

# Buying quality performance

Procuring effective employment services

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# 1. Introduction

WorkDirections, as part of the international Ingeus Group of companies, successfully delivers welfare-to-work services in the United Kingdom, Australia, France, and Germany. In each country, we have experienced how the quality of the service delivered to the individual client (and so to the central government purchaser) is affected by the quality of the procurement process. We have seen examples of good practice in all countries, as well as areas where we feel there is significant room for greater effectiveness, better value for money and improved client services.

In this paper we have drawn on our experience to identify the features of good procurement practice. This experience comes from the expertise of our staff, who have worked on both sides of the contracting process, and is supported by the many discussions we have had with our partners in the public employment services and government departments.

We also propose a new funding model - the target accelerator - that combines incentives for engagement with a strong outcome focus.

It is clear that a central part of the Government's drive towards increasing efficiency needs to be what the National Audit Office (2005) has described as a 'careful appraisal' of the way in which commissioning, tendering, contracting, contract management and quality inspections are undertaken.

In the United Kingdom, there is a mixed economy in the delivery of employment services to those without work. In addition to service delivery by Jobcentre Plus, there is also a significant amount of outsourced activity. In his evidence to the Work and Pensions Select Committee in November 2005, the Secretary of State, John Hutton, stated that this amounts to £1bn a year. In addition to this, the operating costs for Jobcentre Plus in 2004-05 were just over £3bn.

This paper is not concerned with whether more provision should be contracted out, or indeed the arguments for and against greater involvement of the private and voluntary sectors in the administration and/or delivery of services. Instead, it looks at how commissioning and contracting in this sector could be enhanced, so that providers are better able to deliver both good quality services to individuals, and value for money for the Government and taxpayer.

Procurement practice and subsequent contract management define the effectiveness and efficiency of all outsourced provision since they define or impact on the content; approach; resources; location; linkages with partners or other external parties; relationship with employers; use of sub-contracting; access to specialist support; and so on. All of these characteristics of the programme design and delivery combine to determine its performance and its quality. This impact may be direct, for example in tight prescription of programme elements, or indirect, for example, when funding is linked to 'distance travelled' or destinations reached. Where the funding goes, the focus and the behaviour follow. The level of funding, similarly, limits or delimits programme parameters such as caseload sizes.

We start from the viewpoint, substantiated by our international experience, that both performance and quality are enhanced when the funding is unequivocally linked to sustainable employment outcomes. We go further to suggest that funding might be used to facilitate progression within employment as well as sustainability. This is based on a fundamental assumption about the purpose of an employment service for someone who is unemployed; that the needs of the service user are only fully met when they have secured a lasting employment solution, and through that a sustainable livelihood.

## 2. Funding quality performance

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### Funding outcomes

Effective procurement requires there to be an unambiguous direct correlation between the programme objective and what is actually purchased. Without this, value for money cannot be achieved, even in low-cost programmes. Yet there are numerous employment-focused contracts created that purchase and reward other, non-employment-related, outcomes, including programme starts, milestone payments and qualifications, even when no sustained job is achieved. In fact, some programmes incentivise providers to maintain clients' current status whilst working towards a qualification, rather than moving them into employment opportunities that might arise in the meantime; or even to refer a fixed percentage of clients to local community organisations, whether this addresses individual need or not.

Outcome funding is essential to ensure that the clear, principal objective of the programme - moving more individuals into sustainable employment - is delivered. Linking funding to attendance, programme completion or even qualifications de-emphasises the objective of the service. This change of emphasis impacts on programme design and the behaviour of service providers. It makes assumptions and generalisations about the needs of individuals, for each of whom the route to employment (or to better/different employment) will be unique. In so doing, it decreases the chances of someone gaining and keeping employment. Outcome funding, through a single stream, has the potential to result in a better integration of services by driving providers to influence associated local service delivery in order to deliver the required employment objective. Linking core funding to actual job outcomes, as opposed to processes or pre-determined service models, mitigates against duplication and unnecessary delays. Focusing on outcomes drives flexible provision that is better able to respond to individual needs, removing the need to apply universally a process which might, at worst, discriminate against some participants.

As long ago as 1992 the Audit Commission noted that 'the focus in future must be on each individual's needs and the flexible deployment of services from a range of agencies to tackle them'. This theme is repeated a decade later in the Social Exclusion Unit report, 'Improving Services, Improving Lives', which underlines the challenge of needing to tailor services to an increasingly diverse range of needs. The Secretary of State for Work and Pensions, John Hutton, has also identified the issue of funding silos as one that he perceives to require attention<sup>1</sup> and the city consortia concept outlined in the Welfare Reform Green Paper offers an insight into one of the ways in which this could be practically addressed.<sup>2</sup>

Yet, for many individuals, the result of attempts at increasing flexibility has not been access to a holistic solution, but rather a requirement to navigate a number of different, disparate agencies and programmes to build up the required support 'package'. A significant reason for this fragmentation is the method by which services are procured – usually in the form of discrete entities. For those people looking to move from welfare into work there exists a multitude of options – access to many of which is dependent on postcode, the type of benefit they are receiving, the length of unemployment, or meeting other specified criteria. The systems are often designed to meet the process needs of the bureaucracy rather than the actual needs of the potential beneficiary. The result for many individuals is often a combination of repetition and delay.

