined Authority out of the proceeds of subsequent economic growth, which then is to be invested in further growth projects.
- 30 These initial pilots were, however, quickly overtaken by the CLG's national Troubled Families programme delivered through local authorities. In a sign of inter-departmental competition, the DWP also decided to introduce a separate ESF-funded programme for Families with Multiple Problems, delivered by prime providers. Both the DWP and CLG programmes aim to support families by joining up the activities of local service providers and have elements of PbR rewarding providers, for example, for placing participants in work. The Public Accounts Committee criticised the 'baffling decision' by the departments to implement two separate programmes, which resulted in confusion and unnecessary duplication, and contributed to lower than expected performance (PAC, 2014b).
- 31 A further proposal concerned specialist technical expertise, and in 2013 the government announced the establishment of a Public Services Transformation Network to support new areas in taking a Community Budget approach. In June 2014, it was reported the network had commenced working with nine other areas and intends to enable as wide a roll-out of the approach across England as possible.
- 32 See www.newcastlefutures.co.uk
- 33 See www.agma.gov.uk/cms_media/files/121031_ws1_key_messages.pdf?static=1
- 34 Greater Manchester has commissioned two providers to deliver a co-financed programme targeted at ESA WP leavers. The model is adapted from Manchester's Troubled Families programme, with key workers expected to better co-ordinate and sequence local services. Delivery commenced in March 2014.
- 35 The LEP estimates that up to £8 of every £10 spent on employment support funding in the city is spent on primarily DWP-controlled programmes designed and provided according to national guidelines. Many employment and skills programmes are also commissioned on different geographies and delivered through different supply systems, leading to a confused and confusing delivery system.
- 36 The shadow Minister for Work and Pensions has indicated that in English areas where combined authorities can demonstrate that they have the capacity, an incoming Labour Government would devolve WP commissioning. Funding would be agreed on a conditional basis, with combined authorities able to keep savings from delivery above a baseline, but responsible for the costs if their delivery falls short. While only a few areas would be able, or willing, to take on the risks of performance-based contracting, it is anticipated that over time most combined authorities would go on to commission provision in future contracting rounds.
- 37 The Centre for Social Justice (CSJ, 2013) and Policy Exchange propose that, apart from benefit administration and claimant profiling, all JCP employment services provision should be contracted out. Policy Exchange, for example, has proposed that benefit administration and claimant profiling be undertaken by a rebranded Citizen Support public service, while the employment support elements of JCP would be 'mutualised' (Miscampbell and Porte, 2014). Private and public sector organisations, including LEPs and local authorities, would be

licensed to deliver welfare to work services, with funding channelled to the provider chosen by a claimant and paid on the basis of the outcomes achieved.

- 38 The federal Canada Social Transfer stipulates that a person cannot be refused social assistance because she or he has not lived a sufficient amount of time in a province or territory.
- 39 O'Leary, *et al.* (2011) provides a systematic assessment of the detailed programme findings from the evaluations undertaken by provinces and territories. Many of the original studies on different labour market services and programmes derive evidence from comparison group-designed quasi-experimental evaluations. The studies tend to find at best 'modest' impacts on subsequent employment and earnings, analogous to findings from studies in other OECD countries (Card, *et al.*, 2009).
- 40 Under the previous system, performance measurement was based on follow-up surveys of participants undertaken by the local administrative entities responsible for delivery, which provided an opportunity for areas to manipulate the results of performance measurement. The quarterly earnings records submitted by employers for UI tax and eligibility determination are not subject to any potential manipulation although there are some problems related to the accuracy and timeliness of the data and its use in performance management (O'Leary and Eberts, 2008).
- 41 The WIOA reforms will further extend the role of 'sector based' and 'career pathway' programmes, which are targeted at meeting the needs of employers while opening up better-paid jobs to poor people (Maguire, *et al.*, 2010). The first such programmes were supported by charitable foundations, but they have since been more extensively supported through state governments and WIBs. The critical design feature is the role of the intermediary or partnership, which bridges the needs of employers and workers and organises resources and services. Some of the programmes have targeted industries characterised by low-quality jobs, such as home health care, home cleaning services and restaurant work, often with a focus on how to improve job quality. More commonly, sector-based programmes develop pathways in higher-wage industries, such as hospital-based health care, manufacturing and information technology.
- 42 The reduction in public sector provision has partly been offset by facilitating new partnerships with private employment agencies. For example, since 2011 the newly unemployed have been required to attend specified locations to engage in 'speed dating' with private employment agencies within three weeks of claiming benefits.
- 43 The PES performance management system is designed also to deter the agency from 'parking' harder-to-place clients until they transition out of insurance benefits to the tax-funded basic income support. A benefit duration measure means that the number of claimants exhausting their insurance entitlement has a negative impact on measured performance.
- 44 The German reforms provided greater safeguards for service delivery; the legislation on basic income required, for example, a broad ratio of job advisors to clients of 1:75 in the case of young people aged under 25, and 1:125 for older adults. The legal safeguard does not apply to conventional unemployment benefit recipients.
- 45 The Employment Related Services Association (ERSA), which represents primes and other employment services providers, has proposed a more cautious 'evolutionary' approach. It proposes the retention of national commissioning, using current or similar size CPA areas, to preserve the economies of scale of the current system. It suggests, however, the introduction of CPA level boards consisting of representatives of local government, LEPs and other organisations, alongside DWP officials, to help create better integration with local provision and to ensure a greater level of local accountability (ERSA, 2013).
- 46 When he was Financial Secretary to the Treasury, the Conservative Minister Greg Clark MP, who had previously helped negotiate the City Deals, suggested that he could see 'no reason why, either individually or in partnership with one another' the core cities 'shouldn't bid, on an equal basis to everyone else, for Work Programme contracts – even under their current regional structure' – see www.conservativehome.com/thecolumnists/2013/06/from-gregclarkmp.html
- 47 In Canada, for example, there is some evidence that local implementers have used short-term employment programmes to help welfare claimants to qualify for centrally financed EI; in the Netherlands and the USA local government has often assisted welfare claimants to claim centrally funded disability benefits.

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