



## THIRD SECTOR PROVISION OF EMPLOYMENT-RELATED SERVICES

### Foreword

*By Mark Serwotka*

*General Secretary, Public & Commercial Services Union*

When the DWP published its Green Paper on welfare reform<sup>1</sup>, PCS was deeply concerned to see it include a commitment to contract out much of Jobcentre Plus' employment service work to the private and voluntary sector. Our response to the Green paper described this as "a kick in the teeth" to Jobcentre staff.

But the Green Paper proposals are only part of a more general drive to greater contracting out and privatisation. After his Cabinet reshuffle in May this year, Tony Blair wrote to Hilary Armstrong: *"Within a year you should aim to have achieved a step change in the provision of public services by social enterprises, charities and other third sector organisations, particularly in areas such as NOMS<sup>2</sup>, children's services, health, employment services and community care. You should get firm commitments from key Departments by the summer and have an implementation plan ready for publication in early autumn."*<sup>3</sup>

This reform of the public sector is presented as aiming solely at improving services, while not being open to the criticisms about commercialisation levelled at conventional privatisations. Work & Pensions Secretary John Hutton is reported as insisting that this does not represent privatisation of the welfare state or a return to Victorian poor law.<sup>4</sup> Closer scrutiny suggests otherwise, however. Elsewhere in his letter, Tony Blair speaks of value for money as a key factor in opting for the "third sector". Alun Michael (while still DTI Minister) was even more explicit in his contribution to a publication co-sponsored by third sector promoters, the Association of Chief Executives of Voluntary Organisations (ACEVO): *"Make money! Profit is needed to achieve the social and environmental goals of any business."*<sup>5</sup>

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<sup>1</sup> A new deal for welfare: Empowering people to work. Cm6730. Green Paper, January 2006

<sup>2</sup> National Offender Management Service

<sup>3</sup> Letter from Tony Blair to Hilary Armstrong, 20 May 2006, published on 10 Downing Street web site

<sup>4</sup> "Hutton says charities must take bigger role in welfare provision" *The Independent* 15 June 2006

<sup>5</sup> *Routes to Enterprise in the Third Sector*, Social Enterprise in association with ACEVO and Small Business Service, 2006

In response to the proposals made in the DWP Green paper, PCS commissioned Steve Davies of Cardiff University to examine them in detail, with particular attention being paid to the nature of the third sector, its key promoters and the claims they make for the superiority of non-state over state provision of employment services.

The report shows that most of the claims made for the third sector are open to question.

Even the term "third sector" itself seems to be a questionable one. The leading organisation lobbying for contracting out employment services – the Employment Related Services Association (ERSA) - is composed of profit-seeking businesses, long-established charities, hybrid government/charity organisations and non-profit making organisations who aim to increase their "market share" of public contracts.

Some seem to have maintained a local focus and close relationships with users, but this is far from being the rule. Only a few of the voluntary sector organisations were found in the report to have clear structures for involving users of the services, while private companies are, naturally, structured around delivering profits.

In some cases, the founders of these companies derive very substantial benefits. For example, the report identifies the highest paid director of WTCS Ltd (formerly Westcountry Training and Consultancy Service) as receiving over £580,000, while the sole shareholder Dr Sarah Burnett also received £100,000 in dividends. Emma Harrison of A4E (formerly Action for Employment) collected over £1.1 million in dividends alone in 2005. But even amongst the non-commercial organisations, salaries of some senior officials are rising to over £100,000 p.a.

This alone suggests that any connection these organisations may once have had with users of the services they provide is being diminished as the economic situation of those in charge diverges more and more from that of their clients. The report also highlights how the third sector displays less diversity amongst its staff than the civil service it is replacing – particularly amongst senior management.

Finally, Steve Davies examines carefully the claims made (largely by ERSA and ACEVO) that independent providers do better than existing statutory ones. He concludes: *"whenever Jobcentre Plus staff have been allowed the same flexibilities and funding as private sector companies or charitable organisations they have been able to compete with, if not surpass, the performance of contractors."*

If the evidence of third sector superiority is so scant, we have to ask ourselves why the government is so keen to pursue this avenue. In part, it seems that this is "soft" privatisation, with the voluntary sector opening up services for contests which can subsequently be won by the private sector. After all the often-cited Australian experience shows that 50% of the employment service is now provided by the private sector. A further 10% is provided by the Salvation Army, an echo of the significance of religious charities amongst the potential contractors for employment service work in Britain.

The assertion by Third Sector minister Ed Milliband that the aim is to *“transfer successful practice from the third sector back into the public sector”*<sup>6</sup> is hard to support, given that, in the case of Pathways to Work and Action Teams, all future projects are to be handled by contractors (private or third sector). Our own investigations into the push to contract out reveal that the programme of job cuts has bitten so deep into the DWP that it no longer has the capacity to deliver existing services, let alone expand programmes which have proved successful. The Chancellor’s rigid targets for headcount reduction mean that DWP managers simply cannot continue to do what works in the public sector. But of course, the third and private sectors do not have the staff or expertise either – they will have to rely on staff formerly in the public sector – which is in fact a transfer of successful practice from the public to the third sector.

While the findings of this report focus on the provision of employment services, the implications are significant for the general trend of government policy. As the Prime Minister’s letter to Hilary Armstrong shows, there are other areas also in the sights of the advocates of “contestability”.

We consider that many questions about the expansion of the state’s use of the third sector have not been answered, or even considered in any detail. It has the potential to return significant sectors of the public service to a pre-war model when the “deserving poor” were expected to show gratitude to their charitable benefactors. This would be another phase in dismantling the welfare state. It is of massive concern both to those who currently battle to provide services in the face of cuts and privatisation, and to those who use them. Both have a right to expect better from society. This report should mark the beginning of a real debate within the trade union movement, with service users and with government about how stable and effective services are provided, without jeopardising the security of staff or quality of service.

*June 2006*

<sup>6</sup> Speech to ACEVO Summer Forum, 9 June 2006



# **THIRD SECTOR PROVISION OF EMPLOYMENT-RELATED SERVICES**

**A report for the Public and Commercial Services Union (PCS)**

Steve Davies  
Senior Research Fellow  
Cardiff School of Social Sciences

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Executive Summary .....	6
1. Introduction.....	8
2. The Government's proposals.....	9
Background.....	9
Mixed objectives.....	10
3. What is the Third Sector?.....	11
Definitions and coverage.....	11
Funding and finances.....	12
Concentration .....	12
Government funding for the third sector.....	13
Table 1: Sources of government funding for third sector organisations 2001-02 .....	13
Employees.....	14
Table 2: UK employment by sector 1995-2004 (headcount, thousands) .....	14
4. Third sector providers in employment services .....	16
Employment services provision and the ERSA.....	16
Table 3: ERSA Board Members.....	17
The organisations.....	18
Table 4: Organisation type .....	18
The charities.....	20
The private sector.....	21
Public-Private and public.....	21
Aims and objectives .....	22
5. Third sector in employment services – behind the hype .....	24
For-profit private companies among the non-profit providers .....	24
Capacity and coverage.....	25
Small, community-focussed organisations?.....	27
Pay for Chief Executives and senior officers .....	28
Table 5: Chief Executive/senior officer remuneration.....	28
Staffing .....	33
Table 6: Number of employees in selected employment service providers.....	33
Trust, the third sector and the state .....	34
User and community focus.....	37
Involving the users .....	37
Diversity.....	39
Transparency.....	40
6. Third sector performance in employment services: an examination of the evidence.....	42
Employment Zones .....	42
Table 7: Single Provider Employment Zones .....	42
Table 8: Multiple Provider Employment Zones.....	43
Action Teams for Jobs.....	45
New Deal for Disabled People.....	47
ERSA/ACEVO's additional evidence in support of contracting out .....	49
7. Conclusion.....	51
References.....	52

## Executive Summary

The government has embarked on a planned expansion of provision of employment services by the private and voluntary sectors. It has mixed objectives which may be contradictory.

Whatever definition is used, the third sector has grown in terms of both income and employment over the lifetime of the Labour government. It is increasingly funded by government in one form or another and the balance between grants and contracts continues to move towards the latter.

The definition of the third sector has been stretched to breaking point to include private, profit oriented companies as well as charitable organisations. However even many of the not-for-profit organisations involved in employment services are not local community groups but large bureaucratic organisations.

ERSA, the main lobbyist for the extension of the contracting out of employment services is dominated by private companies that make millions of pounds of profit from job brokering and training, and large charities that are increasingly dependent on contract funding from government. Through their trustees, some of these charities have very close links with the business lobby with their own interests in opening up public sector markets. This combination constitutes a major producer interest and raises important issues of accountability, transparency, and conflict between the charities' roles as advocacy organisations and service deliverers. An extension of the contracting out regime has the potential to damage those voluntary organisations that rely on an independence from the state.

There are also other issues which should be taken into account by the government before it makes any decision about wholesale contracting out of JCP functions. There are serious questions about the capacity of the third sector to cope with a large scale increase in contracting out and questions of whether this would be appropriate even if the capacity exists.

Voluntary organisations and, even more so, profit-oriented companies are poor vehicles for core functions of the state.

Although great claims are made for the third sector in terms of superior performance, better results in job placement and value for money compared with in-house provision, the evidence for this is rather thin. Just how thin can be gauged by the fact that whenever such claims are made, the same limited set of references appear.

It is simply not true that the third sector has a consistently better record in the provision of employment services than in-house staff. Wherever Jobcentre Plus staff have been allowed the same flexibilities and funding as private sector companies or charitable organisations they have been able to compete with, if not surpass, the performance of contractors.

It is a mistake to conflate the private sector in with the not-for-profit sector and charities. They are not the same and have different motivations and objectives. It is also a mistake to conflate locally-based, membership-led community groups with large multi-million pound charities that operate at a national or even an international level. Regardless of the good work done by both, they are not the same, either in terms of their relationship with the local community or closeness to their client

group. The not-for-profit organisations and charities (especially those with specialist expertise) can and do play an important role in supplementing the role of the state. But they should not be confused with the state.

The data that does exist suggests that, given the right support, funding and flexibility, the in-house provision could make further progress in assisting people back to work. The assessment of the Pathways pilots is generally positive from almost every source: the DWP (2006), research commissioned by the department (Blyth, 2006; Barnes, H and Hudson, M, 2006), the IMF (2005), the OECD (2005), even, in a rather grudging way, the ERSA (House of Commons Work and Pensions Committee, 2006b).

Both the in-house teams who have delivered such a successful pilot and the clients, who need the assistance, deserve the opportunity to see the Pathways programme extended to the rest of the country using the expertise and experience of JCP staff. The government needs to draw the lessons of the experience to date and provide a much needed vote of confidence in its own staff by defending and extending Britain's public employment service.

## **1. Introduction**

The Green Paper (DWP, 2006) notes that 'given the significant resource commitment that these reforms represent, we will clearly wish to ensure that we base our reforms on the best possible evidence'. This report pulls together some of the evidence relevant to the discussion of welfare reform. The paper draws upon governmental and parliamentary reports as well as academic literature, departmental documents, company and charity annual accounts or returns.

The paper first sets the scene by setting out the Government's proposal to expand the role of the third sector in the provision of employment services, and outlining some of the background to the current debate. The next section examines the meaning of the term 'third sector' and its changing financial relationship with government. Part 3 focuses on a selection of those third sector organisations identified with the provision of employment services.

Parts 4 and 5 examine some of the claims – both general and specific – made by the advocates of contracting out employment services. It reviews some of the advantages claimed for third sector organisations and scrutinises whether these exist, are valid or have other impacts. Part 5 concentrates on the issues of performance and value for money in contrast with Jobcentre Plus provision. In particular, the section assesses evidence relating to Employment Zones, Action Teams and New Deal for Disabled People.

## 2. The Government's proposals

### ***Background***

Soon after its election in 1997, the new Labour government signalled its intention to develop the relationship between government and the voluntary sector and in 1998 the Compact was published by the Home Office (1998) setting out how the two should work together.

In 2001, as part of the Prime Minister's public service reform agenda, Mr Blair proclaimed that one of the four key principles is 'the promotion of alternative providers and greater choice' (Blair, 2001). For the 2002 Spending Review, the Treasury announced seven cross cutting reviews, of which one produced a report on the role of the voluntary and community sector in service delivery (HM Treasury, 2002). The Gershon Efficiency Review (HM Treasury, 2004) made a series of recommendations as to how government should fund the third sector in the context of improving public services.