*1 - See answers to Work and Pensions Select Committee (23 November 2005).*

*2 - Our concerns regarding the potential pitfalls of such an approach are outlined in our response to the Green Paper.*

## Funding quality performance

Figure 1 identifies just some of the programmes recently being funded to support those on welfare into work. In every Jobcentre Plus District there are others funded by Local Authorities, the Learning and Skills Council, and the Local Development Agencies among others.

**Figure 1: Some of the key employment programmes in operation in the UK**

Programme	Eligibility criteria include	National coverage	Annual budget
New Deal 18-24	<ul style="list-style-type: none"> <li>Aged 18-24 and have had a continuous claim to Jobseeker's Allowance (JSA) for six months or more</li> </ul>	Yes	£433m (2004-05)
New Deal 25+	<ul style="list-style-type: none"> <li>Aged 25+ and have had a continuous claim to JSA for 18 months or have been claiming JSA for 18 out of 21 months</li> </ul>	Yes	
New Deal for Disabled People	<ul style="list-style-type: none"> <li>Incapacity Benefit (IB)</li> <li>Severe Disablement Allowance (SDA)</li> <li>Income Support (IS) including a Disability Premium</li> </ul>	Yes	£65m (2004-05)
Employment Zones	<ul style="list-style-type: none"> <li>Aged 25+: claiming JSA and have been getting JSA for 18 months out of the last 21 months</li> <li>Aged 18-24: previously finished a period of New Deal for Young People provision and have been getting JSA continuously for at least six months without breaks totalling more than 28 days</li> <li>There are additionally early entry criteria</li> </ul>	No - initially 15, now 13 'Zones'	£79m (2003-04) Now increased with extended client groups
Action Teams for Jobs	<ul style="list-style-type: none"> <li>Living in one of the selected wards, and claiming IS, IB or JSA, or in a specified other economically inactive group</li> </ul>	No - in 65 targeted areas of disadvantage/unemployment (ends summer 2006)	£6.8m (2004-05)
Working Neighbourhood Pilots	<ul style="list-style-type: none"> <li>Living in one of the selected postcodes, aged between 18 and 60 and economically inactive or IS, IB or JSA</li> </ul>	No - in 12 areas (ended April 2006)	£38.5m (2005-06)
Pathways to Work	<ul style="list-style-type: none"> <li>Incapacity benefits (IB, SDA and IS on the grounds of Incapacity)</li> </ul>	No - currently in 14 pilot areas. Will be in one-third of the country by October 2006	£166m (2007-08)
New Deal for Lone Parents	<ul style="list-style-type: none"> <li>For those bringing up children as a lone parent, if the youngest child is under 16 years old and the parent is workless, or working fewer than 16 hours per week</li> </ul>	Yes - in Employment Zone areas this is also delivered by the Zone providers	£24.5m (2004-05) This excludes services accessed by lone parents through Employment Zones
Employment Retention and Advancement (ERA)	<ul style="list-style-type: none"> <li>Eligible for New Deal 25+</li> <li>Lone parent claiming IS who volunteers for New Deal for Lone Parents</li> <li>Lone parent on Working Tax Credits who works fewer than 30 hours per week</li> </ul>	No - in six Jobcentre Plus Districts, which cover about 6% of the population. ERA is a demonstration project which ends in December 2007	Not publicly released. An early paper on the design of ERA estimated costs might be around £61-70m for the full three years of the project <sup>3</sup>



This surfeit of pilots and programmes is each procured differently - with different funding regimes reflecting different performance expectations - yet they all form part of the same policy objective: to ensure a movement from benefits into independence and work. A lack of clarity over the best way in which to purchase this objective can lead to unexpected and even perverse results.

The quality of the service delivered, measured by sustainable outcomes, varies significantly by programme and by area. In some places it also varies between client groups. Of particular concern are the different levels of success achieved by different ethnic groups accessing the same programme. There are some significant differences in the levels of 'ethnic parity'<sup>4</sup> achieved by different programmes and providers and the reasons for and implications of this are explored more fully in a paper to be published by WorkDirections UK later in 2006.

If the reward structure is designed appropriately, outcome-based funding of employment programmes can facilitate a significant increase in performance and allow the risk of service delivery to be passed effectively from public procurer to outsourced provider.

