Synthesising the evidence on Employment Zones

Rita Griffiths and Stuart Durkin
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## Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>ADF</td>
<td>Adviser Discretion Fund</td>
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<tr>
<td>ATJ</td>
<td>Action Team for Jobs</td>
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<tr>
<td>DfEE</td>
<td>Department for Education and Employment</td>
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<td>DWP</td>
<td>Department for Work and Pensions</td>
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<td>EZ</td>
<td>Employment Zone</td>
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<td>EZ25+</td>
<td>Employment Zone 25 Plus</td>
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<td>EZLP</td>
<td>Employment Zone for Lone Parents</td>
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<td>EZYP</td>
<td>Employment Zone for Young People</td>
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<td>FFEZ</td>
<td>Fully Fledged Employment Zone</td>
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<td>HOVAC</td>
<td>Heads of the Valleys and Caerphilly</td>
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<td>JSA</td>
<td>Jobseeker’s Allowance</td>
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<td>MPEZ</td>
<td>Multiple Provider Employment Zone</td>
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<tr>
<td>NAO</td>
<td>National Audit Office</td>
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<td>ND25+</td>
<td>New Deal 25 Plus</td>
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<td>NDLP</td>
<td>New Deal for Lone Parents</td>
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<td>NDYP</td>
<td>New Deal for Young People</td>
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<tr>
<td>ORF</td>
<td>Outcome Related Funding</td>
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<td>ORP</td>
<td>Outcome Related Payment</td>
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<td>PEZ</td>
<td>Prototype Employment Zone</td>
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<td>PJA</td>
<td>Personal Job Account</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>PSL</td>
<td>Private Sector Led</td>
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<td>RAT</td>
<td>Random Allocation Tool</td>
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<td>SPEZ</td>
<td>Single Provider Employment Zone</td>
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Summary

Evolution of Employment Zones

Employment Zones (EZs) in their current form were introduced in April 2000 to test a new, market oriented approach to reducing long-term unemployment through a work first, outcome-related model of delivering employment services. EZs were originally established in 15 of the most deprived areas of the United Kingdom where long-term unemployment persisted in spite of the general decline in unemployment. The number of zones later reduced to 13 when the five London zones merged into three. Since 2000, there have been around 215,000 EZ starters nationally.

With few restrictions governing their activities, EZs have the freedom to design tailored interventions to help their clients secure and sustain employment. This greater flexibility and scope for innovation contrasts with the more prescribed sequence of help delivered by New Deal programmes and sets EZs apart from other contracted-out forms of delivery.

The EZ funding model combines a weighted system of output related funding with a regime of benefit transfer payments designed to incentivise early job entry and steer contractor behaviours towards the achievement of job outcomes which sustain for 13 weeks. Using an intensive, customised approach to job matching and placement, EZs aim to harness the expertise and potential efficiency gains of the private sector to deliver a more effective, customer-oriented service. As the focus is on moving customers into employment as quickly as possible, interventions tend to be ‘short’ and ‘sharp’; there is little emphasis on training.

EZs originally targeted their services on long-term jobseekers aged 25 and over. In 2003, services were extended to include young people otherwise returning to New Deal for Young People (NDYP) and to lone parent volunteers. Early entry was also allowed for 25 plus and NDYP returner customers with additional barriers to entering employment. For eligible 25+ and NDYP returner customers, EZ participation is mandatory once they reach 18 months and six months unemployment respectively. Lone parent participation is voluntary and customers may choose to join or leave the EZ at any time.
Provider competition was extended in 2004 when six of the larger EZ areas became multiple provider EZs. Two types of EZ contract now apply. In six Multiple Provider EZs (MPEZs), up to three providers each receive a contracted quota of mandatory customer referrals randomly allocated on the basis of an agreed market share. In seven single provider EZs, a single contractor retains the monopoly for delivering services in that area.

Mandatory clients in MPEZs originally exercised no choice of provider and were randomly assigned by Jobcentre Plus advisers using a Random Allocation Tool. Choice of provider for mandatory customers was implemented in April 2007. Early entrants have a choice over whether to participate early, but once they have decided to join an EZ they are mandated to attend. In London EZ areas, New Deal for Lone Parents (NDLP) has been withdrawn and lone parents are able to choose from a selection of EZ providers. Outside London, lone parents can still choose to participate in NDLP but from their second Work Focused Interview they are offered a choice of EZ providers. Providers are encouraged to compete by marketing their services to lone parents and may attract as many lone parent customers as they want.

The distinctive features of EZs – payment by results, minimum regulation, operational and financial flexibilities, provider competition and customer choice – were, over time, intended to drive through improvements in performance and service delivery and act as a benchmark for comparing their performance with mainstream employment services.

Since their inception, EZs have been subjected to continuous evaluation, giving rise to a substantial body of research and evidence. The Department for Work and Pensions (DWP) is keen to bring the evaluation of EZs to a close through synthesising available evidence on their performance, effectiveness and impact. Insite Research was appointed by DWP to carry out a review of existing literature and to prepare a synthesis report.

**Research methods**

The literature review included assessments of: DWP-commissioned quantitative and qualitative evaluation research; new previously unpublished internal administrative data and cost-benefit analyses; ‘grey’ material including unpublished internal papers and reports sourced from DWP; and relevant academic papers and international evidence. The literature review was carried out between December 2006 and March 2007 and included published and unpublished material produced between 2000 and 2007.

**Effectiveness and employment impact**

Employment impact analyses using statistical techniques which aim to provide valid job outcome comparisons of like for like groups of eligible individuals are currently only available for mandatory customers. The evidence to date shows...
that EZs are more effective than comparative New Deal programmes in terms of their success in placing mandatory customers into work and helping them sustain employment for 13 weeks. EZs significantly outperform comparative New Deals for all mandatory customer groups, including those which have multiple employment barriers. There is no evidence that EZs achieve better results as a result of investing their resources only in job-ready customers to the detriment of those who are harder to help.

For NDYP returners, EZs’ better performance appears to work by moving them into work more quickly and, through providing continuity of support and incentives, keeping them employed for longer than would have been the case had they participated in NDYP. This reflects EZs’ flexibilities, the funding regime and advisers’ greater discretion to determine the frequency, content and timing of interventions and incentives. New Deal programmes are more rigidly structured and customers may stay longer in provision than they need to.

EZs’ better results with 25+ customers seem to arise from the combination of individually tailored help, financial assistance and preparation for specific jobs, forms of assistance not routinely available in New Deal 25 Plus. Though taking longer to move into work than younger clients, once in employment they are more likely to remain there.

Voluntary lone parents have presented EZs with significant challenges. Partly due to relatively low tariffs compared with mandatory customers, EZs initially struggled to make the work first model work for lone parents, particularly those who wanted or required lengthier support or training before starting work. A different funding regime which incentivises lone parent engagement and longer interventions has made voluntary customers more attractive to providers. EZs appear to be successfully engaging lone parents, including those who have more complex barriers and whom NDLP has been unable to help. It is too soon to say whether this has resulted in better job outcomes than NDLP.

For eligible mandatory and voluntary customers, EZs have shown themselves to be more client oriented and to achieve higher levels of customer satisfaction than would have been the case had the programme of support been New Deal. As such, EZs have established themselves as a successful alternative to mainstream employment services.

How and why do Employment Zones achieve better results?

EZs appear to achieve their better results through a combination of financial and operational flexibilities and a highly incentivised funding regime which focuses all efforts and resource on achieving job placements that sustain for 13 weeks.

What differentiates EZ delivery from mainstream employment services and contributes to improved performance is the way in which the flexibilities afforded to contractors feeds into the interface between adviser and customer. Unlike in
Jobcentre Plus, EZ advisers have no other distractions or responsibilities and operate with greater discretion and autonomy. Advisers are able to devote more time to getting to know customers and to identifying their barriers and job aspirations. They are also more persuasive and accommodating, aiming, where possible, to place customers into work of their own choosing rather than compelling them into jobs they do not want. Where the approaches diverge is in the quality and customer orientation of services, including the frequency and intensity of help, the amount of practical and financial assistance available, the extent of employer engagement and the continuity of adviser support into employment.

All the evidence points to the overriding importance of financial incentives built into contracts in terms of stimulating providers, advisers and customers towards the achievement of sustained job outcomes. Innovation in EZ delivery has largely mirrored developments in the funding model as shown, for example by the greater efforts of providers to engage lone parents following increased tariffs. Providers generally innovate where they are financially incentivised to do so.

Incentives alone, though, cannot explain the performance gap between EZs and comparative New Deals. EZs’ better results appear to be due to highly incentivised funding in combination with their operational and financial flexibilities. Performance incentives in the absence of flexibility may lead to cost and service level reductions, while flexibility and adviser discretion in the absence of performance and resource responsibility can lack accountability.

Flexibility seems to be most effective in delivering performance improvements when used within organisational cultures in which advisers not only have considerably autonomy, but are also responsible for the actions they take and the outcomes achieved. This is not to say there is no scope for improving the flexibility or performance of mainstream employment services, only that improvements achieved in one institutional or cultural context do not automatically or necessarily transfer into another.

Short-lived, differential and costly impacts

EZs’ better results appear to come at a price. If the assumptions on which cost-benefit analyses are based are valid, EZs cost significantly more and offer less value for money than comparative New Deals, particularly NDYP. Not only this, but due to EZs’ better outcomes and the relatively high price paid for a sustained job outcome, the better EZs perform, the less fiscally cost effective they become – assuming that improved EZ performance does not result in a higher proportion of ‘additional’ jobs (i.e. jobs that would not have been achieved in the absence of the programme). Under the current funding model, better performance may therefore run counter to a policy of improving value for money.

EZs’ better results may also be short-lived. Not only are relatively few jobs sustained longer than 13 weeks, but over time, there is a marked convergence between the
performance of EZs and mandatory New Deals. For all their flexibilities, additional funding and focus on sustained job outcomes, over a longer period, EZs may perform no better than New Deal. EZs’ better results may simply reflect a funding regime which incentivises short-term interventions and job outcomes.

In spite of their considerable flexibilities and scope for innovation, EZs have been unable to overcome the barriers of a hardcore of long-term unemployed clients. Although EZs achieve better outcomes than comparative New Deals for mandatory customers who are similarly disadvantaged, almost half of those who attend an EZ leave without securing employment. EZ delivery has thus confirmed the existence of a group of customers experiencing employment barriers that may be insurmountable within the timescale and confines of the current EZ work first, job outcome-focused regime.

Customer choice and provider competition

Expected impacts resulting from introducing customer choice and provider competition have yet to be realised, with few performance or cost-benefit improvements evident in the research. These aspects of market delivery have to date been constrained by limited customer choice (until April 2007 only lone parents were able to choose their provider) and the contractual features of fixed-price tendering, pre-determined market quotas and random allocation in MPEZs, together with the limited scope for comparing and rewarding the differential performance of providers. In the absence of effective provider competition, performance transparency and choice for mandatory customers, the conditions for effective market testing in EZ delivery had, at the time of the synthesis research, yet to be fully satisfied. The introduction of choice for mandatory customers in April 2007 is, however, expected to contribute significantly to market delivery.

Future funding and contracting

Given the sensitivity of provider behaviours and performance to funding and contracting arrangements, the importance of getting the system of tariffs and incentive payments right at the outset cannot be overestimated. Effective design of the funding model is crucial if performance and cost effectiveness is to be improved and EZs’ successes extended to those groups who currently do not benefit from participation. The fact that multiple policy objectives are not always mutually reinforcing places considerable demands on the design of such a system. Requiring contractors to compete on price or adjusting the funding regime to more closely align EZ costs to those of New Deal, for example, could improve cost effectiveness and value for money, but could risk undermining performance or perhaps induce providers to exit the market. Ensuring that policy objectives, contracting arrangements and incentives structures are closely aligned is therefore key.
Since it appears likely that innovative actions will only be promoted where providers are financially incentivised to do so, further consideration may need to be given to the funding model and to designing incentives which can provide solutions for the most disadvantaged customers and those wanting better quality jobs. Adjustments could perhaps be made to weighted outcome payments to incentivise sustained outcomes for harder-to-help customers. A more challenging definition of job sustainability may also be needed. Extending the duration of employment that qualifies for an outcome payment beyond 13 weeks may not only stimulate a longer period of in-work support but would incentivise providers to source better paid employment and jobs offering opportunities for training and progression. Contracting arrangements may also need reviewing to ensure that public resources reach and are appropriately targeted on those customers for whom the policy is intended.
1 Introduction

1.1 Background

Employment Zones (EZs) in their current form were introduced in April 2000 as an experiment to test a new approach to reducing long-term unemployment through a work first, market-oriented model of delivering employment services. The pilot forms part of the Government’s reforms to modernise and improve the delivery of public sector services. EZs were established in 15\(^1\) of the most deprived areas of the United Kingdom where long-term unemployment persisted in spite of the general decline in unemployment nationally. The number of zones later reduced to 13 when the five London zones merged into three. Between 2000 and 2006, around 215,000 people have started on an EZ nationally.\(^2\)

With few restrictions governing their activities and a payment regime based on a system of outcome-related financial incentives, EZs have the freedom to design tailored interventions to help long-term unemployed individuals secure and sustain employment. This greater scope for innovation and action is in contrast to the more prescribed sequence of assistance delivered by mainstream Jobcentre Plus and New Deal programmes, and sets EZs apart from other contracted-out employment services, for example Private Sector Led New Deals and New Deals for Young People options.

Using an intensive case management approach to job placement, and through a funding mechanism which strongly incentivises jobs sustained for 13 weeks, the aim of EZs is to harness the expertise, capacity and potential efficiency gains of the private sector to deliver a superior, more customer-oriented service. A key objective was to benchmark the performance of EZs against Jobcentre Plus to explore

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\(^1\) In 2003, the number of EZs operating nationally reduced to 13 when the five London zones in the original EZs were merged to three. There are now 13 EZs nationally.

\(^2\) Employment Zones Starter (Spells) Time Series data sourced via the Department for Work and Pensions’ (DWP) official website http://www.DWP.gov.uk/new_deals/ez/live
whether competing commercial organisations would deliver more efficiently and effectively front-line advisory services that had previously been monopolised by the public sector.

Since their inception, EZs have undergone three separate incarnations; Prototype Employment Zones, Fully Fledged or original EZs; and EZ extensions, each comprising different eligibility criteria, customer groups and funding and contracting arrangements. Throughout this evolution, EZs have been subjected to continuous monitoring and evaluation, giving rise to a substantial body of information and evidence. Derived through a combination of quantitative, qualitative and analytical research methods – including longitudinal customer surveys, case studies, in-depth interviews, administrative data and cost-benefit analysis – these studies encompass all aspects of EZ operations, service delivery and performance.

Nine years after the implementation of the prototypes, DWP is keen to bring the formal evaluation of EZs to a close through synthesising available research and evidence on their performance, effectiveness and impact. In December 2006, Insite Research was appointed by DWP to carry out a review of existing research and to prepare a synthesis report. The aim was not to reproduce or summarise all that is known about EZs, but rather to interpret and add value to the existing body of knowledge in order to learn from the experiment, prior to moving on to the next phase of policy implementation. The synthesis exercise also provided an opportunity to present new, unpublished DWP internal employment impact and cost-benefit analyses.

1.2 Research objectives and methods

The aim of the study was to review the available evidence and literature in order to assess the performance, effectiveness and impact of EZs, and specifically to address the following research questions:

- What results have EZs achieved?
- How well have EZs performed compared with mainstream New Deal programmes?
- How effective and efficient are EZs?
- How have EZs used their flexibilities and with what degree of innovation?
- How have EZs engaged and treated the different customer groups and with what degree of success?
- To what extent have market mechanisms and incentive structures improved the effectiveness and efficiency of delivery?
- What factors may account for the success or otherwise of EZs?
- What can we learn from the EZ experiment?
The following methods were used to meet the research objectives:

- a review of DWP’s commissioned and published quantitative and qualitative evaluation research;
- a review of DWP’s new previously unpublished internal administrative data and cost benefit analysis;
- a review of ‘grey’ material, including unpublished internal papers and documentation sourced from DWP; and
- a review of relevant academic papers and international evidence.

The literature review was carried out between December 2006 and March 2007 and included published and unpublished material produced between 2000 and 2007. A comprehensive bibliography is included at the back of the report.

1.3 Report structure

This report is written in five further chapters, as follows:

- Chapter 2 describes the EZ model and the distinctive features of market driven, contested delivery;
- Chapter 3 considers the employment impacts and cost effectiveness of EZs and how EZs’ results compare to comparative New Deal programmes;
- Chapter 4 explores EZs’ flexibilities and the extent to which they may contribute to improvements in performance and service delivery;
- Chapter 5 examines the way in which EZs engage and treat the different client groups and the extent to which funding regimes influence customer treatments and outcomes;
- Chapter 6 outlines the issues relating to contested delivery, customer choice and provider competition; and
- Chapter 7 summarises key interpretive findings.
2 Employment Zone delivery model and funding regime

2.1 Distinctive features of Employment Zones

Employment Zones (EZs) were introduced as a pilot to test new delivery arrangements designed to improve the effectiveness, efficiency and customer orientation of publicly-funded employment services. That delivery would be tendered and contracted out to the private and voluntary sector was key to the experiment. The aim was to create a managed market where Departmental input would be to incentivise providers, monitor performance and account for public sector spend, not to provide services. Longer term, the aim was to empower customers to make informed choices about which provider was best placed to help them secure the work they wanted.

Financial and operational flexibilities were intended to facilitate innovative delivery and to steer provider behaviours towards employment outcomes. Rather than prescribing customer treatments according to their age and benefit entitlement, as happens in Jobcentre Plus, EZ advisers would be free to design packages of employment assistance to meet identified barriers and needs, taking responsibility for individual customers rather than the programme of intervention. Enhanced performance, improved efficiency and better value for money in the use of public funding would result, it was hoped, as a product of freed-up, contested delivery by the private sector and output-related funding.

The distinctive features of EZs – payment by results, minimum regulation, operational and financial flexibilities, provider competition and customer choice – were, through incremental implementation, intended to drive through improvements in service delivery, and through performance benchmarking, put competitive pressure on mainstream employment services. The aim was to create a contested market for the delivery of employment services which operated according to the
principles of choice and competition. Unlike in Australia and the Netherlands, where public sector reforms resulted in the wholesale privatisation of public employment services, the reform process was to be incremental; change would be evidence-based with the progressive introduction of market principles and the gradual integration of successful elements into mainstream services over time.