More recently, the 2005 Labour Party manifesto declared that 'the voluntary and community sector has shown itself to be innovative, efficient and effective. Its potential for service delivery should be considered on equal terms' (Labour Party, 2005). Before the recent Cabinet reshuffle, the Home Office was the lead department on government engagement with the sector and set a target to increase the role of the sector in public services by 5% by 2006.

In March 2006, Chancellor Gordon Brown announced that the lead-in to the next Comprehensive Spending Review would include a national debate about how public services should respond to the challenges ahead and a 'review of the third sector's future role in social and economic regeneration, involving the largest consultation with the third sector ever conducted by the government' (Brown, 2006). This followed his earlier call for 'a new debate on the vital role of the voluntary, charitable and community sector' (Third Sector, 2006). Related to this process, the Department for Work and Pensions (DWP) began consulting on its Green Paper (DWP, 2006), *A new deal for welfare: Empowering people to work*. The Green Paper includes a section on voluntary sector participation in employment services.

These are simply the latest in a line of government policy announcements about creating diversity of provision in public services. The Observer describes the increased involvement of the 'third sector' or 'social enterprises' in public service provision as 'a revolution every bit as far reaching as the privatisation of nationalised industries under Margaret Thatcher' (Mathiason, 2005).

Many commentators have also noted that while the public often remains sceptical about the supposed benefits of moving public service provision over to the profit-making private sector, charities and not-for-profits retain a considerable amount of public trust (MacErlean, 2005; Mathiason, 2005; Caulkin, 2006). The emphasis on the voluntary and community sector also plays better within the Labour Party than highlighting privatisation. Ministers appeal to Labour's historic association with the co-operative movement. Together these obviously present political possibilities for public service reform that would not exist if the only option on the table was private sector provision funded by taxpayers' money.

However, the current reform agenda's focus on markets, competition and choice means that it has more in common with the pre-1997 Conservative public service programme than with the nineteenth century co-operative movement. Competition and choice are seen by the government as the drivers of improved quality and of user or 'customer' accountability (a view shared with the Conservatives). Markets must be utilised to drive up standards and drive out inefficiencies. If no markets exist they must be created. If market actors are unwilling to engage in a particular market they must be 'incentivised' to enter the market. The government's current emphasis on 'localism' or decentralization is part of this desire to create 'choice', as is the interest in third sector provision of public services.

### ***Mixed objectives***

In their enthusiasm for the third sector, ministers often mix up several different elements. Not only are third sector organisations supposedly more efficient and innovative than in-house public service providers but they also bring additional benefits related to: their advocacy role, their influence on policy development and their beneficial effects in strengthening civic society and deepening democratic engagement. In his Foreword to the Treasury's Cross Cutting Review (HM Treasury, 2002) then Chief Secretary to the Treasury, Paul Boateng said:

we look again to the voluntary and community sector to help us rekindle the spark of civic services that fires the building of strong civic communities; to reform the operation of public services and build a bridge between the needs of individuals living in those communities and the capacity of the state to improve their lives.

However, there are tensions between the different roles urged on the voluntary sector by government, which many organisations have recognised and which will be examined more closely later in this paper. The government also collapses the involvement of private sector, for-profit providers into the discussion about voluntary and community organisation provision of public services. This too has created tensions and contradictions which are ignored by ministers.

The National Audit Office (NAO) referred to the differing purposes and lack of clarity from government when it said that funders need to decide 'whether they are engaged in supporting a worthy cause ('giving'), procuring services ('shopping') or in building capacity in the sector ('investing')' (NAO, 2005).

### 3. What is the Third Sector?

#### ***Definitions and coverage***

The term 'third sector' is increasingly used to describe that economic activity which does not fit in the public or for-profit-private sectors. However there is a certain amount of confusion about what exactly is meant by the 'third sector'.

At its widest it not only embraces charities, voluntary and community organisations, and not-for-profit companies or social enterprises, but also even sometimes stretches to include private companies engaged in areas with wider social value (such as job placement or training).

The definitional difficulties are illustrated by the fact that in its Cross Cutting Review, the Treasury conceded:

'For the purposes of the report, the 'voluntary and community sector' has not been tightly defined. It is intended to be wider in scope than "general charities" and the "voluntary sector", inclusive of organisations reflecting the characteristics of social enterprise but narrower in scope than "non-profit", "third" sector or "social economy".' (HM Treasury, 2002)

Kendall and Knapp (2000) point out that 'many definitions of the third sector have been propounded and have generated at least as many arguments'. They use Salamon and Anheier's (1997) 'structural-operational definition' which covers organisations exhibiting the following features:

- Not profit distributing;
- Constitutionally independent from the state; and
- Benefiting from voluntarism (through donations or volunteering).

Although 190,000 charities are registered, the Treasury (2002) estimates that there are half a million voluntary and community organisations (VCOs) in the UK. These come in all shapes and sizes - from small, local community groups with no income and run completely by volunteers to large, established, national and international organisations with large budgets and a full time professional staff.

Even less is known about the impact of the sector on the provision of public services. That the impact is uneven across different parts of the public services is generally accepted. For example, it is estimated that in social housing and personal social care, voluntary or private organisations account for over a third of provision (Dean, 2006).

The Charity Commission is now attempting to remedy this lack of knowledge of the sector's interface with public services. At a conference in March the Commission announced it will conduct a survey of all registered charities to map the level of involvement of charities in public service

delivery. The Commission aims to be able to announce the results at the end of the summer of 2006. It will examine:

- the proportion of charities involved in public services,
- what proportion of their funding this represents,
- the numbers of grants and contracts and how this has changed,
- kinds of services being provided ,
- how far charities are achieving full cost recovery and
- anticipated change in provision in the future (Driscoll, 2006).

### ***Funding and finances***

There is both fragmentation and concentration in the charity sector. There are 190,000 registered charities (Chapman, 2006), but the top 1.6% account for 60% of charity income (Dean, 2006). The Charity Commission notes that in an effort to increase their effectiveness and impact, more charities are entering into partnerships and merging in order to provide public services (Driscoll, 2006).

Because of definitional problems the National Council for Voluntary Organisations (NCVO) focuses on what it calls 'general charities' (which excludes housing associations, independent schools, government controlled charities, and organisations whose main purpose is the promotion of religion). It reports that the 169,000 'general charities' in the UK had a total income of £26.3 billion in 2003–04 (the latest year for which figures are available), £1 billion more than in 2002-03. It also estimates that the sector had an operating expenditure of £24.9 billion and total assets of £66.8 billion. This represents a net increase in the number of general charities of over 28,000 since 2000 (NCVO, 2006).

Although NCVO concedes that their means of data gathering misses a great number of small community based groups, small charities still constitute a majority of the voluntary sector with 56% having an annual income of less than £10,000 (NCVO, 2006). Of the 169, 249 general charities identified by NCVO, 2,930 (1.7%) had an income of between £1m and £10m while just 290 (0.17%) had an income of over £10m (NCVO, 2006).

### ***Concentration***

While the number of general charities is growing (up 40% since 1995), this conceals an even bigger increase in the number of large charities. In the last ten years there has been a doubling in the number of charities with an income of over £1 million. This is partly due to organic growth and partly the result of new entrants. NCVO includes in the latter what it describes as the 'charitisation' of the public sector, for example the emergence of leisure trusts (NCVO, 2006). Average incomes in the £10,000 - £100,000 band decreased by 10% in 2003-04 (to £33,791) compared with the previous year.

Over two thirds of the income of all general charities is now going to just 3,200 organisations (or 2% of the sector). Within this group has emerged a smaller group of what NCVO calls 14 'super-charities' with an annual income of over £100 million (10% of the entire sector's income) (NCVO,

2006). Not only have these charities been successful in their drive for public donations and legacies but some have also been very successful in securing contracts for delivering public services.

With the 'super-charities' at one end of the spectrum, 87% of general charities have annual incomes of less than £100,000 and are responsible in total for generating just 8% of the sector's income (NCVO, 2006). NCVO predicts that this trend towards greater and greater concentration is likely to continue.

### **Government funding for the third sector**

The NCVO's assessment is that 'general charities' derive 38% of their income from statutory sources (NCVO, 2006). The National Audit Office (NAO) estimates that government funding of third sector organisations (TSOs), comprising both registered charities and not-for-profit organisations, accounted for 0.5% of all central government spending, rising to 1% if housing association spending is included (NAO, 2005). This was around £2.03 billion (£3.32 billion including housing associations) in the financial year 2001-02. However, central government is not the only source of government funding.

Home Office estimates put the total amount of government funding for 2001-02 at £5.08 billion (£6.37 billion including housing association spending) broken down as shown in Table 1 below.

**Table 1: Sources of government funding for third sector organisations 2001-02**

Source of government funding	Amount
Central government	£2.03 billion (£3.32 billion including housing associations)
Local authorities	£1.87 billion
National Health Service	£904 million
European Union	£274 million
<b>Total</b>	<b>£5.08 billion (£6.37 billion including housing association spending)</b>

Source: NAO (2005).

The National Council for Voluntary Organisations (NCVO) suggests that the Home Office figure of £6.37 billion is an underestimate. NCVO puts it at £7.14 billion (12% higher than the Home Office estimate). The Home Office and NCVO explain the difference by reference to variable quality of data, and differences in both the scope and methodology of data collection between the two (NAO, 2005). Whatever the exact figure, NCVO estimates that in addition, TSOs received £550 million from the National Lottery fund in 2002-02 (NAO, 2005).

A survey carried out for the DTI's Small Business Service claimed that social enterprises in the UK (narrowed down to those social enterprises registered as Companies Limited by Guarantee (CLG) or Industrial and Provident Societies (IPS)) had an income of around £18 billion, or 0.8% of the turnover of all UK businesses which have employees (SBS, 2005). There are around 15,000 such social enterprises, accounting for 1.2% of all enterprises in the UK (SBS, 2005).

As it has grown, the third sector's (using Salamon and Anheier's definition) reliance on government funding has also grown. Between 1990 and 1995 total income (at 1995 prices) went up from £35.1 billion to £48.7 billion. However, in the same period, the proportion of total income derived from government sources went up from 39-46% while the proportion from private giving declined from 12-9% (Kendall and Knapp, 2000).

NCVO (2006) estimates that not only will the group of 'super-charities' increasingly dominate public perception of the sector but they will also be responsible for a growing proportion of those public services delivered by the sector. As this role has grown so has both the amount of money provided by the state and the proportion of total income that this represents. In 2003-04 it was £10 billion for general charities which was almost £700 million more than donated by the public (NCVO, 2006). No doubt because of the different definitions used, the NCVO estimate of 38% for the proportion of total income provided by statutory sources is slightly less than Kendall and Knapp. However, NCVO (2006) make the important point that within this figure there has been a shift from grant to fee income, illustrating the growth in importance of contracts for delivery of public services.

## **Employees**

Using Salamon and Anheier's definition of the third sector, Kendall and Knapp (2000) claim that as far back as 1995 the sector employed almost 1.5 million full time equivalent workers. If all the hours of the sector's (then) 16 million volunteers are aggregated, an additional 1.7 million full time equivalents could be added. Three quarters of employees (not volunteers) were in just three segments – education and research (42%), culture and recreation (25%) and social care (13%). Between 1990 and 1995 employment in the sector grew from 4% to 6.1% of full time equivalent paid employment in the UK economy (Kendall and Knapp (2000).

The NCVO (2006) quotes figures from the UK Labour Force Survey, suggesting that the voluntary sector employed 608,000 people (or 2.2% of the paid workforce) in 2004. This represents an increase of 45,000 since 2000. In full time equivalents this equates to around 488,000 and reflects the prevalence of part time working. This is the fastest growing element of the voluntary sector workforce where part time workers account for 38% of all voluntary sector staff (NCVO, 2006).