## Employment Zones

It is generally recognised that Employment Zones provide an example of global best practice in procurement, with the risk/reward balance creating more opportunities for long-term unemployed participants. Funding is linked to outcomes – both sustainable employment and the speed with which results are delivered. Their success, in difficult areas, has been recognised by independent research (Hales et al, 2003) and cited in government publications including the 2003 Strategy Unit report on improving employment opportunities for ethnic minorities, the 2006 Welfare Reform Green Paper, and the 2005 Pre-Budget Report, which states: 'Independent evaluation of the first wave of Employment Zones showed that job outcomes were 10 percentage points better than outcomes for comparable participants in the New Deal for Adults'. The Employment Zone funding model is summarised in Appendix three.

There have been attempts to roll out the widely accepted benefits that have been brought about by the flexibilities inherent in the Employment Zones' contracting strategy, and replicate them within public employment service delivery. This has occurred most notably in Building on New Deal (2004) and the New Deal Prime Contractor (2005) models. However, from the information currently available on these two approaches, it seems they will end up attempting to create flexibility through a modular programme rather than facilitate an environment which allows support to be individually and holistically tailored. Along with the prescription of the modules comes, instead, inflexibility, fragmentation and generalisation about participant needs.

Employment Zones work best by moving away from this approach in order to harness better the innovation of outsourced delivery. Providers are presented with the challenge of ensuring sustainable employment outcomes for groups some distance from the labour market, and asked to devise and invest in solutions. There are significant financial risks to the provider should they fail to do so, and commensurate financial rewards if they succeed. Importantly, the financial rewards are linked to the two key policy drivers: a return to sustainable work, which is achieved in the shortest possible time.

*4 - The concept of 'ethnic parity' looks at the relative levels of programme success achieved by ethnic minority clients, compared to that achieved by white clients. It is calculated as the ratio of: the proportion of ethnic minority programme leavers who enter jobs to the proportion of white programme leavers who enter jobs. This measure was used by Jobcentre Plus as Key Indicator 3 for assessing New Deal 25+ and New Deal 18-24.*

## Funding quality performance

The flexibility available to providers of Employment Zones has led to better performance and a number of innovations in delivery. This can be seen very obviously in the physical design and location of most Employment Zone operations. It is also evident in the development of a variety of specialist advisory roles to supplement the generalist employment advisor, including recruitment consultants; in-work advisors; outreach advisors; and Jobcentre Plus liaison advisors. For example, Employment Zone flexibility has seen the embedding of clinical psychologists into WorkDirections' advisory teams.

The Employment Zones have also benefited from the widespread and creative use by advisors of monies available for discretionary spend, originally known as the Personal Job Account. Indeed, the benefits of this were perceived to be such that the Advisor Discretionary Fund (ADF) was adopted by Jobcentre Plus. However, the ADF was introduced in Jobcentres with a maximum value (of £300). This quickly became viewed as an entitlement rather than an optional, additional support and some local services, such as childcare nurseries requiring deposits, subsequently started charging just under the maximum available. It was announced in May 2005 that the ADF would be reduced to £100. The success of discretionary spend in Employment Zones resides in the flexibility that enables advisors to tailor and purchase support for participants according to their varying levels of need.

In Australia, the Job Network was initially contracted in such a way that there was significant provider discretion in terms of delivery. However, each new contract (currently the fourth such contract is in place) has seen the inclusion of additional levels of prescription. Indeed, in the last year, there has been an attempt to prescribe to providers how they should use discretionary funding for clients. It is our observation that this has had a negative impact on both service delivery and potential performance. It limits the amount of innovation the private and voluntary sectors can bring through removing the elements of discretion they have at their disposal.

### Specialist provision to meet specific need

Though core funding must, whenever possible, be linked directly to programme objectives, ie to employment outcomes, it is possible that achievement of certain 'milestones' might attract funding on peripheral specialist programmes which are aimed at people who are furthest from the labour market. However, distance from the labour market is not always as easy to categorise as it may at first seem; it is as reliant on the ability to address need as the nature of the need itself. If affordable, flexible, accessible childcare is available, for example, the lone parent is immediately closer to work. If suitable accommodation can be accessed, the homeless job seeker is no longer so hard to help, and can become easier to help than the highly literate, well-dressed person with an MBA, a large mortgage and unrealistic expectations.

Additionally, the characteristics often associated with individuals who have been identified as the 'hardest-to-help', such as mental ill-health or substance misuse, may be fluctuating conditions. They may be constraints, as opposed to barriers, which the person can learn to cope with in work rather than out of it.

Organisations that have the expertise to address specific issues may not, and perhaps should not, necessarily have expertise in 'employability'; attempting to bolt employability onto their specialist intervention may in fact dilute the effectiveness of their service. However, in order for the core programme to be contracted effectively, with funding directly linked to employment outcomes for all participants, there should be sufficient flexibility for the provider to purchase potentially expensive specialist support as determined by need; crucially, as determined by individual need.