2.2 Evolution of Employment Zones

The Government’s incremental approach to market reform is reflected in the development of EZs which have evolved through three different incarnations: Prototype Employment Zones (PEZ) (1998), Fully Fledged or original EZs (2000), and EZ extensions (2003). Until the extensions, each EZ had a single contracted provider; after this multiple providers were introduced into the larger zones (2004). Each of the different incarnations and contracting rounds comprised different eligibility criteria, customer groups, and funding and contracting arrangements.

2.2.1 Prototype Employment Zones

The first incarnation PEZs were established in 1998 in five areas experiencing high concentrations of persistent long-term unemployment; Glasgow, Liverpool and Sefton, North West Wales, Plymouth and South Tees. PEZs were managed by local, multi-agency partnerships of public and voluntary sector stakeholders and characterised by voluntary participation of unemployed adults aged 25 or over. The partnerships were awarded funding which pooled programme resources and benefit payments and were tasked with delivering innovative, locally designed solutions to tackling unemployment.

The market failure which PEZs sought to address posited that long-term unemployed people living in disadvantaged localities experienced additional barriers to work which could be overcome through improving their employability. PEZs aspired to motivate and empower unemployed adults through voluntary participation in socially useful projects offering a choice of training, work experience and intermediate labour market employment opportunities. As such, they represented demonstration projects for a more ‘bottom up’ and ‘joined-up’ way of tackling long-term unemployment and social exclusion in disadvantaged areas.

Early evaluations suggested that PEZs received an enthusiastic welcome from local stakeholders and, in spite of some early implementation difficulties, appeared to

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3 EZ client groups currently include 25+ customers, New Deal for Young People (NDYP) returners, early entrants, lone parent volunteers and Pension Credit volunteers.

4 For a full description of the aims, rationale and objectives of PEZs, see ROAMEF Statement (1998).

5 Haughton, G. et al. (2000) p v.
be achieving measurable, if modest, successes. Commentators have speculated as to the reasons why the Fully Fledged Employment Zones (FFEZs) which subsequently emerged bore little resemblance to the prototypes. Whatever the reasons, the FFEZs introduced in 2000 were characterised by mandatory participation, contracted-out delivery by the private sector and output-related funding, the voluntaristic, human capital and social welfarist elements of their predecessors consigned to history.

It seems likely that PEZs as originally conceived may have been overtaken by wider Government priorities to modernise the public sector and reform the welfare state. Welfare to work heralded the introduction of Jobcentre Plus and a re-positioning of public employment services along work first principles, training and employability approaches having been largely discredited as a labour market instrument in the United Kingdom and internationally due to low employment outcomes. In the context of favourable labour market conditions and a newly reformed tax regime, greater conditionality was imposed on benefit claimants in return for access to high-quality employment advice and support. Designed to mobilise passive benefit spend for active labour market measures, EZs were established to pilot a new model of delivery based on the newly emerging paradigm of contracted out, work first delivery.

2.2.2 Original Employment Zones

A competitive tendering exercise for ‘fully fledged’ or ‘original’ EZ contracts was launched in 1999. Tenderers responded to an open invitation to tender for a single contractor who would have a monopoly for delivering services to long term unemployed adults over the age of 25 in each of 15 designated zone areas. With tariffs and incentive payments fixed by the Department for Employment and Education (DfEE), contractors competed on the basis of quality, proposed innovation in service delivery and projected performance, rather than price. The first procurement round for EZs produced 20 bids for the proposed 15 zones. Nine contracts were won by Working Links, a strategic partnership between DfEE, the Employment Service, Ernst and Young and Manpower; four were won by Reed in Partnership and one by Pertemps, both private sector employment and recruitment agencies. An independent organisation, Work Connect won the contract in North West Wales. Working Links began operations using staff mainly seconded from the Employment Service. The intention was that good practice or lessons learned from working there would be transferred into the practices of mainstream employment services.

EZs were introduced in 15 areas in April 2000 and were mandatory for eligible long-term unemployed in receipt of income-based Jobseeker’s Allowance (JSA) who had been unemployed for 12 or 18 months. Eight 12-month zones operated

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6 Tu, T. and Noble, J. (2000) p6. A survey of PEZ leavers indicated that 30 per cent were employed or self-employed at the time of the fieldwork.

in Birmingham, Doncaster, Haringey, Heads of the Valleys and Caerphilly (HOVAC)\textsuperscript{8}, Newham, Nottingham City, Plymouth and Southwark. Seven 18 month zones operated in Brent, Brighton and Hove, Glasgow City, Liverpool and Sefton, North West Wales, Middlesbrough, Redcar and Cleveland and Tower Hamlets. In the areas in which they operated, zones effectively replaced the New Deal 25 Plus (ND25+), although in 12 month zones, participants became eligible for mandatory referral six months earlier than they would otherwise have.\textsuperscript{9}

Although the architecture and underlying ethos of EZs was fundamentally different to PEZs, in other respects the EZs retained and indeed advanced some of the hallmark characteristics of the prototypes including minimum regulation delivery, financial and operational flexibilities and customer choice. In spite of attendance being mandatory for eligible individuals, the intention was to give participants more choice in the help provided to them through a process of action planning incorporating a Personal Job Account, a financial resource whose use they could influence. Further distinctive features designed to advance the Government’s modernisation and contestability agenda included payment by results and increasing provider competition.

\subsection{Employment Zone extensions to new customer groups}

In October 2003 a second procurement and contracting round extended coverage of EZs to new customer groups – young people who would otherwise have returned to the NDYP, for whom attendance was mandatory, and lone parents and Pension Credit recipients whose participation was voluntary. Eligibility criteria were also brought into line with New Deal, allowing early entry to EZs for eligible claimants with additional barriers and restricting eligibility for 25 plus customers with 18 months continuous unemployment. Early entrants could choose to attend an EZ but thereafter participation was mandatory for early entrants who decide to join. EZ activity to increase the participation of mandatory clients including early entrants was not permitted and, as of November 2005, providers were prohibited from advertising. Providers were, however, encouraged to market their services independently to lone parents.

\subsection{Transition to Multiple Provider Employment Zones}

Contested delivery was further extended in 2004 when competitive tenders were invited for multiple providers to deliver services in six of the largest zones; Glasgow, Liverpool, Birmingham and the three London zones. The aim was to improve job-outcome performance through encouraging new contractors into the market, increased provider competition through benchmarking the performance of different providers operating in the same zone area.

\textsuperscript{8} HOVAC changed from an 18 month to a 12 month zone in August 2000.

\textsuperscript{9} This discontinuity between ND25+ and 12 month zones was a key reason why eligibility for mandatory referral was later restricted to customers with 18 months continuous entitlement to JSA.
Two types of EZ contract now apply. In six Multiple Provider EZ (MPEZ) areas, up to three appointed providers each receive a contracted quota of mandatory customer referrals randomly allocated on the basis of an agreed market share. In seven Single Provider EZ (SPEZ) areas in Plymouth, Nottingham, Doncaster, Middlesbrough, South Wales, North West Wales and Brighton, a single contractor retains the monopoly for delivering services in that area. In total, seven contracting organisations deliver EZ contracts, four across the six MPEZs and three across the seven SPEZ areas. Current contracts are due to come to an end in October 2009 for Single Providers and in April 2010 for multiple providers contracts, although there is an option to extend contracts for a further two years. Any decision to extend contracts would be made by April 2008.

Prior to April 2007, mandatory clients in MPEZs exercised no choice of provision or provider and were randomly assigned to a provider by Jobcentre Plus advisers using a Random Allocation Tool (RAT). Early entrants do have a choice over whether to take up early entry onto EZ provision, but prior to April 2007 they were randomly allocated to a provider and mandated to participate once they had decided to join.

In London EZ areas, New Deal for Lone Parents (NDLP) has been withdrawn and lone parents are able to choose from a selection of EZ providers. Outside London, lone parents can still choose to participate in NDLP but from their second Work Focused Interview they are offered a choice of MPEZ providers. EZ providers are encouraged to compete by differentiating and marketing their services to lone parents and may attract as many lone parent customers as they consider appropriate.

2.2.5 Implementation of customer choice

From April 2007 choice of provider was extended to mandatory EZ client groups (25+ clients, NDYP returners and early entrants) in all multiple provider areas. Customer choice is informed through Jobcentre Plus leaflets and provider marketing material. Once a choice is made, customers are not permitted to change provider after they have started an EZ programme. Where a customer is unable or unwilling to choose, the RAT is used to determine the provider. The policy will be independently evaluated from 2007.

2.3 Employment Zone funding model and contracting arrangements

With few prescribed interventions and minimum restrictions over the delivery process, payment to contractors is mainly contingent on the achievement of job outcomes. EZ contracts stipulate no contracted minimum level of spend on individual customers, however, advisers must meet with their clients face to face at least fortnightly. Contractors are free to use their own internal quality assurance systems, although they are expected to deliver accurate and timely data returns. With the focus on moving customers into employment as quickly as possible, interventions tend to be ‘short’ and ‘sharp’, with limited emphasis on training.
2.3.1 Weighted outcome payments

EZ contracts are built on a system of incentive payments which premise that contractors’ behaviours are strongly motivated by financial and commercial considerations. The funding model combines a system of output related funding (ORF) with a regime of benefit transfer payments designed to incentivise early job entry and steer contractor behaviours towards the achievement of sustained job outcomes. To work, performance-related contracts need to be accompanied by operational flexibilities which free contractors from bureaucracy and red tape. EZs are thus differentiated from other contracted-out forms of provision, for example Private Sector Led New Deals, by their flexible delivery and innovative funding arrangements designed to test the way in which contractors would use their flexibilities to improve performance for maximum financial return.

Fixed-price ORF payments, which represent the bulk of contractors’ funding, are heavily weighted towards the achievement of sustained job outcomes. Payments for completion of action plans when combined with immediate job entry represent no more than a fifth of the funding package, while jobs that are sustained for 13 weeks\(^\text{10}\) attract a huge four-fifths slice. The commercial viability of EZ contractors is thus dependent on retained jobs rather than job placements.

Specific tariffs and payments to contractors have changed over time to reflect the different EZ models, customer groups and changing Departmental priorities in response to policy and contractor behaviours. Following the extension of EZs to lone parents, the pricing and payment regime was designed to reflect the relative ‘job readiness’ and perceived degree of difficulty involved in moving mandatory and voluntary customers from benefits into work. Accordingly, EZs were initially paid significantly higher fees for mandatory than for voluntary customers, the assumption being that compulsion to participate and lack of choice in provision would add to the degree of difficulty, while voluntary participation and choice of provider would reduce it.

To deter providers from focusing their efforts only on the most job ready, providers initially earned premium job outcome payments for customers unemployed for longer periods. This weighted mechanism was later abandoned in favour of higher payments for jobs sustained by zone returners since returning to an EZ was considered to be a more accurate indicator of the degree of difficulty involved in moving customers into sustained work, than the length of unemployment.

Other key changes to tariffs and incentive payments include the addition of a five week job retention payment and the introduction of continuous engagement payments for lone parents in 2005, paid at 6, 11, 16 and 21 weeks. Prior to this, contractors received a single engagement and job-outcome payment. Job-outcome payments for lone parent volunteers who move into work and sustain employment for 13 weeks have now been more closely aligned to those of mandatory clients.

\(^{10}\)ORF is also payable where a participant has completed 11 out of 13 weeks in multiple jobs without making a claim for benefit.
2.3.2 Performance bonus

For the first year of the multiple provider extensions, contractors negotiated a lump sum performance bonus with the Department which was paid in addition to delivery and outcome fees subject to providers meeting the target and sustaining an agreed level of performance over a specified period. The value of the bonus was a function of the relative performance of the providers in each EZ and was designed to stimulate improved job outcomes through competition. The bonus was paid on achievement of their job outcome performance target if the level of performance was within five per cent of that of the highest performing contractor in their area. Unintended effects were observed on EZ behaviours and the performance bonus was subsequently withdrawn.¹¹

Contractors are now paid a bonus for submitting accurate and timely management information and monitoring returns to an agreed specification and set of timescales.

2.3.3 Employment Zone delivery stages and incentive structure

EZ contracts stipulate three key stages of client contact, service delivery and performance, for which providers receive funding. Stage One is a maximum four week introductory ‘gateway’ period to identify clients’ needs and employment barriers,¹² during which providers must complete an action plan. A fixed-price start payment is paid to contractors on completion of an action plan. During Stage One, participants continue to receive benefits payments from Jobcentre Plus.

Stage Two comprises up to 26 weeks of intensive support to implement the action plan and place the client into work. In consultation with their clients, providers determine the content and financial value of the package of assistance delivered. During Stage Two, contractors are responsible for paying mandatory participants an amount equivalent to their benefit entitlement. Advisers may also suspend a customer from the zone for non-attendance and refer them back to Jobcentre Plus for possible sanctioning. Providers are not required to pay lone parents’ benefit but neither can they retain any surplus that may arise through placing clients into work early.

Stage Two funding in respect of mandatory customers is highly incentivised to encourage early job entry. Calculated on the basis of JSA payments over a maximum 26 weeks period of mandatory attendance, contractors’ fees are scaled down to 21 weeks on the expectation that most customers will move into work before the maximum length of stay. If employment is secured in less than 21 weeks, EZs are allowed to retain any Stage Two funding which remains after benefit equivalent payments have been made, but they are also required to make up the shortfall

¹¹ For further details of the circumstances surrounding the withdrawal of the performance bonus, see Policy Research Institute (2006) p31 and Section 6.4 of this report.

¹² Stage One initially lasted 13 weeks but was reduced to four weeks in 2003.
for any customers who remain unemployed for longer than this. If contractors perform well or achieve efficiency gains, they benefit financially. If on the other hand, costs prove to be higher or customer referrals or job outcomes are lower than anticipated, they bear the risk. Providers are thus rewarded for assuming a greater delivery risk by the additional income they can potentially earn.

Jobseekers for whom a job entry cannot be secured within 26 weeks return to Jobcentre Plus and re-qualify for EZ help after a further qualifying period of claiming benefits. A 22-week ‘follow-on’ period applies in respect of mandatory participants who remain unemployed at the end of Stage Two. Contractors receive no funding but can claim outcome payments if they continue to support customers who then move into work. A further payment is payable if work is retained for at least 13 weeks. Lone parents who do not move into work after 26 weeks can choose to restart the programme immediately.

The incentivising effects of the EZ funding model are most clearly exemplified with respect to Stage Two payments where the benefit transfer payment helps to fund the system of performance incentives. Not only is there a strong incentive to move people quickly into work, but failure to do so could cost contractors dearly. The behaviour inducing effects are thus effectively doubled and the commercial imperative to move customers into work as quickly as possible that much greater. This particular funding device also helps to explain why job search, job preparation and short, work-focused training courses tend to be used in preference to longer and more structured programmes of training and assistance, forms of support whose effectiveness and outcomes are not only uncertain, but which, if used routinely or universally, would undermine contractors’ financial viability. The work first approach is thus a direct consequence of the way in which EZs are funded and incentivised.
3 Employment Zone impact efficiency

A key question is whether, with their additional flexibilities and an output-related payment regime designed to incentivise sustained employment, Employment Zones (EZs) have performed better than Jobcentre Plus. Is the premise that contracted-out, market-oriented delivery improves the effectiveness and efficiency of service delivery born out by the evidence? This section presents EZs’ results and considers how they compare to equivalent New Deal programmes, presenting new, previously unpublished Department for Work and Pensions (DWP) internal analyses of employment impact and cost effectiveness.

3.1 Measuring employment impact

Measuring the impact of EZ interventions on any individual client’s employment status would need to take into account the counterfactual situation of non intervention. Since such an experimental method is not possible, quantitative analyses use proxy measures of net impact using statistical techniques which compare the employment outcomes of like-for-like groups in EZ and New Deal comparison areas.\(^\text{13}\) Using the same set of matched comparison areas, three major studies have sought to quantify the net employment impact of EZs by comparing their job outcome performance relative to that of comparable New Deal programmes:

- a longitudinal cohort survey of long-term unemployed people eligible for referral to EZ and New Deal 25 Plus (ND25+) in a matched set of comparison areas;\(^\text{14}\)

\(^{13}\) The labour markets in comparison areas were slightly more favourable than EZ areas and the sample living there slightly less disadvantaged. However, the statistical techniques used aimed to take account of these factors, and the comparisons were, therefore, judged by the researchers to be valid. Nevertheless, given that EZ areas were selected on the basis of them being the most relatively deprived, comparisons are always likely to be imperfect.

\(^{14}\) Hales et al. (2003).
• administrative data studies at an individual level in EZ areas and the same set of matched comparison areas to assess the wider employment and labour market impacts of EZs;\(^\text{15}\)

• comparative impact analysis of EZs and New Deal programmes based on administrative data of job entries and sustained job rates for 25+ and New Deal for Young People (NDYP) returner starters in EZs and matched New Deal comparison areas.\(^\text{16}\)

The first two studies were independent evaluations commissioned soon after the implementation of EZs in 2000. As such, they only present outcomes and impacts for the original 25+ customer group. These studies were also carried out at a time when ND25+ was being re-engineered\(^\text{17}\) and when eligibility criteria in both EZ and ND25+ comparator areas were not only variable, but in the process of change.\(^\text{18}\) Included in the sample, therefore, were customers who participated in ND25+ before and after re-engineering and who took part in 12 month and 18 months zones.\(^\text{19}\)

The impact of EZs was calculated by measuring the additional employment outcomes achieved over and above what would have occurred had participants been helped by mainstream New Deal programmes.\(^\text{20}\) Paid job outcomes were estimated using logistical regression methods which take into account the effects on the likelihood of gaining employment of a wide range of personal and area-based variables. Regression analysis was used to isolate the effect of being in an EZ on the chances of getting and keeping work, holding all other observable factors constant. This method was intended to ensure that any differences in performance were, as far as could be controlled for, attributable to the different programme impacts rather than any differences in customer characteristics or local labour markets. In the absence of experimental methods which would compare the results of ‘treatment’ and ‘non-treatment’ groups, this technique aimed to

\(^{15}\) Hasluck, C. (2003).