**Table 2: UK employment by sector 1995-2004 (headcount, thousands)**

	1995	2000	2004
Private sector	19,095	20,711	20,270
Public sector	6,042	6,246	6,842

	1995	2000	2004
Voluntary sector	478	563	608
<b>Total</b>	<b>25,616</b>	<b>27,520</b>	<b>27,720</b>

Source: NCVO (2006), from UK Labour Force Survey. Base: All people aged 16 and over

Almost half a million people (475,000) work for social enterprises registered as CLGs or IPSs. Of those, two-thirds are employed full-time. An additional 300,000 people commit some voluntary work to them (contributing an average of two hours each per week) (SBS, 2005).

## **4. Third sector providers in employment services**

The contracting out of employment-related services is now a big budget item. Jobcentre Plus expects to spend £1.1 billion in 2005-06 on its employment and training programmes delivered by private and voluntary sector providers (House of Commons Written Answer, 2005). The last Labour party manifesto stressed the important role that the voluntary and community sector should have in the provision of public services and specifically pledged to 'continue to welcome new independent and voluntary sector partners to provide job-seeking services' (Labour Party, 2005). This is usually taken to mean involvement of charities or 'not-for-profit' social enterprises. They are regarded by their supporters as the heirs to the mutuals and co-operatives of the nineteenth century (MacErlean, 2005).

However, the organisations associated with contracting out employment services do not always fall neatly into these categories. The debate over the provision of services by the Department for Work and Pensions (in particular much of the work carried out by Jobcentre Plus) illustrates the confusion. This section examines some of the organisations that have expressed an interest in becoming involved, or expanding their existing involvement, in employment services.

### ***Employment services provision and the ERSA***

The Association of Chief Executives of Voluntary Organisations (ACEVO) has been campaigning strongly for the adoption of the Australian model of provision of employment services (Bubb, 2006). In Australia, the DWP equivalent presides over a contested market of employment and training service providers.

Great claims are made for the Australian system and PCS will come back to this in a later paper, but it is worth pointing out that the system is accused of encouraging contractors to engage in 'creaming' those clients that are easiest to place in jobs and 'parking' those that are more difficult (Considine, 2000; Dockery and Stromback, 2001; Bruttel, 2004; Bredgaard et al, 2005). The Australian Council of Social Service (ACOSS) recently noted (2006): 'Despite good economic times, 300,000 long term unemployed people cannot access the training and support they need to be able to get a job.'

In 2004 a group of 16 providers came together and agreed to commission Oxford Economic Forecasting (OEF) to prepare a position paper on the issues of procurement (Oxford Economic Forecasting, 2005). OEF describes itself as 'economic analysis for business' and was founded 'to provide independent forecasting and analysis tailored to the needs of business economists and planners' (Oxford Economic Forecasting, 2006). OEF has now produced three supportive reports for third sector organisations. At the time of the 2005 report, the members of the group received around £300 million worth of funds from government (mainly Jobcentre Plus contracts). This accounts for approximately one-third of the sector, as government outsourced spending on employment programmes was in the region of £1 billion in 2003/4 (Oxford Economic Forecasting, 2005). Twelve of this group later agreed to become the founder members of a new trade association called the Employment Related Services Association (ERSA, 2005):

A4e  
 Fern Training and Development  
 Instant Muscle  
 The Papworth Trust  
 Pecan  
 RBLI  
 Reed in Partnership  
 Remploy  
 The Shaw Trust  
 Tomorrow's People  
 Working Links  
 YMCA Training.

These organisations provided the members of the initial board.

**Table 3: ERSA Board Members**

Board member	Organisation
Debbie Scott – Chair	Tomorrow's People
Chris Melvin - Deputy Chair	Reed in Partnership
Kevin Belcher	Pecan
Peter Brooks	A4e
Ian Charlesworth	Shaw Trust
Sarah Knight	Instant Muscle
Stuart Knowles	Remploy
Matthew Lester	The Papworth Trust
Anne Linsey	YMCA Training
Martin Ridgeway	Fern Training and Development
David Rowlands	RBLI
David Winning	Working Links

Source: ERSA (2005) The Employment Related Services Association Prospectus 2005

The additional four involved in commissioning the report from OEF were: BTCV, Enham, National Association for Supported Employment and Training for Life (Oxford Economic Forecasting, 2005). They do not appear to have subsequently joined the ERSA.

However, since the founding of the ERSA, a further group of organisations have become members. It is difficult to be precise about which organizations are actually members of ERSA as it does not seem to know itself. Its website (ERSA, 2006) currently lists 21 member organisations, its submission to the April 2006 Work and Pensions Select Committee report on Incapacity Benefits and Pathways to Work (House of Commons Work and Pensions Committee, 2006b) lists 20 members while its joint submission with ACEVO to the Select Committee's March 2006 report on Jobcentre Plus efficiency savings (House of Commons Work and Pensions Committee, 2006) lists 29 members, as follows:

A4e  
 Breakthrough UK  
 CG Resources  
 DISC  
 Employment Opportunities for People with Disabilities  
 Fern Training and Development  
 Glasgow Local Development Company Network  
 InBiz  
 Instant Muscle  
 Maatwerk  
 MENCAP  
 OSW  
 The Papworth Trust  
 Pecan  
 Pluss  
 RBLI  
 Reed in Partnership  
 Rathbone  
 Remploy  
 RNIB Employment Services  
 RNID  
 Salvation Army  
 Seetec  
 Shaw Trust  
 Tomorrow's People  
 TNG  
 Working Links  
 WTCS  
 YMCA Training

Today, the members of the ERSA receive over £400 million worth of Government funding annually (still predominately Jobcentre Plus contracts) (House of Commons Work and Pensions Committee, 2006b).

### ***The organisations***

The first thing to note is that both the twelve original members of the ERSA, and the later additions, are a mix of charities and private and public sector providers of different types. Of the 29 ERSA members, 10 are private companies (34%), 16 are charitable organisations (55%) and 3 are effectively public sector bodies (10%).

**Table 4: Organisation type**

Organisation	Legal form

Organisation	Legal form
A4e	Private Limited Company
Breakthrough UK	Private limited by guarantee/charity
CG Resources	Private Limited Company. Owned by the Collinson Grant Group Limited
DISC	Private limited by guarantee/charity
Employment Opportunities for People with Disabilities	Private limited by guarantee/charity
Fern Training and Development	Part of the Carter & Carter Group plc
Glasgow Local Development Company Network	Network of independent companies limited by guarantee. Associated with local authorities.
InBiz	Private limited company
Instant Muscle	Private limited by guarantee/charity
Maatwerk	Subsidiary of Dutch private company
Mencap	Private limited by guarantee/charity
OSW	Private limited by guarantee/charity
The Papworth Trust	Private limited by guarantee/charity
Pecan	Private limited by guarantee/charity
Pluss	Private limited by guarantee. Owned by consortium of local authorities
Rathbone	Private limited by guarantee/charity
RBLI	Private limited by guarantee/charity
Reed in Partnership	Public Limited Company
Remploy	Private limited by guarantee/NDPB
RNIB	Company Incorporated by Royal Charter/charity
RNID	Private limited by guarantee/charity
Salvation Army	Unincorporated association with charitable objects. The Salvation Army Trustee Company is a private company limited by guarantee
Seetec	Private Limited Company
The Shaw Trust	Private limited by guarantee/charity
Tomorrow's People	Private limited by guarantee/charity
TNG	Private Limited Company
Working Links	Private Limited Company
WTCS	Private Limited Company
YMCA Training.	Private limited by guarantee/charity

Source: Companies House, Charity Commission returns.

Note: a private company limited by guarantee is a company type commonly used by non-profit organisations. They do not have share capital, instead having 'members' who are guarantors rather than shareholders. The guarantors undertake to contribute a nominal amount (usually £1) towards the liabilities of the company in the event of it being wound up. It cannot distribute its profits to its members, and is therefore eligible to apply for charitable status

The second point of interest is that many of these organisations are large with a substantial income and apparatus (this applies to many of the charities as well as the private companies).

Thirdly, because of their increasing reliance on government funding, there is a clearly identifiable 'producer interest' developing and (for the charities at least) a growing conflict between their role as advocates and their role as service providers.

Finally several of the charities have very strong links with Big Business (some involved in privatisation or contracting out) drawing many of their trustees from this sector. It is difficult to believe that this does not play a critical part in influencing their attitude towards public services and the drive to contract out more of the core work of Jobcentre Plus.

## **The charities**

Some of the charities are very well-established and well known. The Salvation Army goes back to 1865. The Royal National Institute of the Blind (RNIB) was established in 1868 and incorporated under Royal Charter in 1949. The Royal National Institute for Deaf People (RNID) was set up in 1912 and incorporated as a company limited by guarantee in 1948. Royal British Legion Industries (RBLI) was set up in 1919 after the end of the First World War.

Mencap was incorporated as a company limited by guarantee in 1955. The Papworth Trust registered as a charity in 1963; the Rathbone Society was formed in 1969 and merged with another charity (Community Industry) in 1995; YMCA Training was founded by the YMCA in 1978 although not incorporated as an independent charity until 2002; Employment Opportunities for People with Disabilities registered as a charity in 1980; Instant Muscle was set up in 1981; the Shaw Trust in 1983. More recently established charities include DISC in 1985; Pecan in 1989; Breakthrough UK in 1997; and OSW in 1999.

Many of the charities involved in employment services have substantial operations. In 2005, Shaw Trust for example had total incoming resources of £63.98 million (an increase of £18.36 million on 2004's total of £45.62m). This was 'mainly through the continued growth of Job Broking across the country' (Shaw Trust, 2005). And the Trust aims to expand its operations both here and abroad. It has targets to increase its number of clients by 40% and to 'persuade Local Authorities, Health Trusts and Primary Care Trusts that Shaw Trust can offer improvements in value for money in the management of their day care and employment programmes' (Shaw Trust, 2005). Of the £63,980,957 in income received by the Trust, £37,550,299 came from Jobcentre Plus, with only £1,961,739 from fundraising activities. In other words, almost 60% of its entire income now comes from Jobcentre Plus (it is also in receipt of other funding from UK government and European Union sources).

Tomorrow's People was set up by Diageo's predecessor GrandMet in 1984 and retains strong links with Diageo today. Geoffrey Bush, Diageo's Director of Corporate Citizenship is a trustee, as is Christopher Pearman, the former Chairman of Diageo unit, IDV Asia Pacific. It also has extensive links through its trustees with the wider business lobby and major multinationals. Other trustees include the Director of Corporate Communications at Jersey-registered finance house, Cazenove,

the CBI's National Accounts Director, the chief executive of a 'change consultancy' with major interests in public sector work and former senior officers from BT and Lloyds of London.

## **The private sector**

A4e was founded in 1991 and now has 100 offices throughout the UK and manages an annual budget of over £300 million of public sector and European funding (A4e, 2006). The company has a turnover of around £78 million (A4e, 2006a). It has also begun to expand its operations abroad with a first (and controversial) move into Israel, and now also into Poland.

Since February 2006, Fern Training and Development has been a part of Carter and Carter Group plc, an outsourcing and vocational training company with a 2005 turnover of £51m. In the year to May 2005, Fern had a turnover of £14.5m (Carter and Carter Group plc, 2006).

CG Resources is a private training company that is owned by the Collinson Grant Group Limited. It also operates in Poland. Collinson Grant is a major management consultancy service company.

At the beginning of April TNG and Inbiz announced (TNG/Inbiz, 2006) that they are merging to form a new company called Avanta. They claim that the new firm will 'become one of the UK's leading training, skills, employment services, business start up and development companies.'

Reed in Partnership is part of the Reed Group, founded in 1960. It now claims to be one of the UK's largest private businesses with over 3,000 employees (Reed Group, 2006). Reed in Partnership was incorporated in 1965; today has a turnover of more than £29m and over 400 employees.

Maatwerk is a subsidiary of the much larger Dutch company, Maatwerk Groep B V. Seetec is an Essex-based company that describes itself as 'one of the UK's largest and most experienced private sector providers of Government funded employment and training programmes' (Seetec, 2006).

WTCS is a research and training company based in Devon. Its last Directors' Report showed that it had a gross profit for the 18 month period ending 31 October 2005 of £5,052,790 and an interim ordinary dividend of £100,000 was paid during the period covered by the report. (WTCS, 2005).

