

## The intermediate labour market

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Moving people from long-term unemployment to sustained work is one of the main challenges facing policy-makers and practitioners in Britain today. The intermediate labour market (ILM) model of waged work in specially created temporary jobs is one tool being used to achieve this. Bob Marshall and Richard Macfarlane have looked at the scale and range of ILMs in operation, what works and why, and value for money issues. The study found:

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- f** There has been a rapid growth in the use of ILM programmes throughout Britain as way of tackling long-term unemployment.
- f** Properly managed, they can deliver better outcomes, in particular, a more sustained progression from welfare to work than other programmes for the long-term unemployed.
- f** Although getting long-term unemployed people back into work is the main objective of three-quarters of ILM programmes, many also provide additional local services and therefore contribute to neighbourhood regeneration.
- f** Setting up and managing ILMs requires strong local partnerships and lead bodies, the development of a robust delivery infrastructure and skilled and capable managers.
- f** The main problems facing those setting up and operating ILM programmes is the complexity associated with funding packages and monitoring requirements and the absence of secure funding sources.
- f** Compared with other labour market initiatives for the same target group, ILM programmes offer equivalent or better value for money after adjustments are made for the value of the services provided, the higher job placement and durability of employment rates and the higher incomes gained.

## Background

In recent years intermediate labour market programmes (ILMs) have been developed as a method of tackling long-term unemployment and promoting community-based regeneration. Originating in Glasgow, this growth has been stimulated by Government programmes such as the New Deal and the search for programmes which offer high quality and value for money. ILMs are complex and require a multi-agency approach. This report examines the factors behind setting them up, their management and funding, and the results they can achieve. It also looks at the role they can play in achieving local and national labour market objectives.

## What is an ILM ?

- The main aim is to give those who are most removed from the labour market a *bridge back to the world of work* by improving participants' general employability.
- The core feature is *paid work on a temporary contract* (often up to 12 months), together with training, personal development and job search activities.
- In order to limit the risk of replacing 'real' jobs, the work is in additional economic activities, ideally of community benefit.
- Projects and programmes rely on packages of funding from various sources (e.g. New Deal, European Social Fund, local regeneration funds and project earnings).

## The rationale for the ILM approach

Some people are so far removed from the mainstream labour market that they do not participate in it and have little influence on it (e.g. wage inflation). Employers tend to recruit those who have been out of work for a short time or who are new to the labour market. The objective of the ILM is to provide a parallel (intermediate) labour market where the long-term unemployed can gain 'employability skills' to compete effectively for mainstream employment.

Within this general rationale, ILM programmes typically aim to do one or more of the following:

- *Maximise 'insertion' into the labour market*: there is evidence that merely finding a job in the mainstream labour market will not guarantee long-term employment. ILM operators argue that it can take six to nine months or more for 'employability skills' to become embedded. This suggests that a comprehensive 're-engagement package' covering work experience, training and confidence building, is more effective in achieving sustainable employment than a minimal approach.
- *Fill the jobs gap* where there is still a relative shortage of suitable jobs: here the role of an ILM programme may be to keep people employable and avoid increasing levels of social exclusion.

- *Contribute to local regeneration* through work which would not otherwise have been done or which can add value to projects or services.

## ILM programmes in Britain

The study identified 5,300 ILM places (jobs) in the 65 operating programmes, involving around 9,000 people per year (the bulk of those operating in Britain). There are clusters of activity in the big cities and older industrial areas of the North, Midlands and Scotland. Activities include environmental work, childcare, town centre guides, IT services, sports and community work. Seven out of ten places are for 18- to 25-year-olds. Both vocational training (to level 2 and above) and basic skills training are provided, together with childcare and benefits advice.

The most significant operational problem experienced by current programmes is the lack of secure and regular funding. Administration of the paperwork associated with funding is the second main problem. Both distract ILM operators from the programmes' primary objectives.

## Setting up an ILM

The study identified four key factors for establishing a successful ILM: developing a robust partnership, gaining the support of a lead body, establishing a delivery infrastructure and appointing high quality managers.

There are two main 'models':

- a single organisation accesses the funding, employs the management, administrative and supervisory staff, employs the ILM workers and carries out the work (e.g. the Wise Group);
- a central organisation develops the programme, accesses the funding, employs some core staff, and then contracts out the delivery (and employment of the ILM workers) to a range of other organisations in the community (e.g. Glasgow Worlds).

## What works and why?

The following appear to be the main requirements for a successful programme:

- Establishing clear objectives: the primary purpose is progression into jobs and where the focus is too much on the delivery of services to the community difficulties can arise.
- Creating a model which best meets the local aims and context, and then fitting the funding to it, rather than merely delivering Government programmes.
- Designing the project activity and its location specifically for the target group, as the project type determines who is attracted to it.
- Keeping as close as possible to real labour market conditions.
- Treating ILM workers as normal employees from

day one, with managers exercising normal work disciplines.

- Keeping participation voluntary. Furthermore, ILM managers are employers and must have the final say on who gets recruited.
- Maintaining flexibility about training and a focus on transferable skills; this is more likely to keep participants motivated and to lead to sustained employment.
- Paying wages, at a level which relates to local market rates, appears to have a significant influence on retention, motivation and progression of participants – any decision to not use wages should be carefully considered.
- Making jobsearch an integral part of the process, not just something left to the end.
- Being realistic about the amount of paperwork involved: data collection systems need to be in place from the start and incentives created to track job outcomes.
- Establishing measurable performance criteria for contracts: they should be clear about when reviews will take place, how and when a programme will be judged, and what outcomes are expected.