\(^{16}\) DWP DSP Statistical Analysis Team (December 2006a) and (December 2006b).

\(^{17}\) ND25+ was re-engineered in 2001 which substantially changed the programme including the introduction of a new mandatory Intensive Activity Period and improvements to the Gateway period.

\(^{18}\) At the time of the study, in eight EZ areas, eligibility was 12 months unemployment and 18 months in the other seven. ND25+ eligibility was also reduced from 24 to 18 months unemployment following ‘re-engineering’.

\(^{19}\) All other things being equal, the expectation would be that the shorter the period of unemployment prior to programme entry, the better the job outcomes.

\(^{20}\) This difference is the net impact of the EZ intervention which is intended to take into account the deadweight effects of EZ and New Deal programmes which would have occurred anyway.
provide valid comparisons in spite of more favourable labour markets and less disadvantaged sample members in the comparison areas.

The third study was conducted internally by DWP analysts and presents new, previously unpublished findings using outcome data from a later period of EZ extensions. The internal DWP analyses differ from the two previous studies in several important respects. They include impact analyses for both 25+ and 18-24 customers and for a later cohort of customers who participated in New Deal and EZ programmes in 2004. The analyses did not use regression analysis to control for observable differences between the EZ and comparator groups but the comparative cohorts chosen were able to provide equivalent (18 month) eligibility criteria.

The internal DWP study did not include employment impact analyses in respect of volunteer lone parents or early entrants. Lone parent outcomes were not included due to technical difficulties concerning the variable use of New Deal for Lone Parents markers within Jobcentre Plus database and labour market systems. At the present time, these undermine the robustness and validity of lone parent outcome and comparison data. The technical difficulties are currently being addressed internally by DWP. Early entrants were not included because they are a diverse group with different motivations and propensities to find work, and so do not lend themselves to comparison.

3.2 25+ employment impacts

Results from the longitudinal cohort survey published in 2003 found that significantly more Employment Zone 25 Plus (EZ25+) participants had a spell of paid work within a period approximately a year from referral eligibility than would have been the case if the programme operating had been ND25+. The difference was ten percentage points; 34 per cent of EZ participants compared to 24 per cent of New Deal participants. EZs outperformed ND25+ most strongly in respect of movement into full-time jobs of 16 hours a week or more. Here the difference was 11 percentage points.\textsuperscript{21}

These additional impacts did not sustain over the longer term. By 18-20 months after referral eligibility, the differential performance of the programmes had diminished such that it was no longer statistically significant. ND25+ performance had in effect ‘caught up with’ that of EZs. However, a difference of eight percentage points remained statistically significant when measured at 18-20 months for jobs of 16 hours a week or more and EZ participants remained significantly more likely to have had full-time jobs compared to New Deal participants. EZ25+ participants were, however, more likely to enter temporary jobs, lower-paid jobs and lower-skilled jobs than ND25+ participants. The authors suggested that the higher significance for jobs of longer hours is attributable to the EZ funding regime which only pays Outcome Related Funding in respect of job entries of 16 hours a week or more.

\textsuperscript{21} Hales et al. (2003) p136.
The evaluation evidence thus found that on most measures of employment impact, EZs performed consistently better than New Deal and significantly increased the chances of participants gaining paid work compared to ND25+. This difference was most apparent within the first year from referral and diminished thereafter; the additional benefits of attending an EZ did not sustain over the longer term.

3.3 Wider labour market impacts

The wider employment and labour market impact of EZs on mandatory 25+ customers was also explored using administrative data analyses which compared employment and unemployment flows over time in EZ areas and the same set of matched comparison areas as used in the cohort study. Data methods are considered by some to be more robust than survey findings since they are not subject to interview bias.

The analysis found that a few months after the introduction of EZs, unemployment began to reduce at a faster rate in zone areas than in the comparison areas after programme completion. EZs were also associated with having a small but significant impact on the rate at which unemployed claimants left benefits. The EZ programme increased unemployment outflows among the eligible EZ client group by a little over one percentage point. This effect was not associated with any negative impact on other client groups not eligible for EZ25+.

Echoing the survey findings, the effect on benefit off-flows was stronger in respect of eligible 25+ customers who left the unemployment register for a job, rather than those who simply switched from active onto inactive benefits. It was also stronger for those claimants with shorter durations of unemployment including those that became eligible for the programme soon after its introduction (flow customers). Partly for this reason, the impact appeared more marked in the 12 month zones than in the 18 month zones.

Addressing the issue of the likelihood of individuals returning to unemployment, the study found that those with shorter periods of unemployment prior to becoming eligible for help were less likely to re-enter unemployment if they lived in a zone area. There was no difference between the zone and the comparison areas in subsequent unemployment levels among eligible stock 25+ customers who had been unemployed and claiming benefits for longer periods prior to their referral.

There was no evidence presented in this study, nor in any subsequent EZ research, of any wider area outcomes or of measurable impacts on local labour markets, levels of deprivation or possible cultures of ‘worklessness’ in EZ areas.

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24 Dewson et al. (2007) raise the issue that wider area outcomes and concepts such as ‘worklessness’ as addressed in the Working Neighbourhood Pilots are not easily identifiable or measured.
3.4 Unevenly distributed and short-lived impacts

There were several further important observations from these two studies. First, employment impacts were not evenly distributed across all participants. Secondly, in a period of nearly two years, almost half the 25+ participants in both EZ and New Deal areas had not been helped into any kind of work. Thirdly, although many jobs satisfied the 13-week sustainability criterion, relatively few jobs in either EZ or New Deal comparison areas were sustained over a longer period.

3.4.1 Differential impacts

The studies found that programme impacts were not constant for all participants. In both EZ and New Deal comparison areas, less disadvantaged customers were more likely to have entered and sustained work than those with more disadvantages. Individuals attending an EZ for the first time and with a good record of employment prior to becoming eligible for help (easier to help) were more likely to be in work and less likely to be out of work than those with longer periods of unemployment, few or no qualifications and a history of unstable employment (harder to help). Harder to help individuals were not only less likely to have started work but, when they did, were also more likely to have left or lost their job before 13 weeks.\(^{25}\)

These findings are strongly echoed in the qualitative research. Despite the best efforts of providers to progress the most disadvantaged customers, those most likely to enter work and sustain in employment were those with qualifications, recent work experience and access to transport, while those less likely to enter work and sustain were those without qualifications, poor basic skills, drug and alcohol problems, mental health issues and those wanting longer-term training.\(^{26}\)

Although both EZs and Jobcentre Plus achieved more job outcomes with easier to help customers, there was no evidence that EZs achieved their better performance through ‘creaming’ more customers who were less disadvantaged than did Jobcentre Plus. In the survey cohorts, harder to help EZ25+ participants with disadvantaged characteristics did have a slightly better chance of securing and sustaining work than similar individuals in the ND25+ comparison groups.

3.4.2 Very hardest to help

For a significant minority of 25+ customers, neither programme was successful in helping them make the transition from benefits into work. Again this finding is supported by the qualitative research which found that, in spite of their greater flexibilities and emphasis on job outcomes, EZs have been no more successful at helping the very hardest to help customers into work than mainstream Jobcentre Plus and New Deal. Up to half of EZ participants leave the programme without work, many re-qualifying for help up to 18 months later without leaving benefits in the intervening period. The reports concluded that a significant minority of


\(^{26}\) Griffiths et al. (2006) p63.
clients may need longer-term help or perhaps a different type of intervention because their barriers are too deep-seated to overcome with a work first model or within the specified period of the assistance.\footnote{Hirst \textit{et al.} (2000); Griffiths \textit{et al.} (2006).}

### 3.4.3 Sustainability beyond 13 weeks

Over a longer period, relatively few jobs in either EZ or New Deal areas were sustained. Of participants who were in work at the time of the first cohort survey, only half remained employed at the second stage approximately ten months later. A key reason for poor longer-term sustainability was that many of the jobs were low paid and temporary.\footnote{Hales \textit{et al.} (2003) p3.} Other reasons included customers having to leave work due to ill-health, transport difficulties, being dismissed or leaving jobs voluntarily.

Similar findings of poor job sustainability beyond 13 weeks are reported in the qualitative research. The later Multiple Provider Employment Zone (MPEZ) evaluation, for example, found that half the sample of customers finding work had moved into jobs that lasted only three months.\footnote{Policy Research Institute (2006) p85.} Six months after entering work, a further 50 per cent had dropped out. The research found that longer-term sustainability was compromised by a combination of customers’ barriers, a tendency to drop out of work early and the nature of labour markets in which EZs are located. The main reason for poor sustainability was that many of the jobs were temporary to begin with.\footnote{Policy Research Institute (2006) p85.} Other individuals were dismissed following disputes with employers or colleagues, or left jobs voluntarily due to a recurrence of barriers that had contributed to their unemployment in the first place. Low pay and poor working conditions were another important contributory factor. Some clients of MPEZs who left jobs after 13 weeks said they had been persuaded to accept work they did not really want, thinking it would be a stepping stone to better things.\footnote{Policy Research Institute (2006) p81.}

### 3.4.4 Compliance effects

One further important observation which relates to both studies is that impacts were measured on comparative cohorts of target client groups who were \textit{eligible} for referral to EZs and New Deal, rather than those who participated. In the cohort survey, only 73 per cent of interviewees who were eligible for zone help had actually participated in the programme, and only 68 per cent of the comparator group had participated in ND25+. This indicates that part of the net impact or additionality achieved by both programmes arose from a ‘compliance effect’ rather than a ‘programme effect.’ In other words, simply becoming eligible for referral to a mandatory programme was sufficient impetus to persuade some individuals...
to move off benefits and into work. This finding is consistent with international evidence suggesting that a large element of the measured impact of many active labour market programmes may be the compliance or deterrent effect achieved in respect of those who do not participate in the intervention.\textsuperscript{32}

### 3.5 Internal Department for Work and Pensions

administrative data analyses

The findings of increased EZ effectiveness compared with New Deal are broadly replicated in the more recent internal DWP analyses. The analysis used the same matched comparative areas used in the earlier surveys and administrative data analyses, but in respect of a later cohort of 25+ and NDYP returner customers who participated in programmes during 2004.\textsuperscript{33} The analysis compared immediate job entries and jobs sustained for 13 weeks among 25+ and NDYP returner customers; early entrants and voluntary lone parents were excluded from the analysis for the reasons identified earlier (see Section 3.1).

#### 3.5.1 25+ customers

For the 25+ client group, when all EZ types are grouped together and compared against their New Deal comparators, then a similar difference in impact on job starts (eight percentage points) was found between EZs and New Deal as was found in the first cohort survey. This suggests a reasonable level of consistency and robustness of findings across internal and external analyses and in respect of different timeframes and customer cohorts. If we imagine 100 people starting on an EZ and 100 starting on New Deal, between five and ten more people will be placed into work in the EZ than in the New Deal comparator areas.

EZs were also found to significantly outperform their New Deal comparators in terms of the proportion of jobs lasting for 13 weeks. These differential impacts were highly statistically significant. Of our 100 starters, when all EZ types are considered together, then roughly ten more EZ participants would get a sustained job compared with their New Deal comparator areas. Though outperforming ND25+ on both measures, at ten percentage points higher, EZ25+ therefore outperforms ND25+ most strongly for sustained jobs.

#### 3.5.2 NDYP returners

The more recent internally produced comparative analyses have been able to extend consideration of employment impact to the extension client group of young people returning to New Deal after a first spell of support by NDYP (NDYP returners). Comparisons were made between Employment Zone for Young People

\textsuperscript{32} See, for example, Stuyven, L. and Steurs, G. (2005); and Morrell, H. and Branosky, N. (eds.) (2005).

\textsuperscript{33} Further details of the methodology can be found in DWP 2006a and 2006b.
(EZYP) and NDYP programme starts resulting in job starts, and between EZYP and NDYP programme starts resulting in jobs sustained for 13 weeks.

Considered collectively, EZs were found to significantly outperform their New Deal comparators by 12 percentage points in terms of the proportion of NDYP returners entering jobs, and by nine percentage points in terms of the proportion of jobs lasting for 13 weeks. These differential impacts were highly statistically significant and indicate a reasonable level of consistency and robustness of findings across internal and external analyses and in respect of different timeframes and customer cohorts. If we imagine 100 young people starting on an EZ and 100 starting on New Deal, around 10 to 15 more people will be placed into work in the EZ than in the New Deal comparator areas, and roughly ten more EZ starters will get a sustained job. Though outperforming NDYP on both measures, therefore, EZYP outperforms NDYP most strongly for job starts.

3.6 Cost effectiveness

The better results achieved by EZs need to be balanced against the financial costs and benefits of the intervention. To test whether the EZ market system had improved efficiency, the internal DWP analysis further explored the costs and benefits associated with achieving these additional employment outcomes compared with New Deal. Using DWP’s cost benefit framework, and the same set of matched comparison areas, the analysis took the internal administrative analysis of relative job outcomes and then estimated the costs associated with the EZ and New Deal provision and the benefits associated with these outcomes. For the reasons outline previously, the analysis excludes lone parents and early entrants.

The analysis was carried out using the system of tariffs and funding which applied to EZ contracts at that time (which has since changed). Findings thus represent a snap shot of EZ performance for the particular customer cohorts, funding regime and timeframe considered, and may not be representative of EZ costs and performance more generally. Furthermore, because there is no reliable or up-to-date evidence about how additionality, the duration of employment and wage levels differ between EZs and the mandatory New Deals, it was assumed that these were all the same in the EZs as in the comparator New Deal areas. As such, the analysis is indicative of what the net benefits would be if the assumptions made are valid.

Assuming the same level of additionality among job starts (i.e. the job entries achieved over and above what would have occurred with no programme intervention) and the same level of wages for jobs entered from EZs and from New

34 DWP DSP Costings Team (December 2006a).
35 The DWP cost benefit framework was developed in consultation with academics and other government departments.
Deals, a number of comparative cost-benefit estimates were made including measures of cost per start, cost per job, cost per additional job and cost per sustained job. What this analysis shows is that the better performance of EZs comes at a significant cost. For the 25+ client group, EZs are approximately 40 per cent more expensive than New Deal in terms of cost per programme start; approximately 15 per cent more expensive than New Deal in terms of cost per job and cost per additional job; and of similar cost to New Deal in terms of cost per sustained job.

For the NDYP returners client group, EZs are even more costly: approximately 75 per cent more expensive than NDYP per programme start and approximately 35 per cent more expensive in terms of cost per job, cost per additional job and cost per sustained job.

Further estimates of cost-benefit for EZs (again assuming the same level of additionality among job starts and the same level of wages for jobs entered from EZs and from New Deals) include the net fiscal benefit to the Exchequer and the spend-to-save ratio. These focus on the benefits and costs associated with additional jobs, so only the costs that are associated with realising those additional costs are included. The net fiscal loss/gain to the Exchequer is calculated by setting the programme costs and tax credit costs against tax revenues and reduced benefit payments. The spend-to-save ratio shows how much the Exchequer gets back for every £1 spent.

Once again EZs are shown to be considerably more costly per start than New Deal in terms of net fiscal benefit to the Exchequer. Net fiscal losses are about 65 per cent higher for the 25+ client group and around twice as high for NDYP returners.

In terms of the spend-to-save ratio, the Exchequer gets approximately 50 pence back per £1 spent for the 25+ client group in EZs, compared to around 55 pence under New Deal and approximately 30 pence rather than around 40 pence for NDYP returners. EZs, therefore, compare unfavourably with NDYP using these measures and on cost-effectiveness grounds, the additional costs involved in achieving a higher job entry rate are not justified.

These findings are broadly consistent with comparative performance and cost-effectiveness analyses carried out in respect of Private Sector Led (PSL) New Deals which have fewer flexibilities than EZs. Qualifying the findings with reference to the limitations of the research, PSLs were found to achieve at best only marginally

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36 None of the EZ evaluation studies to date have explored in any detail or with any degree of robustness the issue of job quality or levels of wages earned by EZ participants.

37 This includes the cost of provision that results in no job outcomes and non-additional jobs.
better immediate and longer-term job outcomes than NDYP but cost more and were probably less cost effective.\textsuperscript{38}

3.6.1 Why does Employment Zone delivery cost the Department for Work and Pensions more than New Deal?

Because of the lack of reliable evidence around additionality, sustainability and wage levels, a sensitivity analysis was conducted to test the robustness of the assumptions made and around aspects of EZ funding.\textsuperscript{39} The analysis was also designed to help elucidate why Ezs cost DWP more than New Deal and why EZYP costs more than EZ25+. The analysis focused on the net fiscal benefits per start to reflect the fact that it is important to know what the benefits are for each person who starts on an EZ and the comparator New Deal, not simply those who achieve a positive outcome. Calculations were also done to estimate how much EZ performance would have to improve for it to be as cost-effective as the comparator New Deals.

The reason Ezs cost more appears to be due to its better performance and the fact that EZ funding is output related. Because of the tariff DWP pays EZ contactors for the achievement of sustained jobs, if providers get more people into jobs, though the fiscal benefits increase, so do the costs. Indeed, raising the job entry rate for EZYP means that it actually becomes less fiscally cost-effective per start, other things remaining the same (it is important to note that this conclusion assumes that improved EZ performance does not result in a higher proportion of additional jobs). Whilst increasing the job entry rate does improve the cost-effectiveness of EZYP per additional job, even if it achieved a job entry rate of 90 per cent, it would still be significantly less cost-effective than the NDYP comparator. This finding holds even if the additionality, job sustainability rate and entry wages of EZYP are significantly raised. Under existing tariffs, EZYP performance would have to improve dramatically for it to become as cost-effective as the comparator NDYP cohort. EZYP, therefore, appears to offer the Exchequer poor value for money relative to NDYP.

Similar sensitivity analyses were conducted for EZ25+. Because EZ25+ did not fare as badly when compared with ND25+, the improvements required for EZ25+ to become as cost-effective as the New Deal comparator are less stretching. Nevertheless, the improvements required are still substantial and, as with EZYP, increasing the job entry rate for EZ25+ leads to falling cost-effectiveness per start.