## **Public-Private and public**

Working Links was incorporated in 2000 and set up as a public-private partnership between Jobcentre Plus, Manpower and Cap Gemini Ernst & Young (Working Links, 2002). It now describes itself as a 'public private voluntary partnership' between the Government's Shareholder Executive, Manpower Plc, Capgemini and Mission Australia (Working Links, 2006). Interestingly, in 2005 the company made a loss of £1,126, 396 on a turnover of £47,963,219 - primarily a result of problems with contracts for Jobcentre Plus (Working Links, 2005). This was followed by the Australian charity, Mission Australia becoming a shareholder. It now owns a third of Working Links having invested £1.45 million, the Secretary of State for Work and Pensions owns a third and Cap Gemini and Manpower own a third between them. The company sees this as

advantageous for several reasons: investment to assist expansion – both in the UK and abroad; the Government's expressed support for the 'Australian model' of contracted out employment services (and Mission Australia's involvement in that); and its enthusiasm for extending the role of charities in service provision (Working Links, 2006a).

Remploy is also slightly unusual in that it is a Non Departmental Public Body of the Department for Work and Pensions. The Chief Executive and Chairman are appointed by the Secretary of State. However, like the RBLI it was set up after a world war – in 1945. Its principal objective is the provision of 'training and employment for registered severely disabled persons under special conditions' (Remploy, 2005). Glasgow Local Development Company Network is a Network of independent companies limited by guarantee, associated with local authorities. Pluss is a company limited by guarantee that is owned by consortium of local authorities in the south west of England.

## ***Aims and objectives***

The organisations covered by this paper all identify aims relating to job placement and support, advice and training. They also often identify aims and objectives that would be regarded as unacceptable or inappropriate if associated with a public sector body.

Private sector organisations are obviously geared to returns to shareholders, so it is unsurprising that Carter and Carter Group plc see the value of their acquisition of Fern Training and development in terms of providing 'access to a key priority segment of the Government funded training and learning market, increasing Carter & Carter's addressable market in this area which the Directors' estimate is now approaching £2 billion' (Carter and Carter Group plc, 2006). This fits in with one of the long terms goals of the Group, that of becoming 'the clear leader in Government funded vocational learning' (Carter and Carter Group plc, 2006a).

A4e describes its core mission as being 'to develop and implement programmes that effect social change on behalf of governments across the world, in order to improve people's lives'. In so doing, its founder Emma Harrison has become extremely wealthy. The Times Educational Supplement recently reported her advice to school students. She told girls to ignore obstacles in their careers and 'walk around' supposed glass ceilings, that 'Glass ceilings are nonsense, it is up to you. There is no difference nowadays' (Kirkham, 2005).

Several of the charities also now identify among their aims as becoming a bigger provider of government funded employment services. The Shaw Trust states that in 2003/04 it sought and achieved its aim of becoming the main provider of employment services for disabled people, partly 'by increasing our market share of the Government's two main programmes of assistance: New Deal for Disabled People (NDDP) and Workstep' (Shaw Trust, 2005).

A number of the charities are strongly faith-based. For example one of the two objectives listed in Pecan's Memorandum and Articles of Association is 'to advance the Christian religion' (Pecan Limited, 2005). In advertising for a Central Services Manager, the job description included the information that 'In all areas of your work you should not only be able to maintain but develop

Pecan's ethos and Christian culture' that the applicant would be expected to 'Manage and develop your staff providing professional and spiritual leadership', 'Motivate the team in accordance with biblical principles' and 'Maintain the ethos and values of Pecan and ensure that all decisions made are done prayerfully and with consideration to Pecan's Christian aims and objectives'. The person specification for the job stated that it would be suitable for 'Someone who has a close walk with God, is able to sign to the Evangelical Alliance Basis of Faith and can demonstrate commitment to Christians and churches working together'.

Similarly, the objects of YMCA Training (2005) include the following:

- To unite those who, regarding Jesus Christ as their God and Saviour according to the Holy Scriptures, desire to be His disciples in their faith and in their life, and to associate their efforts for the extension of his Kingdom.
- To lead people to the Lord Jesus Christ and to fullness of life in Him

One of the three objects of the Salvation Army is: The advancement of the Christian Religion, and pursuant thereto (Charity Commission, 2006e). Among the 'key elements' of the charity's medium to long term strategy are:

- To facilitate opportunities for Christian worship and reflection on a wide basis by means of the written, broadcast and spoken word; literature, the electronic media, music and personal evangelism.
- To train and equip current and future Salvation Army officers, staff and volunteers.
- To reach out to young people and engage them in Christian values.
- To provide Christian worship and proclamation of the gospel in corps, community and social centres, in the open air and wherever people are.

## 5. Third sector in employment services – behind the hype

The advocates of third sector provision claim that it can deliver higher quality services than the public sector (and often at a lower cost). They cite advantages over both private sector and public sector providers because of the different set ups, their closeness and responsiveness to service users, and their flexibility. Sometimes this favourable comparison with in-house provision is extended to include private sector providers among the 'third sector'. A recent example was the Guardian article by Stephen Bubb of ACEVO and Debbie Scott of Tomorrow's People and the ERSA (2006). They claim that:

'Independent organisations have many crucial advantages in public service delivery, including flexibility and freedom to innovate. Charities are able to work across government departments, and join up different agendas. They bring specialist skills and knowledge to the sharp end of public services.'

Debbie Scott is also deputy chair of the Conservative Party's Social Justice Policy Group (Conservative Party, 2005).

In a speech earlier this year to the National Council of Voluntary Organisations (NCVO), David Miliband, then Minister of Communities and Local Government outlined what he saw as the three key features of the voluntary sector:

In its role in providing advocacy for communities, it provides a voice for citizens, campaigning against injustice, tackling vested interests, and challenging the balance of power within society.

In its role as social enterprise and service provider, the best of the sector reaches people below the radar of many statutory services, wins their trust, and tailors services to their needs, aspirations and circumstances.

And because of its voluntary ethos and its roots in communities, the voluntary sector generates trust, cooperation and voluntary action by citizens and communities. (Miliband, 2006)

This section will examine some of these claims – both in general and with reference to the experience of the provision of employment-related services.

### ***For-profit private companies among the non-profit providers***

Many of the organisations involved in the provision of employment related services are not 'Third Sector' organisations at all, in the sense of being charitable or voluntary organisations. There are numerous straightforward profit-oriented companies contracting with Jobcentre Plus to deliver a particular service. Jobcentre Plus is apparently unable to break down its list of providers between private companies and voluntary organisations. It is also unable to say how its £1.1 billion

expenditure on contracted out employment and training programmes is divided between private companies or voluntary organisations (House of Commons Written Answer, 2005).

Nevertheless, the private sector is a major player in the provision of these services. We can see that from the membership of the lobby group, ERSA. Over a third (10 out of 29) of its members is profit-driven private sector companies. As pointed out earlier, firms like A4e, Fern Training and Development, Reed in Partnership are not altruistic, charitable organisations focused solely on the service user and have no claim to any place in the voluntary or community sector. Like all private companies, their goal is to maximize returns to shareholders. Stephen Bubb, Chief Executive of ACEVO has described opposition to the current reform agenda as based on 'producer interest'. Bubb asks 'Why do opponents of change insist on arguing that this is 'privatisation'?' (Bubb, 2006). The answer is that if services are contracted out to Reed in Partnership or A4e, then it *is* privatisation.

It suits the private sector providers to ally with the voluntary sector because it muddies the water about privatisation. There is far less public scepticism about the motives and objectives of the voluntary sector than of the private sector (Freedland, 2006) and this serves to create a smokescreen behind which public sector provision can be dismantled. As one commentator put it, 'if the Blair government wants to keep tearing down the walls of a monolithic public sector, the voluntary sector may prove to be a less controversial wrecking ball' (Wintour, 2005).

However, despite the collaboration between some private providers and charitable organisations through the ERSA and other lobby groups, there is an underlying tension between the two recognised by many. The not-for-profit Wise Group argues (House of Commons Work and Pensions Committee, 2006b) that with private sector provision of employment services, 'conflicts can arise between welfare to work provision and the acquisition of profit' and that the profit motive is likely to come before the needs of beneficiaries. Consequently they suggest that the not-for-profit sector is best placed to deliver employment programmes and most appropriate to provide employability support to those claiming Incapacity Benefit.

In a similar vein the Disability Employment Coalition (DEC) (House of Commons Work and Pensions Committee, 2006b) expressed concern about the Green Paper's emphasis on provision by commercial as opposed to not-for-profit organisations. The DEC maintains that this will result in a focus on quantity rather than quality. Furthermore, it rejects the idea that only for-profit organisations are capable of innovation and stresses its view that not-for-profit organisations 'with specialist knowledge areas will provide a greater understanding of the client centred approach needed to achieve sustained success.'

### ***Capacity and coverage***

The debate about the involvement of charities, the voluntary sector or even the private sector in the provision of public services is not a new one. Before municipal services were established and before central government began to take a serious role in public services, the private and charity sectors were the only providers of services like health and education. Unfortunately, except for the very wealthy, their record is historically one of inadequacy and failure.

Nye Bevan, the architect of the National Health Service, was deeply involved in the miners' welfare organisations that existed to ensure that ordinary workers had access to healthcare. He drew many lessons from his, but his membership of the Tredegar Medical Aid Society only confirmed his view of the need for a *National* Health Service run by the state. The pre-war experience of the 'Five Giants' of want, idleness, ignorance, disease and squalor was the basis for the mass support for the Beveridge Report and the social security reforms that became a central part of the post-1945 welfare state.

Interestingly, in his speech to the NCVO, David Miliband (2006) was careful to remind his audience of the origin of the welfare state. It was not just market failure that prompted the demands for government action but also 'the inadequacy and in some cases decline of friendly societies and mutuals'. He referred to 'the growing problems of bankruptcy, inefficiency and patchy provision within the third sector that necessitated the wider pooling of risk and the emergence of a welfare state.' In other words, the welfare state was created in response to the failures of both the market and the third sector of the time.

Some of the supporters of third sector provision of public services appear to believe that the public employment service can be effectively abolished, with Jobcentre Plus reduced to commissioning contracts with providers. In a joint memorandum to the Select Committee inquiry into the efficiency Savings Programme, ERSA and ACEVO (House of Commons Work and Pensions Committee, 2006) argue that it is not just the employment and training programmes of Jobcentre Plus that should be contracted out: the DWP 'should examine the benefits of contestability within the role of Personal Advisers' – in other words prepare for the contracting out of this core function. They call for 'a debate' on where to draw the line between public and voluntary/private sector provision and suggest that the 'debate' should examine whether there is 'a necessity for Government to continue to have a capacity to directly deliver employment related services' (House of Commons Work and Pensions Committee, 2006).

Although the points are couched in terms that suggest an open mind, it is clear that ERSA and ACEVO have already decided the result of the 'debate' as they demand that a timetable 'be set for Jobcentre Plus to focus on its commissioning functions as a public service gateway' (House of Commons Work and Pensions Committee, 2006). Under their proposal, Jobcentre Plus would be reduced to being the first point of contact for jobseekers and would pay benefits. The Personal Adviser function would be performed by the private and voluntary sector. This would represent a recreation of the old division between Benefits Agency and the Employment Service with the critical difference that the latter would be a much reduced organisation, having responsibility for commissioning contracts from external providers.

The Association of Learning Providers and others draw attention to the damage done to Jobcentre Plus capacity by government 'efficiency' cutbacks (House of Commons Work and Pensions Committee, 2006). The ERSA's solution to this is not a strengthening of Jobcentre Plus capacity or even a moratorium on the cutbacks, but to argue for further reducing its role. ERSA appear to believe that any increase in contracting out of programmes and functions can be absorbed by the private and voluntary sector. According to ERSA they have 'consistently demonstrated that when new or expanded programmes have been introduced they have been able to increase capacity to meet the requirements of Government' (House of Commons Work and Pensions Committee, 2006b). In an even more ambitious claim they assert that 'the private and voluntary sector has both

the capacity and capability to deliver complex employment support programmes on behalf of government' (House of Commons Work and Pensions Committee, 2006b). The Shaw Trust is equally bullish; claiming that contracting out will also reduce administration costs (House of Commons Work and Pensions Committee, 2006a).

These are not universally held views in the voluntary sector. CPAG is far more cautious. In its substantial written submission on Incapacity Benefits and Pathways to Work to the Select Committee, it states that 'the voluntary sector it is too small, fragile and fragmented to play the central part in the delivery strategy' (House of Commons Work and Pensions Committee, 2006c). It urged Jobcentre Plus to recognise the sector's current limitations, and the need to give it strategic support in order to build capacity.