### Funding ILMs and achieving sustainability

There is no single funding source for an ILM programme. Operators need to be creative and package together different sources. The survey found that most programmes used resources from at least three of the following:

- Government training and employment programmes, such as New Deal;
- European structural funds;
- Regeneration funds;
- Service delivery funds, i.e. payment or grants related to the work being done.

Seventy per cent of programmes used a mixture of New Deal and European funding.

All ILM programmes are fragile because of this financial instability. In addition, developing both markets and the capacity to deliver well in order to obtain service-related income also takes time. The complexity of funding and administration, and differing audit requirements, can deter organisations wishing to set up ILMs.

The main problem experienced by ILM operators is securing year-on-year funding; resolving this was the main improvement operators wanted to see. Respondents felt that an ideal range of ILM funding sources would include:

- A core commitment from a local body which wishes to run the project and provide the service, e.g. voluntary body or local authority;
- The inclusion of ILMs in the Single Regeneration Budget and other regeneration programmes;

- Projects which have the potential to bring in revenue or contract income (sales of recycled goods, childcare fees from Tax Credits);

### Value for money

ILMs are only one of several approaches that aim to tackle long-term unemployment, and so the study looked at their relative performance.

The average cost of an ILM place found in the study was £14,000 per year. However, this needs to be adjusted by deducting the value of the services they provide to make the cost comparable with other approaches to helping the same target group back to work (eg projects which provide only training or advice). This makes the costs of the employment-related elements comparable. When the value of the services provided is taken into account, the value for money of ILMs is greater because of better outcomes achieved.

In established ILM programmes, around 20-30 per cent of people drop out before completing the contact period and without having other employment to go to. This compares with up to 50 per cent in comparison groups in adult training programmes and New Deal.

Independent evaluations indicate ILM participants can achieve over 60 per cent leaving to a job. The average for all programmes in this study (for 1998/99) was 49 per cent and the expected level for 1999/00 was 53 per cent. For comparable target groups, other programmes achieve below 40 per cent.

The most significant achievement is durability of employment. Where participants have been followed up, over 90 per cent who gain a job are still in work after 6 months compared with less than 40 per cent in other programmes.

The longer term earnings of an ILM participant have been shown to be higher (by about £1,500 per year) than the earnings of leavers from comparable programmes.

### The ILM role in labour market policy

Intermediate labour market programmes embody some of the best practice of the 'work first' and 'intermediary' approaches being considered by the Government. They can reduce the less successful features of these approaches as evidenced from the US – namely poor job durability and limited long-term income growth. However, in the past some labour market commentators have questioned the role of an ILM programme. This study examined some of these concerns.

- *ILMs keep people away from the active labour market to their detriment. This is not supported; the evidence shows a strong correlation between time spent on the ILM programme, a high job entry rate, and the durability of subsequent employment.*
- *the complexity and sustainability of the funding package and the possible lack of local capacity to manage this.*

The study found that many ILM programmes are being run with the involvement of local authorities or TECs/LECs which do have the capacity to manage multi-funded programmes. Much of the complexity could be simplified by the Government itself by putting together a suitable funding package and reducing paperwork, with more emphasis on monitoring performance rather than process.

- *whether the outcomes will be sustained if the programmes are expanded to cover more people within an area or many more areas.* The evidence from this study is that ILMs offer added value when working with the longer-term unemployed or people who are otherwise 'excluded', and are best used as part of a range of measures. However, there is no evidence that the largest programmes suffer from lower performance or a loss of quality.

### Conclusion

The researchers conclude that ILM projects can play a significant role in:

- enabling long-term unemployed people to obtain the motivation, skills and work experience they need in order to work their way *permanently* out of welfare and into work.
- delivering new local services, or adding value to existing services provided by the public or private sectors.

The ILM approach is just one of several tools in labour market policy and local regeneration. The study suggests that their development might be encouraged if policies emphasise the added value of the ILM approach in community regeneration, social enterprise development, housing stock transfers, crime prevention, childcare, health promotion, and other social policy and funding strategies.

The study also suggests the following general lessons for welfare to work programmes:

- they need to be well targeted to achieve greatest added value;
- there should be a focus on durability of employment and income progression and not just on a quick move on to a job;
- the capacity to deliver well can take time to develop and resources to build this capacity in local organisations should be incorporated into the funding of programmes;
- there should be a common framework built in from the beginning for the tracking and evaluation of the long-term impacts for the participants.

### About the study

The research was carried out in England, Scotland and Wales between October 1999 and March 2000. It included a questionnaire survey of 65 ILM programmes and 11 case studies reflecting a cross-section of the current activity. The research was carried out by Bob Marshall who has experience in setting up and managing ILM and other labour market programmes with support from Richard Macfarlane, a consultant in local economic development. The survey work was administered by Community Consultants Ltd.

### How to get further information

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The full report, **The intermediate labour market: A tool for tackling long-term unemployment** by Bob Marshall and Richard Macfarlane, is published for the Foundation by YPS (ISBN 1 902633 78 4, price £13.95).