\textsuperscript{38} As reported in DWP Internal Paper (unpublished) ‘What do we know about the performance of Private Sector Led New Deals?’. This also highlighted that the fact the evidence on PSLs was sparse, not always consistent and sometimes lacking in detail.

\textsuperscript{39} This analysis is taken from DWP DSP Costings Team (December 2006b) which accompanies the main cost-benefit analysis report.
The cost-benefit picture is not greatly affected even if more favourable assumptions are made about the level of additionality among extra job starts from EZs or about the level of entry wages. The findings from the cost-benefit analysis therefore stand. Mandatory New Deals are more cost effective and provide better value for money than EZs. The evidence in relation to the New Deal returners group is particularly conclusive in this regard. Other parameters which, if factored-in, might improve the relative standing and value for money of EZs, include the length of time jobs are sustained for, and the time taken to move people into work. However, there is currently no research or information resource available that would enable such a factoring-in to be conducted.

3.6.2 Why does EZYP cost more than EZ25+?

EZYP and EZ25+ both have the same funding system and very similar tariffs. This leads to the question of why EZYP is so much less cost-effective than EZ25+. The reason is, for the cohort of starts considered, EZYP performed much better in terms of job outcomes, sustained job outcomes and bonus payments. Surplus Stage Two payments, in particular, account for a considerable part of the higher costs of EZYP. If these payments were excluded from the cost-benefit analysis, then the cost-effectiveness of both EZYP and EZ25+ would improve. Nevertheless, EZYP still is significantly less cost-effective per start and per additional job than the NDYP comparator. In contrast, EZ25+ would become more cost-effective relative to ND25+.

3.6.3 Improvements to cost-effectiveness

It would appear that improved cost-effectiveness was intended to arise as a result of EZ providers’ better job-outcome performance compared with New Deal. As the cost benefit analyses has shown however, due to the weighting and amount of output-related funding regime, EZs’ better performance has served to reduce rather than increase their fiscal cost-effectiveness. Reasons why EZs are not delivering the efficiency gains perhaps hoped for appear, therefore, to be in part due to fixed price contracting and the relatively high tariff paid for jobs sustained for 13 weeks.

The cost-benefit sensitivity analysis raised the possibility of reducing the tariff paid for a sustained job outcome and/or removing surplus Stage Two payments from contractors since these in large part account for EZs’ significantly higher costs compared with New Deal. It also hypothesised that if the surplus Stage Two payment did not exist, providers would still be motivated to get people into work as quickly as possible because they can claim their outcome-related payments earlier and reduce the amount of time and money they have to spend on individuals to

40 DWP DSP Costings Team (December 2006b) paragraph 23.
41 DWP DSP Costings Team (December 2006b) paragraph 34.
42 DWP DSP Costings Team (December 2006b) paragraph 32.
43 DWP DSP Costings Team (December 2006b) paragraph 34.
help them back to work. The question then is whether eliminating this incentive will mean EZ providers no longer think it is worthwhile getting participants into jobs as quickly. This is an empirical question, but the author presents it as an option worth exploring for achieving better value for money.\footnote{DWP DSP Costings Team (December 2006b) paragraph 34.}

3.7 Do Employment Zones perform better and are they more efficient?

The research evidence around the performance and cost-effectiveness of EZs thus presents a mixed picture. On the one hand, the findings across the employment-impact studies show that EZs consistently outperform comparative New Deals for mandatory customers both in respect of immediate and sustained jobs. On the other hand, because of high tariffs and the outcome-related funding regime, EZs are more expensive, less fiscally cost-effective and achieve poorer value for money than comparative New Deals.

There are also some important caveats to EZs’ better performance. Just like in Jobcentre Plus, the shorter the length of unemployment and the better their employment record, the more likely customers are to secure sustained work. Although there is no strong evidence that EZs achieve better outcomes than comparative New Deal through ‘creaming’ more job-ready customers, neither programme is successful at helping the most disadvantaged and very hardest to help customers into sustained work. A large minority of EZ customers subsequently become re-eligible for help having never left benefits.

The expectation that contested delivery and market mechanisms would produce performance and efficiency gains, therefore, has to date only been partially fulfilled. International evidence from Australia and the Netherlands indicates too that the performance and efficiency gains from introducing a fully fledged market system into public employment services have been more modest than anticipated.\footnote{Morrell, H. and Branosky, N. (eds.) (2006) Chapter 6 and Stuyven, L. and Steurs, G. (2005).}
4 Employment Zone flexibilities and innovation

To find out how and why the additional job outcomes arise in Employment Zones (EZs), and the extent to which they may be attributable to EZs’ flexibilities and ability to innovate, we must turn to the qualitative evidence.

Early evaluation research highlighted the close similarity between the treatments and reported experiences of EZs and New Deal customers. While it is true that, prima facie, provider services across the two programmes appear closely matched – both are work first interventions based on regular face-to-face meetings between advisers and customers and with the content of help aimed at intensifying and encouraging a realistic attitude towards jobsearch activity – later qualitative research which took a closer look at delivery arrangements strongly differentiated and contrasted the two approaches, providing evidence of EZs’ expected innovation and experimentation in service delivery. Indeed, EZs’ better performance and effectiveness has, in several studies, been largely attributed to subtle but nevertheless important differences in the financial and operational flexibilities afforded to EZs and to the greater degree of innovation and responsiveness this allows in meeting customers’ needs and employment aspirations.

4.1 Individual, customised approach to delivering services

While all the evidence suggests the quality of adviser-customer relations to be crucial, no less so in mainstream services and programmes, what differentiates EZ delivery and appears to contribute to improved performance, is the way in which the level of discretion and flexibility provided to contractors feeds into the interface between the personal adviser and the customer. Unlike in Jobcentre Plus, the EZ adviser has no distractions or responsibilities beyond the EZ programme itself.

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46 See, for example, Joyce and Pettigrew (2002); Hales et al. (2003).
and operates with greater discretion, empowerment and autonomy.\textsuperscript{48} Advisers are, therefore, able to devote greater time to getting to know customers and to identifying their barriers and job aspirations. As one of the early evaluations concluded, the approach does not require particularly specialised skills or expertise, just time spent working with the client and support which is targeted accurately upon their needs.\textsuperscript{49}

That there exist few rules and no set procedures for dealing with customers, frees the adviser to manage her/his own time unencumbered by bureaucracy. Managing their own caseloads and diaries gives EZ advisers the capacity to respond differentially to individual clients presenting diverse barriers and needs. It also allows them the flexibility to see clients at very short notice and to vary the frequency and intensity of support according to individual need.\textsuperscript{50}

New Deal, on the other hand, organises customer treatments on a programmed basis according to eligibility criteria, segmenting customers between advisers according to their age and whether they are voluntary or mandated. Distinguishing between voluntary and mandated clients was viewed by EZ providers as working against this tailored, customer-focused service.\textsuperscript{51} Delivering services on the basis of eligibility criteria can also serve to mask the myriad constraints amongst and between customers, and introduces standardised techniques which can hamper the ability of advisers to respond to discrete sets of circumstances. As Hasluck and Green’s 2006 comprehensive review of ‘what works’ concludes, one of the key findings from evaluations of EZs is that types of support that work with one customer will not necessarily work with others.\textsuperscript{52}

\section*{4.2 Customer aspirations and choice}

Uncovering customers’ job aspirations and then seeking to accommodate these is a subtle but nevertheless key departure from Jobcentre Plus: sustainability begins by placing the customer into work of their choosing rather than compelling them into jobs or training they do not want, one of the criticisms often levelled at New Deal. The EZ approach, fundamentally, is to ask: ‘Why are you out of work at the moment?’ ‘What is currently constraining you?’ And, most importantly, ‘what is it you would ideally like to do?’ As reported in an early study, EZ advisers believe they add value through finding jobs to suit their clients rather than fitting their clients into existing jobs.\textsuperscript{53} This distinguishing feature of the EZ adviser-customer

\textsuperscript{52} Hasluck and Green (2006) p26.
interaction is replicated in later studies and forms the basis for much of the success of the approach to emerge from the qualitative research.\

A study into the single provider extensions, which employed observational methodologies, identified the key role played by techniques of negotiation in interactions between customers and advisers. EZ advisers seek to introduce greater flexibility in customer attitudes and job goals by entering into a compact whereby they will agree to support an ideal or desirable longer-term employment goal (a career job), in return for a more immediate sustained outcome (a survival job) or through negotiating second best or fall-back positions. This would be unremarkable were it not for the fact that the EZ approach does appear able to introduce flexibility and change client attitudes through building trust and rapport, thereby increasing confidence and motivation. Responses to this effect from customers appear to be similarly consistent across the earlier single provider research studies. The later Multiple Provider Employment Zone (MPEZ) evaluation, on the other hand, indicated that customers were being persuaded to initially opt for a ‘survival’ job as a means of accessing an ideal job, as part of a two-stage back-to-work strategy.

The EZ approach is based on the premise that, regardless of the content of interventions, the attitudes and motivations of customers, and in particular, securing their ‘buy in’, is paramount to their effectiveness. As customer aspirations are not rejected out of hand – indeed are supported to a degree – customers often discern there to be more choice and less compulsion in this model to that of New Deal, and become more responsive and willing to consider alternative employment routes. The evidence thus suggests that choice and mandatory participation are not necessarily such incompatible bedfellows as proponents of earlier prototype EZs had perhaps assumed. Having their job aspirations taken seriously and not feeling compelled to accept work they do not want are important differentiating features of the two approaches and a key factor in explanation of customers’ greater reported satisfaction with EZs compared with New Deal. What comes through clearly in the research is that even where the customer does not move into employment of their initial choosing, the fact that they perceive there to be choices can be enough to produce sufficient flexibility in customers to allow them to consider areas of employment they may not originally have deemed appropriate, for example, part time or temporary work, or a ‘survival’ job.

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55 Griffiths and Jones (2005).
56 See Hirst et al. (2002); Griffiths and Jones (2005); Griffiths et al. (2006); Policy Research Institute (2006).
58 Griffiths and Jones (2005); Griffiths et al. (2006); Policy Research Institute (2006).
The complexity of clients’ perceptions around choice is thus one of the key messages to emerge from reported customer experiences. Though the customer’s employment objective may undergo radical change during the time on the zone, they still perceive, by and large, that EZs allow them to pursue employment goals of their own choosing. Somewhat paradoxically, this greater sense of choice was apparent even among mandatory customers directed to attend an EZ under the threat of benefit sanctions. Enthused by this difference in approach, young people are perhaps the easiest group to get on side and thus become more accommodating, though, as later discussed, they often have greater difficulties sustaining employment.

4.3 Employment Zone Work First approach

At the heart of the EZ model, then, is an approach which seeks to provide the customer with a qualitatively different service from that experienced in Jobcentre Plus. Underlying the model is an approach which uncompromisingly emphasises work first. Work First is both an underpinning tenet of welfare to work policy generally and a natural consequence of the way in which EZs are contracted and incentivised. As Hirst et al. (2002: iv) identified in one of the earlier evaluations, outcome-related funding provides incentives for both clients and personal advisers, with a focus solely upon getting customers to move into employment quickly and to remain in employment for 13 weeks. As the focus is on moving customers into employment as quickly as possible, interventions tend to be ‘short’ and ‘sharp’; there is little emphasis on training. Studies do, however, indicate that short, intensive periods of training may be supported by EZs and are regarded as being effective methods of progressing certain customers into more sustainable employment – those with an established work history prior to becoming unemployed, for example.

In many respects, the type of help offered to EZ customers appears not dissimilar to that available through mainstream New Deals. Both EZ and New Deal help primarily consists of intensive one-to-one advice and guidance designed to inject greater pace and purpose into the job search process. The New Deal for Young People (NDYP) offers the possibility of longer-term training, which is not generally offered in EZs, although earlier evaluations now perhaps over-state the case for this difference, given the roll out of Jobcentre Plus and a greater work-first orientation to mainstream programmes.

Where the approaches diverge most sharply is not so much in the content of provision but in the quality, intensity and customer orientation of services, including the flexibility and continuity of adviser support into employment, the amount of practical assistance available, the extent of employer engagement and the degree of discretion and experimentation possible. Jobcentre Plus advisers are

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59 Joyce and Pettigrew, (2002) did, however, identify less use of sanctions in EZs than in New Deal.

constrained by a set of rules which regulate the nature, content and timing of interventions and which pre-determine customer treatments according to benefit eligibility criteria. Customers who remain unemployed at the end of the Gateway period are routinely referred to external providers. Although they are meant to remain in contact with clients who move onto options, frequently advisers have no further feedback about their progress or success in finding employment.

EZ advisers on the other hand, remain in contact with their customers throughout the period of the intervention, providing practical, hands-on support throughout the job search process, acting as advocates and brokering arrangements with employers on behalf of their clients. Continuity of support not only achieves better customer service but ensures that advisers are well placed to understand the effectiveness of their interventions, changing practices as appropriate in response to their impact on individual customers.

4.4 Staff roles and organisational structures

Working within a relatively flat organisational structure, EZs initially operated under a manager, deputy manager, personal advisers and designated employer liaison officers. EZ advisers initially tended to operate as generalists rather than specialists. Moves towards greater specialisation in adviser and other roles stemmed from the introduction of the extension of contracts to customers beyond the original 25+ group. Later studies identified a retrenchment and re-structuring of staffing arrangements as providers gained experience and knowledge of the different client groups, of what worked, and therefore how best to organise delivery arrangements to maximise performance and cost-effectiveness.

Some providers sought to specialise the role of lone parent adviser in recognition that a different approach was warranted, though changes to lone parents funding arrangements, discussed later, was also a significant contributory factor in discrete approaches to lone parent delivery. Specialist in-work support advisers were also introduced by some contractors. Hiring then laying off adviser staff in response to fluctuating customer flows and performance was a feature of recruitment in several providers. The introduction of in-work support advisers, for example, was prompted by a drop in sustainability rates, and in income, which dipped below expected levels following the extension of EZ provision to new customer groups.

When the initiative was first rolled out, many of the staff operating in EZs were secondees from the Employment Service who were attracted, not only by the promise of greater autonomy and freedom, but also by the increased salaries on offer. Secondees were augmented by advisers recruited externally who came from a variety of professional backgrounds, including, but not exclusively from,

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the private sector. As one of the more recent evaluations observes, providers aim to recruit from a wide range of sources, including private sector employment agencies, in order to achieve a diversity of experience and approach. EZ advisers tend to be younger than their Jobcentre Plus counterparts and some are recruited directly from university. This contrasts with New Deal advisers, many of whom have worked exclusively for Jobcentre Plus, often for many years, or had transferred from related public sector environments.

4.5 Staff pay and incentive structures

Differences in the backgrounds, remuneration packages and contract conditions of advisers in EZs and New Deal have been identified in evaluation studies as relevant factors contributing to differentials in their approach and performance. Both of the earlier single provider evaluations highlight the differences in remuneration between EZ and New Deal advisers. Advisers in EZs were initially earning a significantly higher basic salary than their New Deal counterparts, though New Deal advisers received more work-related benefits such as non-contributory pensions and flexitime. The situation of better remuneration remained unchanged in later contracting periods, with providers able to attract quality applicants through the provision of salaries towards the top end of the market. The evidence also suggests that, not only did EZ providers pay more than their public sector counterparts, some also offered further financial incentives and performance bonuses to staff.

Whether paying advisers higher salaries and awarding them performance bonuses is the reason for EZs’ better performance is an interesting question. Clearly, remuneration plays an important role in attracting good quality staff, in influencing behaviours and motivating advisers. However, pay incentives alone cannot explain the better results achieved by EZs. EZ advisers themselves tended to highlight the flexibility and high levels of autonomy they have in the role which they felt enables them to work more effectively with their clients to achieve better outcomes. But would improving salaries and introducing performance bonuses to advisers in Jobcentre Plus bring about a significant upturn in job outcomes, were the same organisational and regulated delivery structures to remain in place? For lack of evidence we can only speculate.

More recent evaluations of multiple provider arrangements indicate EZ providers to be moving away from and reducing staff bonuses, believing an above market salary to be incentive enough. Though designed to drive performance targets, such incentives were believed to have had the effect of creating individualised behaviours which undermined the team ethic and also the quality and sustainability of the outcomes achieved. Those that do still operate bonuses have reduced the amounts payable and shifted them to a team or local office level. Adviser targets

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65 Hirst et al. (2006).
66 Hirst et al. (2006).
have also become ‘smarter’ and much broader. Although job outcomes are still at the core of provider targets, other targets including the number of client interviews per day; the number of lone parents engaged; progress towards action plan targets; and customer service and provider reputation measures, supplement those related to sustained jobs.67

4.6 Delivery environment

The delivery environment in EZs is fundamental to the informal, open and relaxed behaviours they seek to foster, and key to the manner in which providers seek to differentiate themselves from traditional state delivery methods. A number of evaluations68 have reported positively upon the quality of the physical environment provided at some of the private EZ providers, though the evaluations perhaps mask the differentials in quality between the different providers and the degree to which they depart from and improve upon the physical environment and layout in Jobcentre Plus.

At the time of the single provider extension evaluation, some providers were operating out of offices which could be said to offer state of the art facilities: modern computer suites solely for the use of customers; refreshment facilities; adviser ‘pods’ and other ergonomic features which sought to promote open and inclusive communication. Other providers, however, were operating out of Jobcentre Plus offices or in community outreach venues, which would call into question analyses that place too much emphasis on the quality of the physical environment, especially given recent office refurbishments under the roll out of Jobcentre Plus. Though attractive environments may be pleasant, the dissociation of delivery venues from mainstream services and, in the case of lone parents, more accessible and child-friendly aspects of delivery, were reported to be more important factors in terms of customer satisfaction and the successful engagement of voluntary customers.69

This, though, is not to relegate the significance of environmental factors. Rather, the largely improved settings need to be viewed as intrinsic to the EZ approach which seeks to bring about a different attitude and behaviours on the part of the customer. Though the roll out of Jobcentre Plus has brought about physical improvements to office environments, adviser behaviour cannot be said to have evolved to the degree found within EZs, largely due to the nature and culture of the organisations and the different ways in which staff behave therein.