Age Concern (House of Commons Work and Pensions Committee, 2006b) criticise the Green Paper's failure to deal adequately with the issue of resources, particularly in relation to investment in recruitment and training of NHS and Jobcentre Plus staff. They dismiss the notion of contracting out as a solution: 'the decision to roll-out Pathways to Work through contractors does not avoid capacity problems since voluntary and private sector providers will face similar skills shortages in the short term.' In fact they suggest that this 'solution' may exacerbate the problem as contracting out provision of Pathways to Work 'may restrict Jobcentre Plus' ability to begin developing capacity to deliver the new support under Employment and Support Allowance.'

### ***Small, community-focussed organisations?***

In his introduction to the Green Paper (DWP, 2006), the Secretary of State suggested that involving new providers in welfare provision would help 'to mobilise local expertise'. ACEVO's Stephen Bubb has spoken of the strong 'community focus' of third sector organisations. There are, of course, thousands of small voluntary organisations all over Britain contributing to the civic life of the country. Many are membership-based organisations rooted in their local communities. However, in general these are not the organisations bidding for employment service contracts.

As is noted elsewhere in this paper, many of the 'independent' providers are not voluntary organisations accountable to their local community but profit-hunting companies accountable to their shareholders. These organisations are less enamoured of the government's focus on providers rooted in their localities.

In response to the government's proposal to create a consortium of local partners in each area to work together to raise local employment rates, one private sector provider revealed its concern at what it saw as potential barriers to expansion. The Green Paper refers to 'voluntary and private sector organisations, with their distinctive understanding of the social and economic environment in a local area' and notes that they will therefore be 'key contributors to making a success of this initiative' (Department for Work and Pensions, 2006).

Although ministers (and third sector advocates like ERSA and ACEVO) repeatedly make reference to the local knowledge and expertise held by the third sector, Reed in Partnership clearly see a focus on this as a potential obstacle to their ability to expand their operations. They say that: 'We would be concerned if the implementation of the reforms prevented the entry of new providers into

a geographical area. Knowledge of the local area whilst important in delivering a good service for clients is not the fundamental building block' (House of Commons Work and Pensions Committee, 2006c).

In an astonishing outburst, they warn about 'who the decision makers are in this process.' They also protest about the possibility that 'political influence at the local level' might result in little or no attempts being made to engage with the private sector. Furthermore, they say they would be concerned if 'local influencers' were able to make 'decisions on who was awarded the contracts based on their existing relationships within a City' (House of Commons Work and Pensions Committee, 2006c).

Behind the smokescreen of 'political influences' lies a blatant contempt for local democracy and accountability and a fear that local people might reject the privatisation of public services. Consequently, Reed in Partnership demands that guidance is issued to guarantee the private sector a 'minimum level of delivery' in the local areas.

However, even the charities involved in employment service provision are often large organisations with a significant apparatus in terms of assets, income and human resources. Two indicators help to illuminate the picture: Chief Executive salaries and staff numbers.

### **Pay for Chief Executives and senior officers**

The Guardian recently reported (White, 2006) that according to the latest remuneration survey by the Association of Chief Executives of Voluntary Organisations (ACEVO), the average voluntary sector chief executive salary is around £54,000, with some of the larger organisations paying significantly higher - up to £136,000. It is not surprising that the Guardian remarked that the voluntary sector is 'looking increasingly attractive' as an alternative career route for senior public sector managers.

This is a long way from the traditional image of the voluntary sector as being run by highly motivated but relatively modestly paid people. The remuneration for senior officers among ERSA's member organisations illustrates the range of pay and benefits now available.

**Table 5: Chief Executive/senior officer remuneration**

Organisation	Chief Executive/senior officers	Remuneration
A4e	Mark Lovell, Group Chief Executive	Highest paid director received £329,000.
	Emma Harrison, chairman, founder and majority owner	Emma Harrison is said to be worth £55m (Daily Telegraph, 281205) and received £1.1 million in the latest dividend payout.

Organisation	Chief Executive/senior officers	Remuneration
Breakthrough UK	Lorraine Gradwell, Chief Executive	N/K
DISC	Steve Johnson, Chief Executive	N/K
Employment Opportunities for People with Disabilities	Karin Pappenheim, Chief Executive	In 2004, No employees received emoluments exceeding £50,000. No directors received any payment.
Fern Training and Development	Deborah Fern	Acquired by Carter and Carter plc in February 2006 for £13.6m from owner Deborah Fern who gained £2.9m of shares in Carter and Carter and joined the senior management team with responsibility for the management of the Fern Group.
Inbiz	Will Pratt, Chief Executive Stuart Vere, Chairman	Total directors' emoluments £283,662.  Stuart Vere controls the company through his shareholdings in the parent group. As owner of 4,500 shares, he gained a dividend £117,000.
Instant Muscle		Top three officers earned over £50,000 pa.  One employee received remuneration in the £50-60,000 band; one employee in the £60-70,000 band; and one employee in the £70-80,000 band.  The total pension cost of these employees was £7,635.
Mencap	Jo Williams, Chief Executive	In 2005 The number of employees whose total emoluments (salary

Organisation	Chief Executive/senior officers	Remuneration
		plus taxable benefits excluding pension contributions) are in excess of £50,000 is as follows (all of whom are members of the Mencap pension plan):  £50,000 - £60,000 (7) £60,000 - £70,000 (5) £70,000 - £80,000 (2) £100,000 - £110,000 (1)
OSW	Linda Butcher, Chief Executive	One member of staff earned between £50,000 and £60,000 (including taxable benefits but excluding employer pension contributions) during 2005.
The Papworth Trust	A G Lister, Chief Executive	Emoluments £76,000.  Trust contributions paid to money purchase pension schemes £7,000
Pecan	Kevin Belcher, Chief Executive	No employee was paid more than £50,000 pa in 2005. The highest paid employee is not allowed to earn more than twice the lowest paid employee and the pay structure is restricted to four tiers of pay.
Rathbone	Richard Williams, Chief Executive	The emoluments of members of staff, including benefits in kind, not including retirement benefits which are accrued under a defined benefits scheme, earning £50,000 per annum or more fell within the following ranges:  £50,001 - £60,000 (1) £90,001 - £100,000 (1)
RBLI		Five employees earned over £50,000 in 2004 (excluding pension

Organisation	Chief Executive/senior officers	Remuneration
		contributions).
		1 earned between £50,000 - £60,000. 2 earned between £60,600 - £70,000. 1 earned between £70,000 - £80,000. 1 earned between £80,000 - £90,000
Reed in Partnership	Highest Paid Director	£169,000
Remploy	Bob Warner, Chief Executive	£139,300 (plus pension contribution of £11,600)
RNIB	Lesley-Anne Alexander, Chief Executive	Numbers of staff who received emoluments between: £50,001 and £60,000 (22) £60,001 and £70,000 (6) £70,001 and £80,000 (3) £80,001 and £90,000 (2) £90,001 and £100,000 (1) £100,001 and £110,000 (1)
RNID	Dr John Low is Chief Executive	No. of employees receiving gross salaries in the range: £60,001 to £70,000 - 3 £70,001 to £80,000 - 2 £90,001 to £100,000 - 1 Three of these employees are in the defined contribution scheme, and three in the defined benefit scheme. Contributions in the year for the provision of the defined contribution scheme were £42,532, in respect of 3 employees.
Salvation Army	Commissioner Shaw Clifton	The number of employees whose emoluments amounted to over £50,000 in 2005 was as follows: £50,000 - £60,000 (5) £60,001 - £70,000 (2)

Organisation	Chief Executive/senior officers	Remuneration
		£70,001 - £80,000 (1) £80,001 - £90,000 (1)
Seetec	Peter Cooper, Managing Director	N/K
The Shaw Trust	Ian Charlesworth, Managing Director	In 2005, 18 employees earned over £50,000 pa (excluding pension contributions).  7 between £50,000 - £60,000 2 between £60,001 - £70,000 4 between £70,001 - £80,000 2 between £80,001 - £90,000 1 between £90,001 - £100,000 2 between £110,001 - £120,000
Tomorrow's People	Debbie Scott, Chief Executive	3 members of staff received annual emoluments in 2005, including benefits in kind, greater than £50,000 pa.  2 between £50,000 - £60,000  1 between £70,001 - £80,000
TNG		Highest paid director £161,000
WTCS	Managing Director: Dr Sarah Burnett	Highest paid director £580,205. As sole shareholder, Sarah Burnett received a dividend of £100,000.
Working Links	Keith Faulkner, Managing Director	Remuneration of directly employed director was: £172,203
YMCA Training.	Anne Linsey, Chief Executive	2 members of staff received annual emoluments in 2005 greater than £50,000 pa (excluding pension contributions). 1 between £50,000 - £60,000 1 between £60,000 - £70,000

Source: Annual reports

Almost all of the members of the ERSA pay their chief executives or senior officers in excess of £50,000 per annum. Some pay considerably more. The highest paid director at WTCS received total emoluments worth £580,205. At A4e it was £329,000. At Reed in Partnership the highest paid director received £169,000, while the Chief Executive at Remploy received £139,300 (plus pension contributions). Emma Harrison, the chairman, founder and majority owner of A4e has reportedly become a multimillionaire through the company (through a combination of dividend payouts – the latest of which was £1.1 million - and salary). By contrast, Deborah Fern made her millions by selling the company she founded (Fern Training and Development) to Carter and Carter Group plc and gained a senior position in the parent company while continuing to run Fern.

It is perhaps predictable that the private sector companies handsomely reward their senior officers. However many of the charities also now make substantial payments to their top managers, as shown in the table above. Only Pecan and Employment Opportunities appear to have decided to resist the trend towards high remuneration for senior managers. No employee was paid more than £50,000 pa in 2005. The highest paid employee is not allowed to earn more than twice the lowest paid employee and the pay structure is restricted to four tiers of pay. Pecan describes its pay structure as 'an expression of our desire to embody Christian values in our structures and culture' (Pecan Limited, 2005).

## Staffing

As can be seen from the figures below, several of the providers are organisations with substantial numbers of employees.

**Table 6: Number of employees in selected employment service providers**

Organisation	Number of employees
Remploy	10,659
Mencap	Average number of employees: 6,214 Expressed in FTEs: 4,950
Salvation Army	3,583
RNIB	2,532
The Shaw Trust	1,116
Rathbone	1,024
RNID	970 (average FTE)
Working Links	830
RBLI	778 (2004)
YMCA Training	612
Instant Muscle	510 (average FTE)
TNG	455
Reed in Partnership	412
Fern Training and Development	300

Organisation	Number of employees
InBiz	293
DISC	281
The Papworth Trust	240
Seetec	208
Tomorrow's People	122 (average FTE)
Employment Opportunities for People with Disabilities	108
Pecan	92

Source: Annual reports; Charity Commission returns; Carter & Carter Group plc (2006).

### ***Trust, the third sector and the state***

It is claimed that because of the engagement with communities, donors and volunteers, third sector bodies have a high level of public trust (Bubb, 2006). This is contrasted with the public sector, in particular, with Jobcentre Plus. However there are a number of related issues within the general question of trust, the third sector and the role of the state. First, is it true that third sector providers enjoy greater trust among claimants? Secondly, if so, what is the basis of this? Third, would that situation change with an extension of the involvement of the third sector? If so, in what way? And what other trust-related effects might there be in relation to an increased role for third sector organisations?

The then Minister of State, Margaret Hodge, told the Work and Pensions Select Committee that many clients 'find coming into a Jobcentre Plus office, because it represents authority, quite forbidding' (House of Commons Work and Pensions Committee, 2006). ERSA agreed, saying that 'individuals are often uneasy dealing with Jobcentre Plus officials. These officials are sometimes viewed as 'agents' of the State, put in place to judge, and determine whether or not an individual is actively seeking employment' (House of Commons Work and Pensions Committee, 2006a). They claimed that 'independent' agencies generated trust and were not perceived as threatening by clients.