That EZ delivery is conducted in venues physically distinct and by organisations distanced from formal state structures is part of Department for work and Pensions’ rationale for contracting out services. Providers benefit immediately

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68 Joyce and Pettigrew (2002); Griffiths et al. (2006); Hirst et al. (2006).
69 Griffiths et al. (2006) p84.
by being able to disassociate themselves from the state delivery model, which may be deemed as compelling customers towards work or training they do not want, reinforced by a sanctioning regime used in the event of non compliance. Operating within clean, modern and open environments, however, where advisers offer their customers refreshments and with the option to use computer facilities outside of appointment times, EZs aim to communicate to the customer that they place a high value upon them, helping to motivate and convince them that EZs are something different.  

That EZ advisers are at liberty to arrange appointments with customers in cafes and pubs further undermines physically deterministic analyses, which highlight differences between the physical layout of the offices of private providers and those of Jobcentre Plus. Meeting the customer within an environment in which they feel relaxed and comfortable can result in the customer being more likely to impart sensitive information they otherwise may not, which would serve to hinder progress. The qualitative research also reports EZ advisers taking customer ‘phone calls out of office hours at evenings and weekends, arranging and re-arranging meetings at short notice and liaising directly with employers on behalf of their clients. Hales et al., on the other hand, suggests that although such out of hours support is reported by advisers, it is not at all common.  

The degree to which providers have sought to engage with customers in the community through outreach settings has, like other facets of EZ behaviour, been sensitive to revenue projections and client flows. As the single provider extensions contract bedded in, lower than expected client throughput led to the closure or rationalisation of some satellite venues and a review of peripatetic coverage designed to meet customers in more isolated venues, though outreach venues were retained to market EZ services to lone parents. More recent evaluations of the multiple provider model where providers are operating within the larger conurbations, report providers operating out of multiple offices in some parts of London and the maintenance of a large network of community centres designed to engage ethnic minority customers. These reports do not however detail differences in the nature of the provision in these settings or in the approaches of different providers, which might be of interest for the way in which they engage or are experienced by the different client groups.

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70 Griffiths et al. (2006) p71.
71 Joyce and Pettigrew (2002).
72 Griffiths and Jones (2005) p27.
74 Griffiths et al. (2006) p15.
75 Hirst et al. (2006); Policy Research Institute (2006).
4.7 Customer incentives

One theory of EZs’ better performance is that providers’ flexibilities allow them to use their funding innovatively to incentivise customers, re-cycling the Stage Two savings they make into their programmes, allowing more people to be helped than would otherwise be the case. Available evidence would generally support such a theory, though the picture is a complex one. There is certainly a good deal more scope in EZs in terms of advisers’ discretion to deploy monies and the Personal Job Account (PJA) than is the case in Jobcentre Plus, whose Adviser Discretion Fund (ADF) is more regulated, its procedures regarded as bureaucratic and time-consuming.\textsuperscript{76} There are no contractual restrictions on the use of Stage Two funds which, unlike the ADF, can be used to incentivise both the movement into work and its retention and to address any relevant personal, social or financial barrier.\textsuperscript{77} Cash payments are also allowed and used selectively by some providers to incentivise customers into sustaining jobs for 13 weeks.\textsuperscript{78}

The earliest qualitative study points to a spend of between £400 and £600 per customer, around twice the amount permitted under ADF\textsuperscript{79} at the time. Later research identified a lower average spend of approximately £300 per customer, but also noted that with no upper limit, advisers had reportedly spent up to £2,000 on individual clients, although such instances were rare.\textsuperscript{80} More recent evaluations noted a further decline in average customer spend among EZ providers, the timing of which coincided with budget reductions and restrictions over ADF usage in mainstream services.

The evidence is mixed as to the impact and effectiveness of PJA spend. While the research indicates that successful job outcomes, and indeed high customer satisfaction levels, appear largely unrelated to levels of PJA spend, flexibility in the use of incentives does appear to be an important contributory factor in securing customers’ buy in and in differentiating approaches between EZs and Jobcentre Plus. On the other hand, EZs have become smarter, less munificent and more discriminating in the use and timing of incentive payments, which has also had the effect of reducing customer influence over PJA spend.

Not only were higher levels of adviser discretion and spend evident during earlier contracting periods, some advisers initially used financial incentives to engage customers and ‘get them on side,’ prior to the start of work. Though PJA usage was judicious, sometimes quite large sums were expended to purchase items such as mobile phones, mountain bikes and driving lessons. As such, PJA spend was used more as an instrument to influence the willingness of customers to co-operate

\textsuperscript{77} Griffiths and Jones (2005) p25.
\textsuperscript{78} Policy Research Institute (2006) p82.
\textsuperscript{79} Hirst et al. (2002).
\textsuperscript{80} Griffiths and Jones (2005).
with job search, than illustrative of any explicit claim a jobseeker might have on the public purse. Over time, advisers found that effort and spend could be wasted if customers failed to move into work. Contractors quickly learned to target the usage of incentives on job entry and later still, on sustained job entries.

Restrictions over the amount, use and circumstances of PJA usage were also introduced by a number of EZ providers. Whether this reining in resulted in reduced levels of PJA spend overall or simply involved a re-focusing of expenditure to target funding more effectively is hard to determine. Similarly, it is not possible to say whether reductions in PJA spend evidence possible reductions in service levels or customer parking. Though PJA spend is audited on a sample basis, EZ providers are not required to disclose the amount of resource they spend on their customers, either individually or in aggregate, nor is there any contractual requirement for minimum levels of spend. Evidence from later evaluations does however appear to indicate that levels of PJA spend, both in respect of individual customers and overall, may have reduced over time.

Though flexibilities remain, restrictions over PJA usage to rein back adviser discretion and limit the use of ADF thus appear to closely parallel those instituted by Jobcentre Plus. The apparently limited impact on job outcome performance suggests that financial constraints are not particularly significant in terms of the amount of funding that may be required to progress customers within the EZ work first model. Flexibility of usage and the absence of upper spend limits does however permit advisers to provide financial solutions of a greater order and complexity where this is felt to be justified.

4.8 Employer engagement

EZs have been keen to build effective relationships with employers from the very outset and are undoubtedly better at engaging with employers than are Jobcentre Plus. Operating, in the main, under commercial conditions themselves, some indeed operating as employment and recruitment agencies, EZ providers are more attuned to the concerns of employers than is the state delivery model. The establishment of specialist employer liaison staff, the manner in which EZs prepare customers for job search and specific vacancies, and the provision of aftercare, albeit only up to 13 weeks, are all examples of the way in which EZs engage better with employers’ needs.

Effective employer engagement starts with the adviser/customer initial action planning and identification of ideal and acceptable job goals. Whereas Jobcentre Plus might be said to have a more passive approach to job matching, evaluations point to the way in which EZs turn the ‘matching customers to vacancies’ approach on its head. EZ providers are much more proactive in the way in which they both reach out to employers through specialised staff and through the way in which they support clients’ job search more actively. Rather than refer the customer

Hirst et al. (2002).
to external provision for curriculum vitae development, confidence building and motivation courses, and sessions to improve their job application and interview techniques, these skills are nurtured in-house by EZ advisers themselves and with reference to actual job vacancies that customers may be interested in applying for.

Under the original 25+ contract, specialist marketing and employer liaison staff sourced job opportunities while advisers prepared suitable clients for available vacancies. Most providers used specialist staff to build relationships with employers, learn about their recruitment needs and get an inside track on forthcoming vacancies. Later research into the extension contracts identified that providers had begun to hone their approach to employers. Examples include marketing clients to specific employers, running short work-preparation courses to train customers for entry level jobs in specific skill shortage areas, and introducing the role of specialist in-work support adviser. Such methods enabled providers to source additional job vacancies and to match customer to jobs not otherwise available to them, nor generally accessible via Jobcentre Plus Job Points. Further vacancies were often identified using advisers’ personal contacts and informal networks of friends and former colleagues.

Though employer views feature little in evaluation research, where consulted, they appear to agree that EZ customers are generally better prepared for employment, are more highly motivated and present with a better attitude than those referred by Jobcentre Plus. Similar views emerge from recent studies of the MPEZ model, where a large proportion of employers expressed positive views about the EZ, due to the fact that applicants are pre-screened by the EZs; that employers are provided with a designated EZ contact; and due to there being a plentiful supply of applicants at short notice. Employers generally regard Jobcentre Plus as less customer oriented and more time consuming than the EZs. Employers also like the fact that recruits are supported both financially and personally through their in-work support adviser.

4.9 Organisational hierarchies and cultures

The qualitative evidence indicates that the personalised, highly customised and flexible approach to meeting customer needs based on significant adviser discretion, would not be possible were it not for the particular cultural and organisational

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82 Griffiths and Jones (2005) p17.
84 EZs are not allowed to access job vacancy information using the Jobcentre Plus Labour Market System, partly to motivate them to access additional jobs.
context in which EZ delivery takes place. What differentiates EZ delivery is the fact that adviser behaviours and decision making are driven and strongly affected by a fundamentally different organisational structure and ‘can do’ management culture compared to that of Jobcentre Plus.

Despite having different organisational models, EZ providers can be generally said to operate within a less bureaucratic and regulated regime than is the case in Jobcentre Plus. Much flatter, more responsive, performance driven organisational structures afford EZ managers a significant degree of flexibility and advisers a much greater degree of autonomy and discretion than is the case within mainstream services. This flatter structure contains the potential to promote different behaviours, principally adviser behaviours, and therefore a qualitatively different, generally improved level of service and experience for customers.

New Deal respondents in Joyce and Pettigrew's study (2002), on the other hand, bemoaned the levels of paperwork they had to contend with and the fact that they would routinely be taken off New Deal tasks to undertake administrative and other duties, to work on reception or process new claims, when not meeting clients. What further differentiates EZs from Jobcentre Plus is the accessibility and immediacy of performance measures and the way in which management systems allow providers to understand the effectiveness of their business and working practices. This contrasts strongly with Jobcentre Plus where advisers often lose contact with customers once they are referred to externally contracted provision and as a result have limited feedback or information on which to judge the effectiveness of their methods.

The importance of organisational structures and culture is perhaps best illustrated with reference to attempts to increase flexibility and adviser discretion within mainstream Jobcentre Plus, which have often fallen short of expectation. The extent to which advisers were willing and able to use additional flexibilities introduced into NDYP, for example, were found to be strongly affected by adviser custom and practice and the culture of bureaucracy. Not all advisers were comfortable with the notion of flexibility, many preferring tried and tested ways of doing things. The additional bureaucracy and form filling which ‘flexibility’ entailed also dissuaded advisers from exercising the greater discretion afforded to them.

Similarly, discretionary spend in the use of the ADF was found to provoke perverse adviser behaviours where, in order to claim job outcome points, funding was spent on customers who had already secured work. ‘Big ticket’ flexibilities can thus be difficult to achieve in mainstream provision. To work effectively, it appears that

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87 Joyce and Pettigrew (2002).
88 Griffiths and Jones (2005).
89 See Insite Research and Ecotec (2003); Griffiths and Irving (2005).
flexibility and discretion need to operate within a framework of decision making in which advisers are directly accountable not only for the actions they take, but for the resources they expend in the pursuit of better performance.

4.10 Transition to Multiple Provider Employment Zones

4.10.1 Same Employment Zone approach and added value

In terms of the fundamental EZ approach, under multiple provider arrangements very little appears to have changed, save for the way in which the new tariffs for lone parents have resulted in their importance as a customer group being elevated and for provision to have been adjusted accordingly. The two evaluations of multiple provider arrangements to date appear to rehearse many of the findings about EZ delivery and working practices which emerged from earlier studies of the single provider model and extensions to new customer groups. Perhaps the absence of significant change or innovation is understandable given that the multiple provider model is still something of a regulated market, with mandatory customers randomly allocated to providers under a market share system.

The EZ model is thus regarded as providing the same added value for the customer, and as achieving its better outcomes principally in the same way as before – that is to say, using a model which seeks to disassociate itself from customers’ previous experience of Jobcentre Plus/New Deal within an intensive client-oriented approach to supported job search. Though these additional reports of MPEZs suggest that providers have innovated and their approaches have become more refined and modular in order to cope with specific client needs, there is an absence of detail and corroboration upon which to arrive at this conclusion.

4.10.2 Possible service reductions

What does appear in later MPEZ research is evidence which may indicate possible service reductions at some providers or perhaps a tension between job aspiration-focused and work first approaches. In earlier single provider studies, dissatisfied customers commonly bemoaned a lack of training opportunities. The later multiple provider evaluation makes more mention of crowded premises, insufficient resources to go around, limited spend and offers of help generally, and of customers being pushed into work too soon or jobs that did not meet their aspirations, comments not only fundamentally at odds with the EZ approach, but which in earlier studies EZ customers were more apt to level against Jobcentre Plus and New Deal.

93 As explored in depth in Griffiths et al. (2006).
94 Hirst et al. (2006) p83.
Though restricted to a minority of participants, such comments may possibly be indicative of an erosion of service levels among some providers. One theory is that cost reduction, rather than improved job outcome performance, may here be being used as a strategy to maintain income and profit levels. While, a trend towards larger case loads and reducing levels of PJA spend is clearly identifiable in the research, further evidence on which to either support or refute such a theory is currently thin. As noted previously, providers are not required to disclose levels of customer spend or profits. A tendency towards cost reduction has however been observed in evaluations of Private Sector Led delivered NDYP. With limited flexibility available to them, providers sought to control and reduce costs through referring clients to lower cost options. There was no evidence that clients were offered less support overall or less likely to obtain work as a result.

Research which examined the Australian experience of privatisation of employment services found that, in the absence of contractual requirements or restrictions such as service specifications or minimum customer spend, once contractors achieve their optimum level of outcome performance, they will seek to maximise their income and profits through cutting costs and reducing expenditure on customers. Claims of excessive profits in the Australian model led to the introduction of greater contract regulation and prescription over delivery processes. Ring-fenced funding ensured guaranteed minimum levels of activity and customer spend. To reduce inefficiency and curb excessive contractor profits, under-spent customer funds must be refunded to the Government.

4.10.3 Poor quality jobs

Overselling the benefits of work through inflated in-work benefit calculations and highlighting the opportunities for progression offered by part-time, temporary or minimum wage jobs is highlighted in the later MPEZ evaluation. It is difficult to establish the exact nature or quality of the employment entered into by EZ customers or the degree to which customers can be said to progress from initial employment to better work. Both the single provider extension evaluation and the multiple provider evaluations were longitudinal in character. Though there was evidence from the single provider evaluation of some customers progressing in employment and moving into career work, these cannot really be said to be representative either of the client sample or of EZ customers generally. Neither the qualitative survey nor the later MPEZ evaluation research found any substantive evidence of clients changing jobs or progressing. Indeed, poor longer-term sustainability due to the temporary and insecure nature of jobs secured was reported in both studies.

97 Rodger, J. et al. (2000).
Research elsewhere indicates that poorly-paid jobs do not often facilitate progress into better work, mainly due to the limited opportunities for in-work training or career progression among low paying employers.\textsuperscript{101}

Perhaps this should not come as a surprise given the short-term job focus of the incentive regime and the wider socio-economic conditions under which EZs operate. Being located in areas with the highest levels of long-term unemployment, with labour markets characterised by demand deficit and where available jobs are often short term and poorly paid, it is perhaps not surprising that EZs struggle to secure longer-term impacts for customers. Nevertheless, that low paid, part-time, ‘second best’ or indeed ‘survival’ jobs are worth taking as a stepping stone onto better things is a fundamental component of the EZ ‘pitch’ to customers, and a key reason for their ‘buy in’. If EZs fail to deliver in this respect, longer term, it could affect their reputations and undermine their ability to persuade returning customers, in particular, that such strategies work.

\textsuperscript{101} Gregg, P. (1997).
5 Employment Zone customer treatments and outcomes

In the same way as early evaluations may have overlooked or under-estimated the significance of differences in the working practices of Employment Zone (EZ) and New Deal advisers, so the research to date has tended to underplay key differences in the engagement and treatment of the different customer groups by EZ contractors in response to the funding regime and system of incentives. Part of the reason for this may have to do with the cultures and commercial objectives of providers. Contractors publish annual accounts but are not required to disaggregate their results to indicate how, for the different customer groups, they achieve their better performance or profit margins. And although providers are contractually required to co-operate with evaluation research, and do, for commercial reasons the information they disclose has often fallen short on explanatory detail. Though the transition to Multiple Provider Employment Zones (MPEZs) has seen a greater inclination among providers to differentiate their services and advertise their ‘offer’, a certain reluctance remains in terms of them revealing exactly how they work with clients and employers to achieve their better results.\textsuperscript{102} How EZs organise delivery to maximise job outcomes and profits must therefore largely be theorised and deduced on the basis of evaluation research.

Using the available evidence, this section presents interpretative findings exploring how the specific combination of EZs’ flexibilities, contracting arrangements and financial incentives appear to impact on the engagement, treatment and outcomes of the different client groups.

5.1 25+ customers

Long-term unemployed 25+ customers were the original client group for EZs. Providers’ experiences of delivering support to 25+ customers strongly informed the development of working practices designed to maximise sustained outcomes, and subsequently provided a platform for developing services for new customer groups.

5.1.1 Customer engagement and treatments

25+ customers appear to comprise two distinct sub-groups – those who are newly eligible for EZ referral and attending for the first time; and relatively ‘harder to help,’ often repeat EZ customers. Customers who arrive at the EZ with a realistic job goal and a clear idea of the help they need can move relatively quickly into work and sustain their employment, occasionally with only limited input or spend required on the part of providers. More usually, 25+ customers take longer to be persuaded or helped and financial support comes strongly to the fore as a key EZ intervention with this group.

Often 25+ customers will have high expectations of the support and financial help they will receive, having heard from Jobcentre Plus advisers or via word of mouth that EZs have access to additional funding. EZ returners in particular often ‘know the ropes’ and can use their prior knowledge of EZ tools and techniques to put pressure on advisers to get what they want. The EZ work first approach may also be less appealing for this customer group. Many have dependants and a lifestyle reflecting a history of work. They want full-time, ideally permanent jobs paying decent wages and can show a greater reluctance to consider part-time, temporary or ‘survival’ jobs paying minimum wages. Many will only accept jobs they consider inferior if there is a clear route into better paid, more secure and more satisfying jobs.

Whether a customer is willing to be flexible in response to the EZ model often comes down to the particular techniques of persuasion deployed by individual advisers to incentivise work. Success often appears to be dependent on the extent to which customers wanting financial help or training are willing to be flexible. Customers with too long a time horizon for moving into work represent a challenge for the EZ financial model and advisers’ skilful handling of negotiations around job search and the use of financial incentives and rewards again appears to be key.

5.1.2 Employment Zones’ better results

The research highlights the way in which advisers use their flexibilities around financial help to incentivise these customers to enter and sustain work, releasing funds for short training courses, driving lessons or equipment at the 13-week point, or perhaps earlier.\textsuperscript{103} Where the flexibilities around the Personal Job Account (PJA) may be most effective is with 25+ early entrants, who self-refer to the zones having failed to obtain funding from Jobcentre Plus for a business start

\textsuperscript{103} Griffiths et al. (2006) p17.
Evidence of the behaviour inducing effects of the sustainability payment on adviser practices includes them persuading customers to adopt broad strategies for jobseeking, rather than pushing them too soon into any job that comes along. Even job-ready customers may be persuaded to wait until they find the right job or to try for a different type of job, before moving off the EZ.

Another important aspect of 25+ delivery which is likely to impact on the speed with which these customers move into work concerns employers and their willingness to recruit long-term unemployed people. Employers’ role in controlling access to jobs is not a theme much covered in the EZ research, though discriminatory practices are well documented elsewhere. EZ evaluation evidence does nevertheless highlight the importance of active engagement with employers and the effectiveness of short, employer-led training course to prepare clients for specific jobs in skill shortage areas. Though designed to increase the likelihood of sustained employment, attending such courses takes time and may be a further factor in explanation of why 25+ customers can take longer and may cost providers more to move into work than younger clients.

Although reducing the benefit equivalency surpluses providers might otherwise earn and costing more in terms of the expense of training/incentives, increasing adviser time, effort and expense in ensuring the best possible job match increases the likelihood that jobs will be sustained. The greater propensity of 25+ customers to sustain employment once in a job they want, and the significantly higher fees EZs earn from this success compared to a job entry, may therefore justify the additional time and spend. This, then, would appear to account for EZs’ stronger out-performance of New Deal 25 Plus in respect of sustained jobs compared with job entries.

At the other end of the spectrum are 25+ customers with complex barriers and at best a history of sporadic work; many have been continuously unemployed and claiming benefits for many years. There is nevertheless evidence that, even here, ‘harder-to-help’ customers can be progressed using these techniques and tools if they are genuinely motivated and able to work. On the other hand, customers with deep-seated problems, entrenched behaviours or inflexible attitudes, barriers by no means restricted to those with the lowest skills and qualifications, appear to be among the hardest to help. The suspicion among providers is that some of these customers may be engaged in undeclared work, but there is no hard evidence of this in the research.

If arriving at the zone for a second or third time is a fairly good predictor of the likelihood that a customer will leave without a job, so this too appears to be a reasonably accurate measure of the likelihood that they will return to the EZ.

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106 Customers who were harder to help included people with higher level skills and qualifications. See Griffiths et al. (2006) p64.
either as an early entrant or as a mandatory referral in due course. Within existing funding and contracting arrangements, the scope and incentive for providers to help such customers into sustained work would appear to diminish with each repeat visit to the zone. As discussed later, the tendency over time has been for providers to work with these harder to help customers less intensively.

5.2 New Deal for Young People returners

Evaluations of EZs have consistently identified that it is New Deal for Young People (NDYP) returners who are most receptive to the particular work first approach of EZs, and it is not difficult to see why. Open to persuasion, and without the added complications long-term unemployment can bring, young people are perhaps most accustomed to and accepting of benefit regimes requiring mandatory attendance. The EZ approach asks ‘what is it you would ideally like to do?’. This is a refreshingly different tack for the younger cohort and, in combination with the use of incentives, has the potential to introduce more flexible behaviours in them.

Reports from customers in the younger cohort are generally consistent regarding the way in which they feel they are listened to and are able to pursue employment aspirations in EZs which they report is not the case under New Deal. Where customers were not compelled into activity and training they do not want, they become more willing partners in negotiations around jobs and support. Intensive, negotiated, twin-track approaches towards ideal and survival jobs, with incentives and practical help built in to get and keep work, are key to the way in which EZ advisers are able to progress young people towards a sustainable outcome.

5.2.1 Customer engagement and treatments

It is perhaps young people, many with recent experience of New Deal, who discern this difference in approach most. Comments from such customers within the evaluations were generally positive, often in stark contrast to NDYP. Customers consistently remarked upon the one-to-one interaction at the EZ despite the fact that this method of interaction is also fundamental to New Deal approaches.

EZs, though, are much less likely than NDYP to refer younger customers to external provision for training, work trials or to work experience placements. Not only does the EZ funding model act as a strong disincentive to external provision, these customers are much less inclined to want training or work experience which in the past has failed to result in paid employment. Any training that is provided for this group tends to be short, entry level, basic skills provision generally delivered in-house and in tandem with job search. Perhaps one of the greatest indictments of mainstream services, and one of the key messages to emerge from these evaluations across the client spectrum, is the relatively simple, straightforward

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107 Griffiths et al. (2006) p27.
help and the small amounts of spend that are often sufficient to move clients forward, principally practical help and assistance to develop the technical skills required to look for work and perform well at job interviews.

If this approach represents something of a sea change for the NDYP returner group, EZ advisers appeared, initially, to be similarly energised by the extension of the contract to this group due to the fact that the kind of difficulties constraining them from making further progress with 25+ customers – their resistance to moving quickly into work – appeared less problematic among younger clients. Though more chaotic and with a tendency towards capriciousness, as a group, young people generally respond well to techniques of persuasion and to incentives. Their low-level skills and qualifications often match well with available employment opportunities in EZ areas. Constraints such as transport problems and poor job search skills can relatively easily and inexpensively be overcome with small incentive payments and practical help with form filling and job interview techniques. In spite of limited skills and experience, their shorter periods of unemployment and perhaps greater acceptance of low wages, make them attractive recruits.

Since jobs can relatively easily be found for younger customers fitting this profile, it is not difficult to see why PJA spend is used more selectively with this group. Though funding is occasionally used to smooth the transition into employment or used as an incentive to encourage retention, financial help with younger customer appears to be much less of a factor in successful outcomes than the more proactive, one-to-one job search support and practical help provided by advisers. Equally, customer satisfaction appears largely indifferent to and unaffected by the act or absence of spending. Though potential financial support on offer was sometimes cited by early entrant customers as a reason for electing to join the EZ, it was generally absent in the narratives of mandatory customers.\(^{109}\)

### 5.2.2 Employment Zones’ better results

Of all EZ customer groups, NDYP returners’ needs and aspirations are perhaps most easily and fittingly accommodated by the EZ work first approach. Given that providers get to retain the Stage Two surpluses of young people who move into work before 21 weeks, it is not surprising that EZs out-perform NDYP most strongly in terms of the additional job entries they achieve. Paradoxically, as the cost-benefit analysis shows, this is also a key reason for the much poorer value for money which Employment Zone for Young People demonstrates compared with NDYP.

Over time, providers came to recognise, that, although young people may be the most receptive customer group to a work first approach, they are also more likely to have problems in sustaining in employment. A common perception among EZ advisers is that young people do not have the economic responsibilities of older

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\(^{109}\) Griffiths et al. (2006).
customers and are less experienced in coping with the routine of work. Simple problems can result in the termination of employment if work fails to live up to expectations or becomes otherwise problematic. Advisers also believed that some younger customers might prefer temporary employment as a ‘lifestyle choice’ since it enabled them to earn money in the short term, while allowing a relatively hassle-free return to benefits when jobs finished. Higher job turnover rates for young people as they try different jobs and areas of work are also a general feature of labour markets.

Though poor job sustainability featured across all customer groups, the introduction of ‘risk’ banding and dedicated in-work support advisers was mainly in response to the greater propensity of young people to lose their jobs or leave work early. Some EZs completely re-organised their staffing arrangements, believing that existing structures hampered advisers’ ability to respond quickly when things went wrong. Advisers were split into teams focusing on assessment, pre-employment support and in-work after-care, the latter team helping customers to stay in work or quickly find another job if employment ceased for whatever reason. One provider reported that sustainability had improved by around 15 per cent which was reported to be directly attributable to the creation of the new in-work adviser role. It is difficult to detach the creation of this role and the development of after-care service more generally from the fact that the providers are able to draw down a weighty outcome payment for customers sustaining to 13 weeks.

Linked to staffing re-organisations were changes in working practices towards younger customers, notably reductions in PJA usage to ensure effort and spend was directed towards ensuring retention. EZs had learned the lesson of making incentives conditional on jobs being sustained for 13 weeks. Initially developed in response to younger clients, these new arrangements were later extended to all customer groups.

These examples show how labels such as ‘creaming’ and ‘parking’ fail to take into account the complexity of provider behaviours in response to incentives. As these particular instances show, although younger customers may be relatively easy to move into work, spend and effort was clearly being focused on ‘harder-to-help’ customers – those considered to be at greater risk of dropping out of work before 13 weeks. These efforts are directly in response to the incentivising effect of a strongly-weighted outcome payment at 13 weeks, immediate job entry payments and benefit savings alone presumably being insufficient to warrant the withdrawal of support following job entry.

The employment barriers NDYP returners face in disadvantaged labour markets, when combined with the incentivising effect of the EZ funding regime, thus go a long way towards helping to interpret the better performance of EZs in

respect of this customer group. The additional jobs EZs achieve over and above mainstream services would thus appear to arise from an acceleration in the speed of job entry and increased sustainability due to the intensive and practical jobsearch, and in-work help which NDYP does not provide. Additional job entry is highly incentivised by the retained benefit surplus; additional sustainability by the 13-week job outcome payment. That the added value of the EZ intervention is apparently short-lived and has little impact on sustainability beyond 13 weeks, is a result of the combined effect of a funding regime which incentivises short-term job outcomes, a customer group with low skill levels and the limited opportunities for progression in labour markets in which temporary, low paid and entry level jobs predominate.

5.3 Lone parents

Of all the customer groups, lone parents illustrate most clearly the effect on provider behaviours and strategies of client flows and funding arrangements. Perhaps unexpectedly, voluntary lone parents have presented EZs with their greatest challenge. This is due both to the unique circumstances and barriers faced by these customers but also difficulties in making the EZ work first funding model work for many in this group.

5.3.1 Customer engagement and treatments

It would appear axiomatic that a unique approach would be required for lone parents; indeed, providers won their tenders for extending delivery to lone parents partly on the strength of proposed innovations in lone parent delivery. The introduction of lone parents did initially bring about moves towards specialisation and innovation. Providers began recruiting specialist lone parent advisers and to engage lone parents through outreach, in some cases investing in dedicated, child-friendly venues. Lone parents, in the main, welcomed the approach and reported it to be an improvement on the formal office environment and manner in which New Deal for Lone Parents (NDLP) was delivered at Jobcentre Plus. They particularly liked being able to meet their adviser on a drop-in basis at short notice and at a time which suited them.\(^{113}\)

The reluctance on the part of providers to engage lone parents is directly attributable to the different tariffs and incentive structures which initially applied to this customer group.\(^{114}\) Until changes were implemented to the funding regime, this made voluntary lone parents significantly less attractive to EZs and paradoxically ‘harder to help’ than mandatory customers. Not only was the initial price paid for a sustained job of 16 hours plus per week significantly lower than for mandatory customers, but this fee was less than what many of the same providers could earn from their Action Team for Jobs (ATJ) contracts for placing a lone parent into work.

\(^{113}\) Griffiths and Jones (2005) p91.

\(^{114}\) Hirst et al. (2006); Griffiths et al. (2006) p85.
for more than eight hours.\textsuperscript{115} Not unexpectedly these providers chose to assist self-referring lone parents using ATJ rather than EZ funding.

Furthermore, while providers are not charged with paying lone parents’ benefit equivalency payments for the time on the EZ (as they are with mandatory clients), neither can they retain any surplus that may arise if they place the client into work relatively quickly. There was neither an incentive in quickly progressing lone parents into work, nor any scope for funding the costs of support required to do so. Over time, this less attractive funding package began to affect the willingness of providers to innovate and invest in lone parent outreach and delivery.

The assumption that EZs would market their services independently of Jobcentre Plus, reaching out to customers not participating in NDLP, was thus mistaken; some providers became almost entirely dependent on Jobcentre Plus for referrals. NDLP advisers though were less enthusiastic and more proprietorial about ‘sharing’ their lone parent clients than EZs had expected and in some areas, referrals amounted to no more than a trickle.\textsuperscript{116} Furthermore, lone parents that were referred to EZs tended to be those whom NDLP had been unable to help, many of whom had no immediate intention or prospect of working until children were at school. Some wanted specialist help, expensive training or had longer-term career goals. Others had too many barriers to support within the available funding.\textsuperscript{117} For many lone parents, caring responsibilities put real constraints on the type of jobs and hours of work they could consider.

Faced with these types of difficulty, EZ approaches which sought to incentivise immediate job entry could have little effect. Providers who did engage lone parents through outreach found that many had low levels of job readiness. They also needed more intensive help, longer interventions and often had poor job outcomes. With client flows and Jobcentre Plus referrals significantly lower than anticipated, several contractors effectively disregarded lone parent customers until such time as they were job ready and chose to self refer. Some introduced ‘job readiness’ forms for use by NDLP advisers and designed to select out those lone parents not immediately ready for or interested in work.\textsuperscript{118} Predictions among Jobcentre Plus staff that the pricing and incentive structure for lone parents would lead EZs to helping only the best candidates and not working with more disadvantaged lone parents, would thus appear to have been borne out.\textsuperscript{119}

One unintended consequence of selection was that these practices helped to boost the target for the proportion of customer starts into sustainable work, enabling some providers to achieve their performance bonus (since removed). Others who had adopted more proactive and less selective recruitment practices and who

\textsuperscript{115} Hirst \textit{et al.} (2005).
\textsuperscript{116} Griffiths and Jones (2005) p53.
\textsuperscript{117} Hirst \textit{et al.} (2006).
\textsuperscript{118} As reported in Policy Research Institute (2006) p63.
\textsuperscript{119} Hirst \textit{et al.} (2006).
had invested in dedicated premises, specialist advisers and outreach activity, were perhaps justifiably miffed at, in effect, being ‘penalised’ for engaging with most or all the lone parents referred to them.

Only when new tariffs were introduced in 2005, which aligned lone parent funding more closely with that of mandatory customers, did more intensive engagement with lone parents begin. The initial evaluation of MPEZs clearly identifies providers’ reluctance to engage with lone parents due to the fact that they were insufficiently incentivised. By the time of the second report into MPEZs, providers were responding to the new tariff structure by engaging lone parents and promoting their services more proactively. Most had developed marketing materials for lone parents, were actively engaging with local organisations such as Sure Start and Gingerbread; and providing treats and activities for children as an incentive for lone parents to attend outreach events.\(^{120}\)

One interesting development reported in the later research highlighted the possibility that lone parent engagement fees and their eligibility to re-start help after 26 weeks may now be delaying their entry into work.\(^{121}\) Much higher lone parent case-loads were also in evidence. The precise impact of the new funding and delivery arrangements was not fully explored.

5.3.2 Employment Zones’ better results

Technical difficulties prevented quantitative analyses of the comparative employment impact of NDLP and Employment Zone for Lone Parents (EZLP) from being carried out. Qualitative evidence, however, suggests that for job-ready lone parents interested in securing work, EZ help may be no more effective than that available through NDLP. Indeed, with their greater ability to fast-track tax credits, Jobcentre Plus advisers believed they could offer more. However, lone parents with more complex barriers to overcome often benefited from the availability of more holistic and intensive help in Ezs, which followed through into work. Brokering flexible working arrangements with family-friendly employers was another beneficial aspect of EZ help not available through NDLP. In these circumstances, the greater flexibility and discretion available to EZ advisers, their employer links and the continuity of support, could add value to NDLP and may account for any additional jobs which EZLP might achieve compared with NDLP. Even lone parents with longer-term career goals whom NDLP could not help could be accommodated, though this required considerable flexibility on the part of lone parent and a willingness and ability to sustain some other work in the interim.\(^{122}\)

As with the younger cohort, lone parents also present a challenge in terms of the sustainability of any employment outcomes. Providers initially underestimated the degree to which lone parents’ employment barriers could re-surface in employment,\(^{120}\) Policy Research Institute (2006) p17.


\(^{122}\) Griffiths et al. (2006) p92.
sometimes after two or three months of working, which could lead to their leaving work early. Following improvement to lone parent tariffs, increasing specialisation around lone parent support was introduced in response. The MPEZ model has seen the development of further innovations through the role of specialist lone parent in-work support advisers in recognition of the unique set of circumstances lone parents face in employment.

One of the central challenges which remains for EZs is how to deal with those lone parents, and indeed other customers, who want to improve their job prospects. It would thus seem to be not so much the complexity of any barriers which these customers may face that have presented EZs with their key challenge to date, but the lengthier time horizons many of them have for securing work of better quality. As with younger customers, extending the period of time over which EZs might work to support these kinds of aspiration through incentivising longer-term job sustainability and in-work training could be one way of achieving this.

5.4 Early entrants

Early entrants represent something of an anomaly in terms of their designation as a customer group and the subject of separate scrutiny in evaluation research. In fact, they are not a customer group at all; early entry simply functions as an administrative device which allows customers with specific additional needs to participate in EZs without meeting the eligibility criteria.

5.4.1 Customer engagement, treatments and results

Essentially, there appears to be no difference in the fundamental EZ approach for early entrants, though they are by no means a homogenous group. Younger early entrants seem to benefit from the additional support and practical job search help that appears to be one of the fundamental areas in which providers are able to add value. This help appeared to make a significant difference to the employment prospects of younger early entry customers, most of whom entered work and sustained their jobs, though the small size of samples needs to be acknowledged.