A joint ERSA/ACEVO memorandum to the Select Committee (House of Commons Work and Pensions Committee, 2006) claims that evidence shows that independent organisations are able to build and sustain greater levels of trust with clients. However the only 'evidence' they cite in support of this assertion does no such thing. They claim that an independent study of the Tomorrow's People provider:

'found that one of the features of its success in gaining positive employment outcomes was "independence from Government—making it easier to win the trust of clients who may be wary of speaking to 'authority-figures'".'

In fact the report (Oxford Economic Forecasting, 2004) to which the ERSA/ACEVO memorandum refers does *not* claim this to be 'one of the features of its success'. The authors of the report write that Tomorrow's People has 'developed a distinctive bespoke approach to helping the unemployed

based on' (among other things) independence from government etc. But beyond this assertion, the report does not contain any evidence that this is one of the 'features of its success'.

The Shaw Trust claims that clients more readily discuss returning to work with 'independent' providers than with Jobcentre Plus staff. Matthew Lester of ERSA told the Committee that the 'trust issue' was associated with the fear of losing benefit and this 'pollutes the whole relationship in those interviews [with Jobcentre Plus staff] because it changes the emphasis and people are potentially at risk of losing their benefits' (House of Commons Work and Pensions Committee, 2006a).

The Wise Group proposed that what was needed in order to gain the trust of clients was 'an intermediary delivery body' (no doubt like itself) which would be 'seen as distinct from statutory institutions such as Jobcentre Plus' (House of Commons Work and Pensions Committee, 2006b). ERSA's evidence implied that the trust enjoyed by 'independent' providers was associated with the fact that they were involved with voluntary programmes (like NDDP and CMP) compared with compulsory interviews with Jobcentre Plus officials. However, this observation did not stop one of ERSA's leading members (the Shaw Trust) from arguing that compulsory Work Focussed Interviews should be contracted out to 'providers other than Jobcentre Plus' (House of Commons Work and Pensions Committee, 2006b).

Not all the 'independent' providers agreed that problems of trust were specific to Jobcentre Plus. Seetec reported that when they first started to deliver NDDP, use of the mass media was effective in attracting claimants. However, they found that 'clients are increasingly less confident about coming forward or afraid of involuntarily losing their benefits' (House of Commons Work and Pensions Committee, 2006c).

If the voluntary sector enjoys a greater degree of public trust than the public sector, what is the basis of this trust? Stephen Cook, editor of *Third Sector* magazine, points out that it is derived from the fact 'that its agenda is separate from that of the state' (Times, 2005). At the very least, as the Select Committee recognised (House of Commons Work and Pensions Committee, 2006a), this raises questions about the extent to which private and voluntary sector organisations should be involved in a planned national programme like Pathways to Work. The continuation of a public trust based on independence from the state obviously rests on the voluntary sector retaining its independence.

Some charitable organisations believe it could be (or already is) under threat as a result of engagement in delivery of public services, especially if the voluntary sector takes on the role of the state in relation to sanctions or regulatory or legal functions. Leonard Cheshire (House of Commons Work and Pensions Committee, 2006c) warned that if charities became involved in administering sanctions they 'could find their core purpose compromised by close involvement in a system that could penalise their client group' and that this would be unacceptable. When asked specifically on this point, Mark Baker, of the RNID, said: 'We would be reluctant to involve ourselves in regulating benefit, and we do not see that as part of our job' (ibid). More broadly on contracting out Jobcentre Plus programmes, Employment Opportunities warned of the need to avoid potential conflicts of interest and drew attention to NCVO's reminder that 'charities must see service delivery as a means to an end, not an end in itself' (House of Commons Work and Pensions Committee, 2006c).

On the other hand, Chris Melvin of the ERSA appeared to see no real problem with any of this, telling the Committee: 'There are already instances where voluntary and private sector providers are making referrals to decision-making appeals' (House of Commons Work and Pensions Committee, 2006b). The Shaw Trust also reportedly has no objection to verifying whether claimants have fulfilled conditions for receipt of benefit. Julian Burnell, Shaw Trust head of public affairs, said: 'It would be up to organisations like us to keep up the dialogue with the Government to ensure the system we end up with is as smart and flexible as possible' (Times, 2005).

There are a number of questions about the suitability of third sector organisations and private companies in general to take on certain areas of work previously carried out by the public sector. It is one thing to have services provided by third sector bodies as an adjunct or supplement to those provided by the state. A range of different and difficult issues are raised if core functions are transferred out, especially if there is a regulatory or legal role attached so that a charity or a private sector company effectively becomes a parastatal organisation. Issues of equity, public accountability and transparency have not been faced by third sector bodies in the same way as the public sector.

CPAG (House of Commons Work and Pensions Committee (2006c) urged caution, and raised this issue of accountability:

'We are especially worried about non-state providers being given the power and the discretion to sanction claimants. Extending delivery through these sectors raises difficult questions around accountability, and the impact that delivery contracts - and the financial motives these create - will have on quality of service.'

This was echoed by the TUC in its evidence when it expressed concern about private sector companies being given 'the power to tell disabled people to apply for a job or lose their benefits - and having an incentive to do so' (House of Commons Work and Pensions Committee, 2006c).

Although the media debate has been dominated by those who wish to extend contracting out of public services, there are many in the voluntary sector who see more risks to charities than opportunities. Charles Secrett, of Friends of the Earth, famously told an NCVO annual conference: 'The point of the sector is to be independent and there is a danger of the watchdogs becoming lapdogs when in partnership with government' (Hill, 2000).

In a survey of its membership the Directory of Social Change (DSC) (Third Sector, 2006d) found that 68% (of 574 respondents) do not think that public service delivery should be a charitable activity. Only 17% said that it was, while 15% thought 'maybe'. Deborah Tyler, DSC chief executive said that debates on the future of the sector were 'being led by government and not us' and that there was a danger of being overwhelmed by the government's agenda. She suggested that the policy positions of the sector's umbrella organisations (like ACEVO) and the Charity Commission were not supported by the sector itself.

The issues of trust and independence affect other aspects of charities' work, including the freedom of manoeuvre around campaigning, the attractiveness of the organisation to future employees and

volunteers, the possibility of over-reliance on state funding, and the dangers to fundraising from the general public.

Even the chair of ACEVO, John Low of RNID (2006) concedes that a shift to a greater emphasis on service delivery will cause a big change in organisational culture, especially in those charities that attracted and motivated employees and volunteers on the basis of a campaigning and advocacy role. Julia Neuberger (2006) has drawn attention to the growing 'professionalisation' of the sector and asked: 'Does this really encourage volunteering?'

Others question whether charities should be involved in the delivery of public services at all and suggest that the sector should be split, separating charities from service delivery trading companies. Luke Fitzherbert of the Directory of Social Change warned that 'Public service delivery on contract by non-profits and mutuals is not what most people understand by charity - the lustre that the word charity enjoys is at risk' (Third Sector, 2006b).

There is a fear that the growth of these contracts will change the dynamics of the voluntary sector. Dawn Austwick, Director of the Esmée Fairbairn Foundation referred to the experience of arts organisations that 'saw their focus move from their missions to the pursuit of money... This threatened to drown out their purpose. We live or die by being independent and open' (Third Sector, 2006c). It will also change the relationship with their client base. Instead of beneficiaries, charities will increasingly have customers.

### ***User and community focus***

Much is made of the third sector's relationship with users. The ACEVO Chief Executive, Stephen Bubb emphasises that 'third sector organisations have a strong user and community focus' and that many have grown out of the concerns and commitments of service users (Bubb, 2006). So we might anticipate finding two features among voluntary sector organisations: imaginative ways of connecting and involving the service users in the service that is provided; and a senior staff profile, workforce and volunteer base that reflects the diversity of society.

### **Involving the users**

We might expect the voluntary sector to use innovative ways of involving service users in the design of services, new ways of measuring their effectiveness and structures and procedures for ensuring a dialogue between the service users and the charity.

The Charity Commission asks all registered charities in its Summary Information Return (SIR) to explain how the charity responds to the needs of the beneficiaries of the charity (the service users) and how they influence the charity's development. Most of the charities examined for this report respond by outlining the services they provide but do not offer much indication of how (or whether) service users influence the charity's development.

For example, the Shaw Trust (Charity Commission, 2005) states that it

...responds to clients' needs through a range of different Employment and Work, Skills and Independence services. These include Health and Social Care services, Young People's services, Vocational Training, Social Enterprises, Workstep and Job Broking. In all cases, the Trust aims to respond to the needs of the individual, and to tailor support accordingly.

Similarly, YMCA Training's response (Charity Commission, 2006) was:

The beneficiaries of our programmes are individuals who meet the eligibility criteria for the programmes and activities which are offered through our 60 community-based locations, many in some of the most deprived communities. In 2004-05 over 8000 participants accessed our services, many of whom had additional learning and social needs which required a high level of personal support to be offered alongside their training to enable them to successfully progress.

Again, the Salvation Army (Charity Commission, 2006e) simply lists features of its work and reports that it 'regularly promotes and participates in research into the changing needs of vulnerable groups in society, the results of which are used to shape its social welfare provision.' Off the Streets and Into Work (OSW) (Charity Commission, 2005c) reports that its homeless and at risk clientele influence the charity's development through 'research, evaluation, focus groups and other participative mechanisms'. Rathbone (Charity Commission, 2006c) uses an annual self assessment of the service provided by the Charity and then 'an annual improvement plan is prepared based on the identified strengths and weaknesses'.

Few appeared to have made a serious effort to create a mechanism that could engage with users. The Papworth Trust (Charity Commission, 2005a) is one that does seem to be attempting to engage with users:

During the year we have developed the role of the User Council within the organisation. The Chairman of the User Council now attends meetings of the Board of Trustees, and service users attend meetings of the Housing Committee and the Progression and Employment Committee. Service users have also contributed to a number of project groups during the year. Our objective over the next year will be to increase the involvement of service users in the review and development of the Trust's activities.

The Trust not only has a User Council but also has three Trustee User Representatives who attend meetings of the Trustees (in a non-voting capacity). Work is also being carried out on developing a User Involvement Charter.

Similarly, DISC (Charity Commission, 2006a) seems to have made efforts to create a mechanism for users to influence its development. It has:

'Service User Involvement Policy and Standards to ensure that such involvement is an integral part of all aspects of service planning and delivery. The Policy requires evidence of consultation with service users and changes made as a result of consultation.'

Mencap (Charity Commission, 2006b) has a National Assembly of over 50 people elected by regional groups. Mencap describes it as having 'a wide cross section of people with a learning disability, family members, carers and local group members'. The Assembly has responsibility for electing 7 out of the 13 trustees and for developing policy.

RNID (Charity Commission, 2005b) identifies a number of ways in which service users and supporters are able to get involved:

- by standing for election as a Trustee or member of an Advisory Group
- by becoming a campaigns network supporter
- by responding to questionnaires and surveys sent out by RNID to canvass views and experiences
- through participation in local and national events run by RNID
- by becoming a member receiving RNID's magazine and other communications and attending the AGM.

RNIB's Byelaws requires that a majority of the trustees, members of the 90 member advisory Assembly and wider membership (which has a role in governance and objective setting) are blind or partially sighted (Charity Commission, 2006d). Since 2002 RNIB has been an organisation of blind and partially sighted people. RNIB also uses 'a range of informal and formal research and evaluation tools, customer feedback and consultation to gauge needs and the extent to which our activities meet those needs.'

Therefore, although some exceptions exist, there is not much evidence of real opportunities for 'voice' as opposed to 'choice' for these third sector service users. To date the public sector has also failed in this regard but at least has the possibility of building upon the safeguard of a political structure of democratic accountability behind the direct provision of services. Of course, the private sector makes no pretence at any obligation to involve service users in the design or running of the service. But even among those charities that identify some attempt to create mechanisms to involve service users, it is not clear just exactly how an individual service user can become involved in the structures. Similarly, there is virtually no information in their published material about how to become a trustee. Consequently it is scarcely surprising that the trustees recruit in their own likeness, leading to the criticism that the sector has a problem in reflecting society's diversity among its trustees (Third Sector, 2006f).

## **Diversity**

Great efforts have been made within the public sector over the last two decades to improve its record on diversity in terms of employment practices and service impacts. Most of this has been driven by the public sector trade unions and some progressive local authorities. There is much that remains to be done but there has been some obvious improvement. The voluntary sector in contrast appears to be lagging behind.