25+ early entrants appear to be more difficult to work with and to progress. This group of customers may be less receptive to the EZ approach, less flexible than the younger cohort and more likely to present with issues for which the principal success features of the approach will not suffice. Some 25+ early entrants arrive at the EZ as they have a clear idea of what they want to do but have been unable to attain financial assistance through Jobcentre Plus. The financial flexibilities of the EZ model provides these customers with a greater opportunity to progress, though negotiations around interim employment will likely be more protracted than with younger people. One-to-one interaction between customer and adviser characterises thus largely determines the effectiveness and improved outcomes of the intervention.

\[\text{Griffiths et al. (2006) p54.}\]
5.4.2 Early entry and client flow

While early entry is intended to function exclusively for the benefit of customers, this category of customer is perhaps more interesting for the way in which EZ providers have sought to use early entry as a mechanism for controlling customer flow and boosting referral. Evaluation evidence shows how early entry has been used to manage peaks and troughs in the flow and volume of customers, particularly when EZ provision was first extended to new client groups. Early entry enabled providers to maintain customer profiles in the face of unpredictable and variable client flows of New Deal returners and lower than anticipated referrals of lone parents. Flexible usage of early entry to manage their own caseloads was also apparent among some New Deal advisers, increasing referrals when caseloads were high and reducing them when they were low.\(^{124}\)

Though the tightening of early entry eligibility criteria and increasing number of lone parent referrals reported in later MPEZ evaluations served to reduce these practices,\(^{125}\) the desire of providers to maximise client referrals remains and signifies the importance of customer volumes to providers’ income and profits.

5.5 ‘Creaming’ the easier to help

The way in which EZ providers may seek to manage the volume and type of customers referred to them has received little attention in evaluations, yet ensuring client flow may be as important to their commercial viability as job outcome performance. MPEZ providers’ strong preference for the system of random allocation can clearly be attributed to the fact that it guarantees them a share of client referrals, allowing them to plan service delivery through profiling future income streams.\(^{126}\) As is evident regarding the treatment of early entrants and lone parents, where possible, providers will seek to boost the referral of easier to help, job ready clients while seeking to minimise the referral of those who are harder to help. Cutting across the three main EZ client groups, then, is the somewhat ill-defined dichotomy of customers who may be viewed as ‘easier to help’ and those who are ‘harder’ or ‘hardest to help’. Critics of results-based payment systems believe they give free rein to contractor behaviours which focus efforts and resources on customers who are the key to making profits (creaming), while fulfilling only the minimum of requirements in respect of those who are less likely to secure jobs (parking).

Informal segmentation of customers and the use of profiling tools to indicate the degree of job readiness have been highlighted in EZ evaluations and academic research.\(^ {127}\) However, claims that providers achieve their better outcomes through

\(^{124}\) Griffiths and Jones (2005) p36.
\(^{127}\) Hirst et al. (2002).
creaming and parking have never been adequately substantiated. Qualitative findings indicate that while a focus on clients for whom there is a realistic prospect of sustained employment is an inevitable consequence of output-related funding, there is no strong evidence that EZs engage in any more creaming than Jobcentre Plus.\textsuperscript{128} Early quantitative evidence suggested that EZs may in fact cream less – EZs successfully placed more disadvantaged individuals into work than did New Deal 25+\textsuperscript{129} – although it should be noted that the research was carried out during a period when the New Deal was being re-engineered.

Research elsewhere highlights the fact that creaming is a phenomenon not only restricted to the private sector.\textsuperscript{130} Behaviours and performance outcomes are strongly affected by incentive systems in both the public and private sectors. Although the risks and consequences of not achieving targets are clearly more significant for commercial organisations, advisers nevertheless respond to incentives whether they happen to be job points in Jobcentre Plus, 13-week sustainability payments in EZs, or job entries in Private Sector Led Action Teams.\textsuperscript{131} Behaviours described as creaming or parking are thus the effect of performance targets or incentives, rather than necessarily the result of Outcome Related Payment (ORP) or private sector delivery. This is not to say that EZs are not susceptible to these kind of behaviours, only that creaming and parking is not restricted to output-related funding regimes or private sector contractors.

As organisations motivated by financial considerations, EZs will naturally seek to target those individuals most likely to secure them their profits. However, with the relative weight of ORP geared towards jobs sustained for 13 weeks, as the evidence shows, EZs cannot afford to focus their efforts only on the ‘job ready’ or push people into work too soon or into jobs they will not sustain. Though perhaps the most ‘job ready’ of EZs’ customer groups, young people nevertheless require significant support and provider input if they are to sustain their jobs for 13 weeks. Equally, though often highly motivated to work, many lone parents want or require longer-term help or significant funding if they are to sustain in employment.

Where EZs do appear to focus efforts and thus achieve their additional jobs is in respect of customers who are capable of moving into work but who require intensive, practical or financial help to do so, forms of assistance not generally or easily available through Jobcentre Plus. The fact that some customers may be capable of moving into sustained work with only limited help frees up adviser


\textsuperscript{129} Hales \textit{et al.} (2003).


\textsuperscript{131} Outcome Related Funding which focused on job entries was found to incentivise working with easier to help clients. As reported in unpublished internal DWP Paper ‘Comparing public/private sector delivery of employment programmes’.
time for those who need it most. That EZs may cream customers less and may offer more choice than Jobcentre Plus does, therefore, appears to be due to their flexibilities and the counteracting effect of a well-designed system of incentive payments.

The bureaucratic culture under which Jobcentre Plus operates, on the other hand, means that most customers get the same or similar treatment, regardless of whether they need help or not. Indeed, because New Deal advisers have limited discretion and are neither in control of, nor accountable for the time they spend with their customers in the same way as EZ advisers are, there is less risk and arguably greater incentive attached to them spending (wasted) effort and resources on helping the more job ready. Targets which focus on job submissions and job entries rather than sustained jobs arguably also increase the likelihood that customers will be pushed into any job, rather than a job the customer wants and is more likely to sustain.

5.6 ‘Parking’ the hardest to help

The evidence around parking customers who are ‘harder’ or ‘hardest’ to help shows EZ behaviours to be equally complex. Parking may be interpreted as neglecting customer needs or restricting or rationing services in respect of those whose chance of employment success is perceived to be low. Given the manner in which the EZ funding model operates it is not surprising that those furthest away from the labour market with barriers likely to require lengthy intervention and specialist support are also the least likely to move into sustainable employment within the 13-week time frame. Motivated by commercial considerations, EZs will naturally seek to reduce costs by deploying minimal resources on customers for whom a job outcome is very unlikely.

But this is not to say that the EZ approach is to deliberately invest resources in the more job-ready customers to the detriment of the harder to help. As was the case for creaming, there is no strong evidence that EZs indulge in any more parking of harder-to-help customers than Jobcentre Plus. Indeed the cohort of EZ customers with disadvantaged characteristics fared slightly better than similarly disadvantaged customers of New Deal.\textsuperscript{132} Equally, no evidence has been presented in any of the qualitative research that those furthest away from work are systematically ‘parked,’ attract less resource overall or receive an inferior service.\textsuperscript{133}

On the contrary, there is ample evidence from the detail of these evaluations of providers going further in their efforts to progress more disadvantaged customers than would likely be the case in Jobcentre Plus. Some had developed group work delivery for their best clients, for example, to encourage them to work together and place them in social networks where they knew more working people. This

\textsuperscript{132} Hales et al. (2003) p4 Executive Summary.
\textsuperscript{133} Griffiths et al. (2006) p31.
approach freed advisers to devote more time to other less employable clients who tended not to work well in groups.\textsuperscript{134} Other providers had introduced specialist advisers for clients with significant barriers who had much lower caseloads and personal targets relating to progressing clients’ action plans.\textsuperscript{135} Counselling help for clients with mental health conditions or drug and alcohol-related problems was offered by some providers but with limited success.

In spite of such experimentation and innovation, in almost two years, almost half of EZ customers in the longitudinal sample had spent no time in paid work.\textsuperscript{136} Early qualitative research suggested that a significant minority of customers may have problems too complex to be resolved by EZs.\textsuperscript{137} More recent evaluations report that providers continue to express concerns about their capacity to deal with the hardest to help in the context of their contracts and the availability of specialist support.\textsuperscript{138} There is thus a consensus amongst the evaluation material to suggest that providers find it more difficult to work with and struggle to progress the very hardest-to-help clients into sustained employment, although such difficulties are by means unique to EZs.\textsuperscript{139}

Most EZ advisers admitted to having clients on their caseload for whom there was no realistic expectation of a job entry and for whom the options of help were therefore limited. The vast majority falling into this category are in the 25+ customer group and have a long history of continuous unemployment, or of cycling between benefits and work. Many are repeat EZ customers who have remained on benefits between periods of mandatory attendance. In addition to the low skills and qualifications which feature among most EZ customers, drug or alcohol dependencies are commonly cited as additional barriers, together with histories of offending and mental health conditions. Many questioned whether such customers were suitable for EZ referral or indeed employment.

Where customers have a clear history of mental illness, EZ advisers sometimes intervene on customers’ behalf to facilitate a switch of benefits from Jobseeker’s Allowance to Incapacity Benefit. Over time, the tendency of EZs has been to work with such customers less intensively, though whether such findings amount to evidence of parking is open to debate. EZ contracts only require that customers receive a minimum level of fortnightly contact, equivalent to what they would have otherwise received in mainstream provision. No evidence has ever been presented that providers are failing to meet these minimum requirements.

\textsuperscript{134} Hirst \textit{et al.} (2000) ix.
\textsuperscript{135} Hirst \textit{et al.} (2005) p7.
\textsuperscript{136} Hirst \textit{et al.} (2000) indicated that between 25 and 40 per cent of EZ participants may have problems too deep-seated for EZs to resolve.
\textsuperscript{137} Hirst \textit{et al.} (2000); Joyce and Pettigrew (2002).
\textsuperscript{139} Hirst \textit{et al.} (2002); Hales \textit{et al.} (2003); Griffiths and Jones (2005); Griffiths \textit{et al.} (2006); Hasluck and Green (2006); Policy Research Institute (2006).
Research from elsewhere is helpful in highlighting the conditions under which parking is more likely to occur – principally situations where low levels of resourcing mean that hard choices must be made about the allocation of resources, resulting in rationing.\textsuperscript{140} Such behaviours tend to occur under conditions of price competition where private contractors may have bid low to win contracts, for example, or in situations of restricted budgets within public services. The result is that the number of customers or the demand for services may outstrip the available funding. These conditions are more characteristic of Jobcentre Plus than they are of EZs, where fixed-price contracting, generous tariffs and managed referral is intended to reduce the likelihood of resource rationing.

To ensure equal treatment of customers and to avoid parking, providers in the Australian system are now contractually required to account for expenditure on individual clients. Payment for job outcomes is separate from programme funding, which is not only ring fenced, but its use targeted on individual customers. Contractors are only paid for services provided and are required to return the balance of any under-spent customer account. Though unpopular with contractors, such restrictions have helped to re-direct funding to the benefit of customers. The resulting management information has also provided a wealth of information about the relationship between interventions and individual customer outcomes.

More recent qualitative findings would tend to support the contention that poorer outcomes among the most disadvantaged customers are not so much the result of rationing or service reductions, but a reflection of unsuccessful EZ interventions. The studies evidence the ways in which providers initially designed their own internal courses to improve confidence and motivation for harder-to-help customers, sometimes enlisting the help of occupational psychologists, voluntary support agencies, or specialist New Deal programmes. Regardless of whether the services were provided free of charge or were paid for by contractors, drawing in specialist support was unable to provide the solutions required to progress clients in the timeframes which were key to the commercial viability of zones. Even if solutions to deep-seated customer issues were attainable in the shorter term, external specialists did not operate under the same economic principles or appreciate the requirement to progress clients towards the achievement of job outcomes, as the zones did.

The fact that the shift to multiple provider arrangements has to date done little to alter the way in which advisers work with the harder to help, or to improve the limited success MPEZs have had with this group, further suggests that little can be done within present funding arrangements.

\textsuperscript{140} See Beale, E. (2005) p72.
6 Contested delivery, customer choice and provider competition

Increased contestability and competition between providers is seen to be an important driver of improved performance and efficiency, and a key policy objective of the Employment Zone (EZ) pilot. Reflecting the evidence-based approach, the development of these aspects of policy have been incremental, beginning with market development and the gradual introduction of choice and competition with successive EZ contracting rounds.

As volunteers, lone parents are able to exercise choice both in terms of the decision to participate in EZs and the choice of provider. Multiple provider arrangements further extended the policy of contested delivery through testing whether competition between providers would produce better performance and improve value for money. In April 2007, choice of provider was extended to mandatory client groups involving multiple provider EZs.

6.1 Contested delivery

A competitive market structure with relative ease of entry is a key requirement if contracting out is to work as a performance driver, since too few players can serve to negate the potential benefits of a market mechanism. The first step towards contested delivery was a competitive tendering exercise in 1999 for 15 original single-provider EZ contracts. The choice of a fixed-price procurement model may have been designed to encourage private sector tenderers to enter the market, given that the EZ work first concept was completely new and its commercial viability untested. Whatever the reason, tenderers competed on quality and projected performance rather than price.

Concerns over viability and profit potential were allayed when eight tenderers bid for the 15 EZ contracts. With successive procurement rounds, new contractors have entered the market and one contractor has exited. EZ single provider extensions
attracted 15 bidding organisations for seven contracts. The procurement of Multiple Provider Employment Zones (MPEZs) attracted significantly more attention from bidding organisations than earlier rounds – 27 bidding organisations competed for 17 contracts.\(^\text{141}\) This may in part be attributable to the smaller contract size available in MPEZs. However, that new tenderers were attracted to bid also appears to evidence the financial viability of the EZ funding model.\(^\text{142}\) In the six MPEZs, three new providers successfully entered the market, including one ‘not for profit’ organisation.

### 6.2 Contractor types

The benefits of contracted-out services delivered by organisations less obviously connected with Government are well documented. Private sector (and not for profit) organisations are not only believed to contribute additional expertise and capacity to service delivery and outreach, but their disconnection from state structures means they can present a more effective interface with their customers.\(^\text{143}\) Differences in culture and approach between different private sector providers and between private sector and voluntary sector providers, and whether they impact on performance, however, have been largely overlooked in MPEZ evaluations to date. However, there is no evidence that private sector providers achieve better results or deliver better services than other types of contractor. Indeed, the most recent evaluation of MPEZs alluded to possible conflicts of interest that may arise between the commercial goals of some providers and the needs and wishes of customers.\(^\text{144}\) Whether this resulted in poorer performance was not addressed. The ‘not for profit’ provider, on the other hand, who won a contract in one MPEZ, professed an over-riding concern with, and greater expertise around, client needs, though whether this translated into better job-outcome performance or indeed, lower profits, was not explored.

Research elsewhere into whether better results are achieved by public or private providers include an analysis of Private Sector Led (PSL) New Deals by the National Audit Office (NAO) and Action Teams for Jobs and Working Neighbourhood Pilots evaluations. The NAO study found very little difference in performance between Employment Service-led units and PSL units. Nor did it find any evidence that private sector management practices on their own significantly influenced performance.\(^\text{145}\) Similar conclusions were drawn in the Working Neighbourhood Pilots evaluation which found no significant differences in job entry rates according to whether the

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\(^{143}\) Select Committee on Work and Pensions (2006d) p5; Select Committee on Work and Pensions (2006c) pp 1-3.


\(^{145}\) National Audit Office (2002).
pilots were being run by EZ or Jobcentre Plus contractors. Incentive structures may, therefore, be more important in driving job-outcome performance as whether services are delivered by the public, private or voluntary sector.

Further research into customer choice in MPEZs could perhaps seek to tease out the differences between providers, their cultures and approaches, and the way in which these inform practice and impact on performance.

6.3 Customer choice

An important function of contestability and a key aim of the EZ experiment was to empower customers through introducing greater freedom of choice. Given the incremental development of the EZ programme and its most recent incarnation in the multiple provider model, it is now possible to talk of the concept of choice in several different ways: choice to participate in EZ provision, in the case of lone parents and early entrants; choice in employment objectives; and choice of provider. Choice of provider is currently only available to voluntary lone parents in multiple provider EZs. Early entrants may choose whether to join EZ provision, but they are randomly allocated to a provider and are mandated to participate once they have decided to join. Choice of provider among mandatory customers was implemented in April 2007.

6.3.1 Choice in employment

The perception of choice in employment goals is fundamental to the EZ approach to securing customers’ ‘buy-in’ and therefore crucial to its effectiveness. Perhaps indicative of the perceived lack of choice in Jobcentre Plus and New Deal, young customers especially value the ability to exercise choice in job search, and many reported a marked and welcome change in approach at the EZ. Of particular significance was the fact that EZ advisers listened and seemed open to clients’ views regarding jobs and work. The EZ approach is contrasted with the way in which they have been dealt with under New Deal, a programme they feel denies them choice, despite the fact that their involvement in the EZ programme is equally mandatory. Early entrants too ‘choose’ to make the transition from voluntary to mandatory customers once they make the decision to join an EZ.

This suggests that choice and mandatory participation are not such opposing or incompatible concepts as may be assumed. Against expectation, choice, as experienced by mandatory customers prior to April 2007, did appear to be contributing to improved customer satisfaction and outcomes. Where customers are enthused by the EZ approach and convinced that they will be helped into work, they are more willing to be flexible and to broaden their job search in the manner often asked of them. Improving job search techniques provides the customer with a better appreciation of how to look for work and thus improves the chances that they will be successful in gaining and sustaining employment.

146 Dewson, S. et al. (2005).
147 Griffiths et al. (2005) p41.
6.3.2 Choice and random allocation

The use of a Random Allocation Tool to refer mandatory customers (New Deal for Young People returners, 25+ and early entrants) was to ensure that all providers received a ‘fair’ allocation of client referrals and to allow comparisons to be made of provider performance in placing clients into work. It was not intended to advance the choice agenda. Nevertheless, opening up the model to multiple providers of EZ services within the same EZ area was supposed to encourage more innovative approaches from providers as they compete for customers. Random assignment would appear to militate against choice and innovation as providers, in the main, do not compete for customers. Because of the artificial allocation of mandatory clients to multiple providers, innovation is largely confined to lone parents.

Random allocation was believed to have compromised choice and satisfaction among mandatory customers in instances where EZ returners were re-referred to the same provider, or where customers’ requests for a specific provider were turned down. Several cases were reported of customers whose allocation of provider did not match with their preference, often based on proximity to home or a specific treatment or service provided.\textsuperscript{148} Some early entrants were said to have withdrawn their voluntary consent to participate when told they could not choose their provider.