The Public Accounts Committee (House of Commons Committee of Public Accounts, 2006) recently warned that an increased reliance on charities carries a risk that some areas may suffer because 'the voluntary sector may favour middle class communities over the poorest and ethnic communities'. Sir John Gieve, Home Office Permanent Secretary, told the Committee that 'it is

hardest to get voluntary organisations going in the poorest areas'. He commented that it was easier to find volunteers 'in relatively well-to-do areas'.

Helen Goodman, PAC member and former Children's Society head of strategy, explained:

'Voluntary organisations are often in places where there are lots of volunteers, and middle-class women, having more time on their hands, volunteer more. It's not because they care more about the middle classes, but the volunteers are not living in the most dispossessed areas. There's bias in that' (Third Sector, 2006e).

There are also problems relating to diversity among voluntary sector staff. Victor Adebowale, chief executive of Turning Point, has called for an inquiry from NCVO and ACEVO to find out why the sector fails to employ and promote minorities among its workforce (Third Sector, 2006f). This followed a survey by *Third Sector* magazine of the leaders of the top fundraising charities in the UK (Third Sector, 2006g).

*Third Sector* reported a situation in which 'a blind eye is being turned to institutionalised prejudice and the privileged still make the decisions'. Only one chief executive among the top 50 was not white and only one has a disability. None of the disability charities in the top 50 has a disabled chief executive. A third of the chief executives went to public school with a similar proportion (35%) having studied at Oxbridge. *Third Sector* concluded that the typical charity CEO 'is still white, middle-aged and middle class - in many ways, the polar opposite of 'disadvantaged'' (Third Sector, 2006g).

Victor Adebowale said that there are probably more black people working in the City than in the charity sector and that however the situation is described, 'it's racism'. *Third Sector* pointed out that it is not just an issue at the top of charities. They cited a study of charity HR practice by Agenda Consulting that showed that ethnic minority representation among voluntary sector staff in general is 9.6%. However they point out that most large charities are based in London where almost 29% of the population is from ethnic minorities (Third Sector, 2006g).

Some charities like Scope have made efforts to ensure that their workforce is more reflective of the people they aim to represent (17.2% of Scope's workforce is disabled). Andy Rickell, executive director of diversity politics and planning at Scope, says that the 'sector is heavily oriented towards working with people who are discriminated against, so to best understand their needs it helps to have personal experience of discrimination' and 'the sector's workforce should be even more diverse than society as a whole' (Third Sector, 2006g). In a rather circular explanation, Stephen Bubb, ACEVO chief executive, said the problem was due to the make-up of the trustee boards that appoint charity chief executives (Third Sector, 2006f).

## **Transparency**

Jobcentre Plus, like other parts of the public sector is covered by the Freedom of Information legislation. Therefore as well as the political structures of accountability that exist for public sector organisations, there is an additional element of transparency, and hence accountability, provided

by the Act. This enables anyone from a politician or journalist to a member of the public to direct questions to public authorities and receive answers within specific timeframes. Once a service is contracted out – to either a private company or a charitable organisation – this mechanism is removed.

Unless the government specifically names the provider of a service as being covered by the Act, then it is not covered. Therefore questions which can be asked of Jobcentre Plus, and which it is required to answer by law, in relation to the delivery of its services do not have to be answered if the service is delivered by a contractor.

## 6. Third sector performance in employment services: an examination of the evidence

In evidence to the Select Committee, submitted after the publication of the Green Paper, the Shaw Trust confidently predicted that the private and voluntary sectors “will out-perform the back to work rates achieved within existing Pathways pilots” (House of Commons Work and Pensions Committee, 2006a). Much the same claims about the superiority of contractors are repeatedly made by ministers and third sector advocates like the ERSA and ACEVO. The constant recycling of a few headline figures and chunks of sound-bite sized analysis requires a little more probing.

The Green Paper (DWP, 2006) draws attention to three specific examples of use of contractors:

- Employment Zones
- Action Teams
- New Deal for Disabled People

### ***Employment Zones***

The proposal to set up Employment Zones (EZs) was included in the Labour party’s 1997 manifesto. It was seen as a flexible way of targeting resources to those areas with persistently high levels of unemployment despite a national decline in jobless rates (Beale, 2005b).

After running prototypes under existing legislation, the Welfare Reform and Pensions Act 1999 was passed with provision under Section 60 for EZs with greater funding flexibilities. The Government then introduced Employment Zones in April 2000 in 15 parts of the country with particularly high concentrations of long-term unemployed people. Since then their target groups have been expanded to include unemployed individuals aged 25 and over who have been claiming Jobseeker’s Allowance (JSA) for at least 18 months, lone parents in receipt of Income Support (IS), young unemployed people aged 18-24 returning to New Deal, and JSA claimants entitled to early entry to the EZ due to the disadvantages they face in the labour market. (Griffiths et al, 2006).

There are now thirteen EZs - both single and multiple provider Employment Zones. Both types are delivered by contractors, as below.

**Table 7: Single Provider Employment Zones**

Single Provider Employment Zones	Contractor
Brighton	Working Links
Doncaster and Bassetlaw	Reed in Partnership
Heads of the Valleys, Caerphilly and Torfaen	Working Links

Single Provider Employment Zones	Contractor
Middlesbrough, Redcar and Cleveland	Pertemps Employment Alliance
North West Wales	Working Links
Nottingham City	Work directions
Plymouth	Working Links

Source: Beale, E (2005b) Employment and Training Programmes for the Unemployed. Volume II: Other programmes and pilots. House of Commons Library Research Paper 05/62. 30 September 2005.

**Table 8: Multiple Provider Employment Zones**

Multiple Provider Employment Zones	Contractors
Birmingham	Pertemps Employment Alliance Working Links Work directions
Glasgow	Working Links Reed in Partnership The Wise Group
Liverpool and Sefton	Reed in Partnership Pelcombe Training Ltd Pertemps Employment Alliance
Tower Hamlets and Newham	Working Links Pertemps Employment Alliance TNG Workzone
Brent and Haringey	Reed in Partnership Working Links Work directions
Southwark	Reed in Partnership Work directions

Source: Beale, E (2005b) Employment and Training Programmes for the Unemployed. Volume II: Other programmes and pilots. House of Commons Library Research Paper 05/62. 30 September 2005.

The Green Paper (DWP, 2006) asserts (without reference to any evidence) that the EZs 'deliver significantly better job outcomes than for comparable New Deal 25 plus participants.' The ERSA and Working Links make similar claims (House of Commons Work and Pensions Select

Committee, 2006b) referring to a study by Hales et al (2003). In his evidence, John Hutton, Secretary of State, told the Committee that 'in the Employment Zones, for example, the private and voluntary sector providers have a very good track record... I think their performance actually exceeds Jobcentre Plus in a number of very important respects. So there is some evidence there to that effect' (House of Commons Work and Pensions Select Committee, 2006b).

A joint memorandum from ERSA/ACEVO to the Select Committee's hearings on JCP efficiency savings also pressed this point: 'Research shows that 10% more of the long-term unemployed secure work in Employment Zones than under existing provision' (House of Commons Work and Pensions Committee, 2006). Again the research cited was that of Hales et al (2003). A further joint submission from ERSA/ACEVO (House of Commons Work and Pensions Select Committee, 2006b) to the same Select Committee inquiry simply quotes the government's unsupported assertion on EZs contained within the Green Paper as though this is itself 'evidence'.

So although the point about better performing private sector-led EZs is repeated many times by those advocating the extended use of contracting out, the evidential base is rather slim. In relation to EZs it seems to amount to one figure extracted from a substantial study. On closer examination, the evidence from this report is far less conclusive than the impression given by the contractors.

It is worth examining ERSA/ACEVO's focus on the claim that 10% more of the long-term unemployed secure work in Employment Zones than under existing provision. The study certainly found that *at the wave one interviews* 'the estimates were that 460 people (34 per cent) in the Employment Zones had been in work, compared with 330 people if the programme was New Deal 25 Plus. This difference of 130 people was equivalent to 10 percentage points' (Hales et al, 2003). However, by the time of the wave two interviews (7 to 10 months later), there was still a difference for entry to full time jobs, but for all jobs 'the difference was no longer statistically significant' and 'the evidence points to the impact of the two programmes having become more similar as time went on'. In fact the formulation used by the authors is very striking. They say:

Putting together the results for full-time jobs and 'all jobs', we may conclude that the Employment Zones had been at least as effective as New Deal in getting its participants into jobs over the period observed by the study.  
(Hales et al, 2003)

Although the authors conclude that the EZs *were* more effective in helping people into work than had the programme been New Deal 25 Plus, their study is not the hymn of praise to private sector enterprise and innovation that the ERSA seem to think. They argue that the better performance was 'due to a different funding regime which emphasised job entry and which rewarded jobs that were sustained for 13 weeks' (Hales et al, 2003). This tallies with another study of EZs (Griffiths et al, 2005) which reported the complaints of New Deal for Lone Parents (NDLP) advisers that EZs engaged in 'unfair competition' because they had more flexibility and received more money to spend on clients while JCP worked under various budgetary restrictions. The authors also related staff views that EZs' payment by results system encouraged the pressurising of lone parents into inappropriate jobs. An early evaluation of EZs (Hirst et al, 2002) noted the views of (then) Employment Service District Managers towards EZs. Managers envied the flexibilities available to Zone contractors, and pointed out that EZ performance was based on a broader definition of job-entry than was available to them.

Even though 'contestability' in the provision of services is frequently cited as a driver for improved quality of service and innovation, a study of Multiple Provider Employment Zones (Hirst et al, 2006) found no such correlation. According to the authors:

The providers themselves tended to downplay the direct influence of competition on performance and innovation. Most suggested that longer durations in their contracts provided the platform for innovation.

They also reported JCP staff views that the payment system for EZ contractors was flawed and allowed them to 'work with only a small selection of lone parent clients and still achieve a high percentage performance.' Despite the close relationship that private contractors claim with local employers, Hales et al (2003) found 'little difference' in the experience of participants or in the relationship between programme and employers.

Advocates of the superiority of EZs rarely acknowledge that they have been built to a considerable extent on the basis of secondees from the public employment service. Hirst et al (2002) noted that for most Zones secondees provided 'the backbone of staff resources', that their knowledge of administrative and benefit processes and procedures was 'essential' and that there is 'little doubt that the ability to take secondees from ES helped greatly in the vast majority of Zones'.

But it is the conclusion of Hales et al's comparison of EZs and New Deal that is most interesting. They report their view that managers and Personal Advisers in the New Deal comparator areas would have achieved a similar rate of job entry to external EZ providers if they had been 'operating in the Employment Zones with the same financial incentive structure and the same flexibility about responding to the needs of participants' (Hales et al, 2003).

### ***Action Teams for Jobs***

The thinking behind Action Teams for Jobs (ATfJ) has some similarities with Employment Zones. Action Teams focus on long-term unemployed and inactive people in deprived areas with the aim of increasing employment rates among them. They operate in 64 areas of the UK in areas with high unemployment, lowest employment rates and a high proportion of people from ethnic minority backgrounds. ATfJs were announced in the 2000 Budget and started in some areas later that year. ATfJs focus on those furthest away from the labour market facing particular barriers to employment, such as:

- Ex-regulars in Her Majesty's Forces (within the last two years)
- People with health problems
- Ex-offenders
- People with serious and long established drug and alcohol problems
- People lacking basic skills
- Lone parents
- Rough sleepers
- People whose first language is not English, Welsh or Gaelic
- Refugees and asylum seekers

- People with a disability
  - People who have left local authority care homes within the last three years
  - People who have completed Employment Zone or New Deal 25 Plus participation and face the prospect of returning to benefit
  - People who are 50 years old or more
  - Ethnic minorities people who have been jobless for more than 12 months
- (Beale, 2005b)

The Green Paper (DWP, 2006) refers to the work of twenty four Action Teams as an example of the effectiveness of private sector delivery. There are, in fact, sixty four teams currently operating. Of those, forty ATfJs are led by Jobcentre Plus; the other twenty four are led by the private sector (Casebourne et al, 2006). The contrast between the results achieved by the Jobcentre Plus led teams and the Private Sector Led (PSL) teams is striking, especially as PSL teams are consistently held up as delivering higher quality services.

The PSL teams as a whole only met 78 per cent of their job entry targets in year one of Phase 3, compared to the Jobcentre Plus teams, as a whole, who achieved 140 per cent of their job entry targets. This under achievement by the PSL teams and over achievement by Jobcentre Plus teams becomes even clearer when some of the results are disaggregated.

In its evidence to the Work and Pensions Select Committee, ERSA claimed that private and voluntary sector providers were 'particularly effective when dealing with the hardest to help' (House of Commons Work and Pensions Committee, 2006b). Yet the DWP's own research provides evidence to the contrary. Casebourne et al (2006) note:

Jobcentre Plus teams worked with clients from more traditionally 'harder-to-reach' groups than PSL teams, who had a greater proportion of clients that have been unemployed for less than six months and claiming Jobseeker's Allowance (JSA).

Jobcentre Plus teams, as a whole, achieved 76 per cent of their outcomes from non-JSA customers (comfortably over the target of 70 per cent). On the other hand PSL teams, as a whole, achieved only 69 per cent. Teams were required to have no more than 30 per cent of all job entries from JSA claimants. Of the clients that the PSL teams had contact with, 34 per cent were claiming JSA. For Jobcentre Plus led teams, the figure was just 26 per cent of JSA claimants (Casebourne et al, 2006).

Jobcentre Plus led teams had proportionately more clients who had been unemployed for over three years (25% of all contacts) compared with 17% for PSL teams. Jobcentre Plus led teams were also more likely to work with clients with two or more of the target characteristics of disadvantage. 63% of the clients of Jobcentre Plus led teams had two or more of the characteristics against only 45% of PSL teams clients (Casebourne et al, 2006). In particular Jobcentre Plus led teams had proportionately more contact with lone parents or those with health problems than the PSL teams. Jobcentre Plus led teams gained job entries for a higher proportion of Income Support and Incapacity Benefit claimants than PSL teams.

Casebourne et al (2006) point out that those who have been unemployed for a relatively short period 'are likely to be relatively easier and quicker to help place into work, and under the funding arrangements more 'cost effective' to work with, given that a flat rate of £2,000 was paid for each job entry, regardless of the nature of the client.' Conversely those who have been jobless for longer are likely to find it more difficult to return to employment. Perhaps not surprisingly given these facts, the authors note that 'the longer a client had been out of work, the less likely they were to be helped into work by the PSL teams'. The distribution of likelihood of clients being placed in work was more equitable for Jobcentre Plus led teams.

Interestingly, the authors found that PSL teams identified the outcome-related funding system as the reason for their poor performance in helping those most in need: 'it incentivised working with easier-to-help clients, as there was little incentive to help those with multiple barriers'. It encouraged 'cherry picking' to get 'quick wins'. As the authors point out, this works 'against the policy intent of Actions Teams to work with the most disadvantaged' (Casebourne et al, 2006).

### ***New Deal for Disabled People***

The network of New Deal for Disabled People (NDDP) Job Brokers is cited in the Green Paper as another example of the advantages of contracting out to the private and voluntary sector. As its name suggests, the NDDP is targeted specifically at people with disabilities and long-term health problems, especially those receiving incapacity benefit. A range of Job Brokers from the voluntary and private sector deliver the programme.

The Chancellor announced his intention to introduce the scheme in the 1997 Budget and in 1998 the NDDP was brought in on a pilot basis and extended across the country in 2001. The Job Brokers network was introduced in July 2001. Brokers tender for the contract to provide services in a particular area, and in some areas there is more than one option for clients (Beale, 2005).

In evidence to the Select Committee (House of Commons Work and Pensions Committee, 2006b), the ERSA used the experience of the NDDP to argue the case for using the 'independent' sector. They refer to DWP research which they say 'demonstrated that NDDP job brokers had advantages over Jobcentre Plus in being able to spend more time with people, providing a more in-depth service, working more flexibly and being independent of government systems'. They also say that there was some support for this view among Jobcentre Plus. In fact the research to which they refer does not actually say this.

The study (Lewis et al, 2005) is based on interviews with clients, Job Broker staff and Jobcentre Plus staff. It notes that Job Brokers *felt that* they were able to spend more time with clients. By subtly changing the way this is described, ERSA have transformed an opinion held by the Job Brokers into a 'factual' statement from the research team. The study made no such straightforward observation. Moreover, the authors elaborate on this point. Although ERSA report that there was some support for this view among Jobcentre Plus staff, they neglect to add the report's rider that 'not all agreed'. Further, the study reports that although some Jobcentre Plus staff recognised that more time was available to Job Brokers a number also felt that 'that some Job Brokers, keen to maximise numbers of registrations, neglected some of their clients and that some Job Brokers were limited in the time they could give by high caseloads' (Lewis et al, 2005).

The report does suggest that Job Broker organisations have a useful contribution to make, complementing the work of Jobcentre Plus but as only 'one element in a concerted multifaceted strategy'. But the authors also drew attention to some potential problems including the view that Job Broker funding and targets has led them to concentrate more on 'job-ready' clients. They report that 'there is a growing perception among Jobcentre Plus staff that Job Brokers principally, or only, deal with such clients' (Lewis et al, 2005). This runs counter to the claims of ERSA, ACEVO and others that 'independent' providers not only focus on harder-to-help groups but get better results than Jobcentre Plus (House of Commons Work and Pensions Committee, 2006).

Although it is often claimed that contractors bring innovative new approaches, another study of NDDP commissioned by DWP (Corden et al, 2003) is far less emphatic. The authors report that there were conflicting views among those they interviewed (JCP staff, Job Broker staff and clients) and 'little evidence from the research so far to suggest that the NDDP extension had generated innovation in services provided by Job Brokers.' The report went on to note that Job Broker staff seemed to work very much like JCP staff, particularly Disability Employment Advisers (DEAs). They all used techniques like the provision of one-to-one support, vocational guidance, and facilitating training or work experience. Corden et al (2003) explain:

The key point for many DEAs and other Jobcentre Plus staff was that they felt they could provide what Job Brokers were providing if they had sufficient resources of staff and money.

ERSA/ACEVO (House of Commons Work and Pensions Committee, 2006) also highlight NDDP as an example of the effectiveness of using the 'independent' sector compared to Jobcentre Plus. They say that not only has it achieved 'the highest job outcome rate of all New Deal programmes' (60.8%) but is also the most cost-effective. They specifically point at New Deal 50+, described as 'Jobcentre Plus' in house service' as a more expensive (and presumably less effective) option.

Comparing outcomes and costs from different programmes with different budgets, and different conditions aimed at different target groups may not be very productive. As pointed out by Hasluck (2000) in relation to the different New Deal programmes, the 'difference in clients and provision across programmes suggests that comparisons of evaluation results should be treated with caution.'

However it is simply not correct to imply that New Deal 50+ is ineffective. An early evaluation (Atkinson, 2001) found that there was a generally positive assessment from participants and that the job outcomes in the first survey was 63% and in the second, 59%. An analysis of job retention for New Deal 50 plus customers (Grierson, 2002) reported that after the expiry of the Employment Credit, retention 'is high - 84 per cent were off benefits at the 52 week stage, with 77 per cent of customers staying off benefits for the entirety of the 52 weeks.

A later DWP report (Atkinson et al, 2003) found that 80% of a sample of people who had found work through ND50+ were still in work two years later. This is an impressive level of sustained employment and led the authors to comment: 'In comparison with other 'New Deals' and indeed with active labour market programmes generally, this seems to be a very high proportion.' Even the OECD (2004) noted the effectiveness of ND50+ and said that the UK 'should be commended'.

An NAO study (2002) of the effectiveness of another New Deal programme – one that delivered by both contractors and in-house provision is a more appropriate place to examine the differential performance. In 2002 the NAO produced a report on the New Deal for Young People. Most 'Units of Delivery' were led by the then Employment Service, but ten were led by private sector organisations. The NAO reported:

We examined the relationship between Units' status in this regard and performance. We found no significant difference in performance between the Employment Service led Units and private sector led Units.

(NAO, 2002)

### ***ERSA/ACEVO's additional evidence in support of contracting out***

In their joint memorandum to the Select Committee (House of Commons Work and Pensions Committee, 2006), ERSA/ACEVO cite several examples that they say 'shows that independent providers are producing better results and better value for money than existing statutory providers'. They use figures from Tomorrow's People, Inbiz, the Employment Zones, Working Links, New Deal, and TNG.

However, there is precious little independent analysis involved here and a great deal of 'having your cake and eating it'. The ERSA/ACEVO evidence refers to some programmes as examples of poor value for money when it suits and then in a different context, does exactly the opposite. For instance, they refer to a 'twenty year evaluation' on Tomorrow's People commissioned by the organisation and carried out by Oxford Economic Forecasting (2004). ERSA/ACEVO approvingly quote the report's claim that on average, '90% of clients are still in work three months later, compared to 79% on New Deal' and that the gross cost per job 'created' by Tomorrow's People is much less compared to New Deal. They might have added that the report makes the same broad claim in relation to Employment Zones.

A few paragraphs further on, ERSA/ACEVO are lauding the efforts of third sector providers of New Deal and Employment Zone programmes. So it seems that they are value for money when delivered by the third sector but not when delivered by in-house teams, which is clearly not the case as shown in earlier sections of this paper.

The outcomes claimed for Tomorrow's People are based on the 382,000 people they report they have helped since 1984. This figure is an OEF estimate based on audited outcome figures from the Annual Report and Financial Statements over a six year period (1998-04) and 'Tomorrow's People estimates of the number of people helped over the 1984-98 period' (Oxford Economic Forecasting, 2004). No breakdown of the population profile is provided in terms of the characteristics of disadvantage, and it is not clear over what period the comparator figure for New Deal outcomes covers, nor even whether this figure is intended to be across all of the different New Deal programmes or not. The ERSA/ACEVO evidence includes a calculation about how much society gains through the placing into work of each of Tomorrow's People's clients. But such a calculation could be made for every single job placement organisation including Jobcentre Plus. The rest of

the 'evidence' provided by ERSA/ACEVO consists almost entirely of a simple recitation of the number of outcomes, calculations of the benefit to society and claims about the proportion of successes based on companies' internal statistics (e.g. Inbiz, Working Links, TNG).

## 7. Conclusion

Although great claims are made for the third sector in terms of superior performance, better results in job placement and value for money compared with in-house provision, the evidence for this is rather thin. Just how thin can be gauged by the fact that whenever such claims are made, the same limited set of references appear.

It is simply not true that the third sector has a consistently better record in the provision of employment services than in-house staff. Wherever Jobcentre Plus staff have been allowed the same flexibilities and funding as private sector companies or charitable organisations they have been able to compete with, if not surpass, the performance of contractors.

However, there are other issues which should be taken into account by the government before it makes any decision about wholesale contracting out of JCP functions. There are serious questions about the capacity of the third sector to cope with a large scale increase in contracting out and questions of whether this would be appropriate even if the capacity exists.

Voluntary organisations and, even more so, profit-oriented companies are poor vehicles for core functions of the state. A transfer of such functions from the state raises vital issues of accountability. It also has the potential to damage those voluntary organisations that rely on an independence from the state.

It is a mistake to conflate the private sector in with the not-for-profit sector and charities. They are not the same and have different motivations and objectives. It is also a mistake to conflate locally-based, membership-led community groups with large multi-million pound charities that operate at a national or even an international level. Regardless of the good work done by both, they are not the same, either in terms of their relationship with the local community or closeness to their client group. The not-for-profit organisations and charities (especially those with specialist expertise) can and do play an important role in supplementing the role of the state. But they should not be confused with the state.

The data that does exist suggests that, given the right support, funding and flexibility, the in-house provision could make further progress in assisting people back to work. The assessment of the Pathways pilots is generally positive from almost every source: the DWP (2006), research commissioned by the department (Blyth, 2006; Barnes, H and Hudson, M, 2006), the IMF (2005), the OECD (2005), even, in a rather grudging way, the ERSA (House of Commons Work and Pensions Committee, 2006b).

Both the in-house teams who have delivered such a successful pilot and the clients, who need the assistance, deserve the opportunity to see the Pathways programme extended to the rest of the country using the expertise and experience of JCP staff. The government needs to draw the lessons of the experience to date and provide a much needed vote of confidence in its own staff by defending and extending Britain's public employment service.

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