The random assignment of early entrants was not greatly appreciated by providers either, who believed that the ‘sharing out’ of any benefits of marketing and outreach activity did not encourage them to be innovative in engaging early entrants as they could not reap the full benefits of doing so.\textsuperscript{149} Most would have preferred to advertise their services to early entrants in order to differentiate their ‘offer’ from their competitors.

6.3.3 Lone parent choice

To date it appears that choice of provider in lone parent provision has had few performance or cost-benefit impacts. This appears to be due to the fact that lone parents are not exercising choice between providers as intended. Early multiple-provider evaluations indicate that referral arrangements offered limited potential for choice given the partial information on which lone parents make a decision. The evaluation also highlighted issues around the degree to which Jobcentre Plus staff are able and willing to relay information about the various providers to customers, and the fact that competing providers are unlikely to promote the services of commercial rivals. At phase 2 of the research, following changes to the lone parent pricing structure, Jobcentre Plus staff were distributing publicity materials supplied to them by providers. However, neither lone parent customers nor Jobcentre Plus advisers currently have access to information about how well or otherwise providers are doing.

\textsuperscript{149} Hirst et al. (2006) p57.
Lone parents in London were reported to be largely unaware of the existence of other EZ providers and few knew that they could switch between them. Outside London, while most lone parents were aware that they had a choice between the EZ and New Deal for Lone Parents (NDLP), echoing the issue of choice between providers in London, few knew enough about what EZs or NDLP offered to be able to make an informed choice.\footnote{Policy Research Institute (2006).} Lack of information on the relative performance of contracted providers was another restriction which compromised choice.

Those lone parents that had made a choice between providers often did so based upon the proximity and convenience of provision rather than by weighing the merits of different types of service provided, or of providers’ relative performance. However, provider reputation communicated by word of mouth, and the types of support on offer did appear to influence the decision of some lone parents to join a particular provider, together with personal recommendation.

Choice, or the perception of choice, may be important in determining customer satisfaction levels and in driving the customisation of services to individual need. However, customer choice as currently being exercised does not appear to be promoting the innovative practices or driving performance improvements as envisaged.\footnote{See Hirst et al. (2006); Policy Research Institute (2006) p96.} The ability to move between providers if they fail to live up to customers’ expectations has been posited as being potentially as important as the ability to choose.\footnote{See Policy Research Institute (2006) p76.} However, there are no plans to include such a facility within proposed arrangements to pilot customer choice in mandatory provision.

### 6.4 Provider competition

Providers themselves have downplayed the influence of competition on performance and innovation, indicating that the stability arising from longer contracts provided greater scope to innovate. Given that random allocation currently requires a sharing out of mandatory clients, the introduction of multiple providers was initially seen as counter-productive.\footnote{Hirst et al. (2006) p59.} However, later evaluations suggest that providers like random allocation because it guarantees a market share of mandatory referrals. As noted previously, the volume of client flows are not only crucial to providing the conditions which support the development of services, but are key to providers’ commercial viability. This finding has echoes in the Australian experience. Here a star-rating system which determined market share on the basis of providers’ relative performance was found to operate as a much stronger performance incentive than customer choice or even job outcome funding.\footnote{Morrell, H. and Branosky, N. (eds.) (2006) p46 and p51.}
Attempts to stimulate improved job outcomes through competition and benchmarking provider performance have also fallen short of expectation. The lump-sum performance bonus providers negotiated with the Department was a function of relative provider performance and paid to each contractor who met their target for the proportion of customers achieving sustained job outcomes above a certain agreed threshold and compared to other contractors. Rather than stimulate competition, the bonus incentivised perverse behaviours among some providers who were found to be artificially holding back customer starts in order to improve the ratio of starters sustaining in employment. Other providers admitted that low levels of sanctioning were attributable to the fact that their performance was measured by, and a bonus derived from, the conversion rate from starts into sustained employment. These unintended effects on EZ behaviours induced by the performance bonus was the reason for its eventual withdrawal.\textsuperscript{155}

The current lack of transparency in comparative performance data is another constraint on provider competition in MPEZs, all the more surprising, not only because of EZs’ explicit contestability agenda, but because job outcome data is publicly available in respect of New Deal providers.\textsuperscript{156} To the extent that it contains a complete record of all auditable and payable job outcomes, the EZ management information database affords the opportunity to compare the relative performance of different providers in different zones. However, this information is not in the public domain and, as such, its potential as a performance driver through informing customer choice would appear to be strictly limited.

6.5 Performance of different Employment Zone models

To assess whether competition between providers in MPEZs was improving performance, an internal Department for Work and Pensions (DWP) administrative data analysis compared the job-outcome performance of the three different types of EZ delivery models (single-provider zones, multiple-provider zones in London and multiple-provider zones outside London).\textsuperscript{157} The analysis considered whether the different delivery models achieved different outcomes in terms of how well they performed compared to New Deal. Comparisons were made between EZ and New Deal programme starts resulting in job starts, and between EZ and New Deal programme starts resulting in jobs sustained for 13 weeks. As with the other quantitative analysis, the results only apply to mandatory 25+ and NDYP returner customers.

MPEZs outside London outperformed New Deal most strongly and to the highest levels of statistical significance. London MPEZs also performed better than New


\textsuperscript{156} New Deal providers and their job outcome performance is accessible via the official DWP Jobcentre Plus website at www.jobcentreplus.gov.uk

\textsuperscript{157} DWP DSP Statistical Analysis Team (December 2006 a&b).
Deal but showed smaller positive differences with their comparators and at lower levels of statistical significance. Weakest performing EZs were the single providers. Although showing small positive impacts over their New Deal comparators, low numbers of clients flowing through in the cohorts examined meant that the results were only statistically significant in the case of sustained jobs for the 25+ client group. For single provider zones, the data provides no strong evidence of them getting any more clients into work, nor of getting more NDYP returners into sustained work, than their New Deal equivalents. However they do appear to effect more sustained job starts for 25+ clients.

While the analysis appears to show that competition between providers is producing better performance, because the data are not controlled, they need careful interpretation and the findings treated cautiously. What may appear to be differences in performance attributable to the different EZ models may in fact have nothing to do with their ‘single’ or ‘multiple’ status but are due to other factors, mostly likely different labour market conditions and variable customer profiles and flows in single, multiple, London and non-London EZs. The relatively poorer performance of London MPEZs may, for example, be explained with reference to the additional difficulties associated with delivering employment programmes in the London labour market.\(^{158}\) However, such findings may also demonstrate the fact that it is more difficult to identify equally deprived comparator areas for the London EZs compared to elsewhere. The relatively better performance of non-London MPEZs may be more to do with the different contractor types and the different approaches, expertise and practices they bring.

Perhaps the strongest evidence that the ‘single’ or ‘multiple’ aspects of the different provider models are not responsible for measured differences in job outcome performance comes from the simple fact that up until April 2007, providers in MPEZs did not compete for mandatory customers but took referrals based on a quota system. Nor, for the most part, did providers advertise their services. Neither were their results publicised or made available to potential customers. That provider competition and customer choice were not functioning as performance drivers diminishes the likelihood that these factors may be responsible for measured differences in performance between the different provider models. It may, therefore, be advisable to wait until customer choice and provider competition has bedded-in sufficiently following policy implementation in April 2007, before re-running the analyses. Evaluation of the implementation of customer choice in EZs from 2007 will examine whether choice of provider has had any performance or cost-benefit impacts and will therefore be an important addition to the evidence base in due course.

\(^{158}\) For a more detailed discussion of the particular difficulties of delivering employment services in the London labour market, see Select Committee on Work and Pensions (2006a).
7 Summary of findings

Embracing ideas of marketability and contestability, Employment Zones (EZs) were introduced to harness the techniques, efficiency gains and capacity of the private sector to improve the delivery and performance of employment programmes previously monopolised by the public sector. Rather than using the prescribed methods and processes of mainstream employment services, EZs have the flexibility to design tailored packages of support to assist long-term unemployed people make the transition from benefits to work, according to their individual needs and circumstances. Paid mainly on the basis of jobs sustained for 13 weeks, EZs deliver their services using a work first model and an intensive case-management approach to customised job matching which treats both individual jobseekers and employers as customers.

7.1 Effectiveness and impact

The available research and evidence to date shows that EZs appear to be more effective than equivalent New Deal programmes in terms of moving mandatory participants into work and helping them sustain employment for 13 weeks. There is no strong evidence that EZs achieve their better outcomes through creaming or parking their customers any more than Jobcentre Plus does.

For New Deal for Young People returners, EZs’ better performance appears to work by moving them into work more quickly and, through providing support and incentives, keeping them employed for longer than would have been the case had they participated in New Deal again. This in large part reflects EZs flexibilities and advisers’ greater discretion to determine the frequency, content and timing of interventions. New Deal programmes are more rigidly structured in terms of an individual’s entitlement to help, the content of the help they receive, the point at which it becomes available and the length of time they remain attached to programmes. As a result, they may stay longer in provision than they need to.

Additional jobs with older 25+ customers seems to arise from the specific combination of individually tailored help, financial assistance and preparation for specific jobs, forms of assistance not otherwise available to them in mainstream New Deal. Though often taking longer to move into work than younger clients, once in employment they are more likely to remain there than other groups.
Lone parents are perhaps the customer group for whom EZs’ added value is both harder to achieve and less demonstrable, given the limited quantitative evidence on job outcomes. For job-ready lone parents there is little in the research findings to indicate that EZs provide significant benefits over and above New Deal for Lone Parents. EZs may however achieve better results assisting lone parents with more complex barriers and those engaged via outreach. Partly due to lower tariffs, EZs have struggled to make the work first model work for lone parents, particularly those who want or require lengthier support or training prior to starting employment. Continuous engagement payments to providers may simply incentivise longer retention in provision and could result in parking, though there is a need to supplement the evidence base here.

In terms of their responsiveness, EZs have shown themselves to be more customer oriented and to achieve greater satisfaction among clients than would have been the case had the programme of support been New Deal. Employers appreciate having better prepared and motivated job applicants and clients benefit from the fact of being able to pursue their job aspirations. In these respects, then, EZs, have established themselves as a successful alternative to mainstream employment services.

Though responses may be tailored to individual customer need, what motivates contractors to treat customers in particular ways: how much effort and resource to spend; in the case of voluntary customers, whether to engage them at all; and, crucially, how to maximise the likelihood of a sustained job entry – are all products of the complex relationship between customers barriers, local labour market opportunities and the specific funding regime which governs service delivery. Although EZs appear to cream and park their customers no more than comparable New Deal programmes, it is clear that EZs are selective in determining customer spend and for whom they are prepared to ‘go the extra mile’. All the evidence points to the over-riding importance of incentives built into contracts in terms of stimulating provider behaviours towards the achievement of policy objectives. Innovation in EZ delivery has largely mirrored developments in the funding model: providers will innovate where they are financially incentivised to do so.

Incentives alone cannot explain the performance gap between EZs and comparative New Deals. That Private Sector Led New Deals perform marginally better than mainstream New Deal but that their performance gain is significantly less than EZs achieve, appears to reflect the fact that they have fewer flexibilities and deliver a package of support not dissimilar to mainstream New Deal. Equally, there is no evidence that private sector providers necessarily perform better than the voluntary sector, or indeed the public sector. EZs’ better performance, then, appears to be due to a highly incentivised funding regime in combination with their operation and financial flexibilities, rather than the fact that delivery is through the private sector.

The question then arises as to whether, with similar flexibilities as EZs, Jobcentre Plus and New Deal could achieve the same or similar results. The evidence
suggests possibly not. Flexibility may only be effective in delivering significant performance improvements in the context of flatter hierarchies and ‘can do’ management cultures in which advisers not only have considerably autonomy but are also responsible for the actions they take. Flexibility and adviser discretion in the absence of performance and resource responsibility can lack accountability, as inappropriate use of the Adviser Discretion Fund in Jobcentre Plus perhaps showed. This is not to say there is no scope for improving the flexibility or performance of mainstream services, only that improvements achieved in one institutional or cultural context do not automatically or necessarily transfer into another.

7.2 Cost effectiveness and value for money

Though EZs may be more customer focused and achieve better results than comparative New Deals, these benefits come at a price. If the assumptions on which the cost-benefit analysis is based are valid, EZs cost significantly more and offer less value for money than their New Deal comparators. Not only this, with fixed price contracting and the current output-related funding regime, there is no obvious mechanism for exerting downward pressure on purchaser costs. Indeed, the reverse is true – the better EZs perform, the less fiscally cost effective they become and the poorer value for money they achieve. This highlights one of the tensions of the EZ pilot – policies designed to develop the market and demonstrate the commercial viability of delivery appear to run counter to objectives designed to increase provider competition and achieve better value for money. Evidently, multiple policy objectives are not necessarily mutually reinforcing. Thus, adjusting the funding regime to more closely align EZ costs to those of New Deal, for example, would improve cost effectiveness and value for money, but could risk undermining performance or induce providers to exit the market.

While measuring cost effectiveness is a technical exercise, determining whether EZs provide value for money is largely a matter of judgement. It may be that, in spite of their greater expense and poorer cost effectiveness, EZs may still be seen to provide value for money due to the scope they offer for transferring their techniques and working practices to improve public sector performance. That they cost more than New Deal may simply reflect the fact that they are pilots charged with pioneering more effective delivery methods. There is however limited evidence to date that EZs’ innovations in delivery or practice have successfully transferred into mainstream services. Learning has not only been constrained by the information deficits arising from ‘black box’ delivery and the commercial practices of private sector providers, but as noted earlier, results achieved in one cultural context may not easily transfer to another.

7.3 Short-lived and differential impacts

There are several other important caveats to EZs’ successes. Their better performance and additional job outcomes may be short-lived. Not only are relatively few jobs sustained over the longer term, but as time goes by, there is a marked convergence
between the performance of EZs and New Deals. For all their flexibilities, additional funding and focus on sustained job outcomes, over a longer period, EZs may perform no better than New Deal. EZs’ additional outcomes may simply reflect the EZ funding model which focuses effort and resource on ensuring jobs sustain for 13 weeks.

Intensifying job search, solving a financial or transport barrier and intervening quickly when things go wrong in work, then, may result in employment which sustains for 13 weeks, but does not necessarily lead to qualitatively different opportunities or assist employment progression in the lower reaches of the labour market where EZ customers mainly source jobs. The implication is that simply remaining in work for 13 weeks may do little to enhance the skills or competitiveness of disadvantaged individuals longer term. Once they lose their jobs, many appear to be no better off; there is no ‘accumulated’ employability. The EZ work first approach may therefore do little to counteract the process of ‘churning’ whereby some individuals cycle between jobs, employment programmes and benefits. If EZs are to improve their performance and longer-term impact, the 13-week definition of job sustainability may need to be more challenging.

Nor do EZs appear to be bucking the trend or producing results significantly different from mainstream provision for the most disadvantaged customers who are hardest to help. Although EZs achieve better outcomes for customers who are similarly disadvantaged, almost half of those who attend an EZ do not move into employment, either on leaving or subsequently. While this finding is not restricted to EZs, it serves to highlight the fact that in spite of their considerable flexibilities and scope for innovation, EZs have been unable to overcome the barriers of a hardcore of long-term unemployed clients. Whether this is the result of a funding regime which incentivises short-term interventions and jobs, or reflects a customer profile that is becoming increasingly harder to help, or is indicative of wider labour market constraints, is an empirical question.

That EZs have been unable to improve employment rates among a hardcore group of customers may reference their location in areas experiencing demand deficits and where available jobs are often short term and poorly paid. Low pay and poor job quality is often the very issue which fails to convince EZ customers who remain unemployed, of the benefits of working. Alterations to the way in which providers are incentivised for helping the most disadvantaged clients may represent a way forward, given the sensitivities of EZ behaviours to changes in the funding model. The findings may however be indicative of the limitations of the work first approach for the very hardest-to-help customers who are furthest away from the labour market. Finding solutions for such clients appears to be highly problematic within the timescales and confines of the current work first, job outcome-focused regime.

That EZs have only had limited success with the most disadvantaged customers is not only a reflection of customer profiles and demand deficit labour markets, but
also testify to relatively provider friendly contracting. Contracting arrangements may need to be reviewed to ensure that public resources reach and are appropriately targeted on those customers for whom the policy is intended.

### 7.4 Competition and choice

Expected impacts resulting from introducing customer choice and provider competition have thus far been modest, with few performance or cost-benefit impacts evident to date. These aspects of contested market delivery appear to be constrained by the previous restriction of choice to voluntary customers and the contractual features of pre-determined client quotas and random allocation in Multiple Provider Employment Zones, together with the limited scope for comparing and rewarding the differential performance of providers. In the absence of effective provider competition, performance transparency and customer choice, the conditions for effective market testing in EZ delivery have yet to be fully satisfied.

### 7.5 Funding and contracting

Given the sensitivity of provider behaviours and performance to funding and contracting arrangements, the importance of getting the system of tariffs and incentive payments right at the outset cannot be over-estimated. Effective design of contracting and funding arrangements is crucial if performance and cost effectiveness is to be improved and EZs successes extended to those groups who do not benefit currently from participation. The fact that multiple policy objectives are not always mutually reinforcing places considerable demands on the design of such a system. One of the key challenges is how to ensure that resources reach the very hardest to help without compromising providers’ ability to act flexibly or to meet their commercial objectives. Tendering contracts on the basis of price competition or adjusting the funding regime to more closely align EZ costs to those of New Deal could improve cost effectiveness and value for money, for example, but could lead to the creaming and parking of customers, risk undermining performance or induce providers to exit the market. Ensuring that policy objectives, contracting arrangements and incentives structures are closely aligned is therefore key.

Since it appears likely that innovative actions will only be promoted where providers are economically incentivised to do so, further consideration may need to be given to designing incentives which can promote solutions for the most disadvantaged customers and those wanting better quality jobs. Weighted outcome payments to incentivise sustained outcomes with harder-to-help customers may be worth re-considering. A more challenging definition of job sustainability may also be needed. Extending the duration of employment that qualifies for an outcome payment beyond 13 weeks may not only stimulate a longer period of in-work support but would incentivise providers to source better paid employment and jobs offering opportunities for training and progression.
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