As sub-contracts under an umbrella programme that has employment as an overarching objective, their specialist piece of the jigsaw can be delivered without distraction. Cost savings secured by the main provider in assisting people whose needs are not as complex frees up extra funding to cover the higher expense of targeted specialist interventions.

## **Sustainable livelihoods**

Employment is a necessary and obvious objective of an 'employability service'. It is important to note, however, that it is often not a sufficient sole outcome. For example, if someone moves from unemployment into an insecure entry-level job at minimum wage, the health benefits are marginal and equivocal, as Michael Marmot (2004) has demonstrated in some detail. This is in great part because their degrees of independence and autonomy remain limited. There is a significant probability that they will move backwards and forwards between entry-level employment and state benefits.

Unless the funding model drives employment outcomes, it fails to deliver on its fundamental objective. Once that outcome is secured, the key question that follows is how the funding model can ensure the procurement of sustainable employment so that 'cycling' from benefits to low-paid work and back is avoided. Procuring sustainable employment is discussed in more detail in section three.

## **Framework partnership agreements**

Procurement and contract management roles have until now been viewed as entirely separate by the UK's public employment service. There are inherent dangers in this division; of primary concern is the rigidity this perspective creates. Good quality procurement does not begin and end with the tendering process, it is also intricately involved with the implementation and delivery that follow. Contracts, the organisations delivering them, and the people managing them, need to be able to adapt to changes that invariably occur. Contract managers generally have little contact with those involved in policy creation and therefore see no issue with enforcing the letter of the contract, even if this turns out to be at odds with the original policy intent. This becomes increasingly important as the length of time covered by the contract increases.

WorkDirections suggests that a better approach to commissioning outsourced employment services is the creation of long-term (up to 10-year) framework partnership agreements based around agreed outcomes to which funding is attached. An example would be moving a specified proportion of the claimant population into employment. Within these agreements, delivery detail could be altered through discussion between the procurer and provider, working in partnership, without recourse to the expense of re-contracting.

This approach is based on the recognition that both the purchaser and provider share a responsibility to identify and implement solutions as part of an ongoing strategic relationship, and a commitment to the best possible outcomes for individuals accessing services. This encourages both partners to continue to drive towards improved performance, identify best practice, and jointly invest in innovation.

It is imperative that provision is able to adapt as required to meet the changing needs of both the labour market and the individuals accessing programmes. There has been a significant shift in the emphasis placed on different client groups over the last eight years, as lone parents and those on incapacity benefits have been placed increasingly at the forefront of discussions about employment programmes and welfare reform. The bulk of the current contracting regime does not have the flexibility to respond to this shift and change its target 'audience', to move from engagement with mandated clients to recruitment of voluntary participants, and to evolve new service delivery models encompassing new ranges of need.

## Funding quality performance

### Employers

A key question is how the role of employers fits with mechanisms to procure performance. In Australia, there have been attempts to procure vacancies through the Job Network, but a number of concerns have arisen about the congruence of the vacancies identified with the needs of the job seekers, and the effectiveness of mechanical matching processes in delivering sustainable outcomes.

In the UK, qualitative evaluation of demand-led employment programmes has tended to be positive, yet quantitative research less so (either in terms of numbers into work or value for money/cost per outcome). There are numerous examples of both national and local demand-led programmes which have been disbanded within relatively short time frames, such as the Ambition programme. It could be argued that this is indicative of the need to procure the wider goal – sustainable employment – rather than the methodology. Demand-led programmes are an option available to providers, and there is a reasonable international evidence base to support best practice in the design of these should they be regarded by providers as a credible part of the solution.

However, if the principal client of the programme is switched, and becomes the employer rather than the potential employee, this affects the entire shape and emphasis of the service. A demand-led programme works best when the people taking part have been screened for their interest and commitment to that line of employment. Allowing, on the other hand, the programme to become driven by demand from employers for people to take up otherwise hard-to-fill vacancies entails squeezing job seekers into roles that often do not match their motivation or skills. Such employment outcomes are rarely long-lasting.

Employers, on the whole, do not want to employ 'unemployed people'. They want people who want to work, who are dependable, and whom they can possibly develop in a role. Their concern over social responsibility extends only to the bottom line. The supermarket which recruits from the local housing estate does so because it has a recruitment need and creating a sense of local community 'ownership' increases its customer base. The airport which subsidises train travel in order to link with a relatively distant deprived neighbourhood does so because there is no local workforce to tap into. These motivations are not, of course, mutually exclusive, but employers may not initially see it that way.

Job seekers, on the other hand, do not want ring-fenced, protected employment opportunities which are not 'real' work and which simply emphasise their worthlessness and lack of independence. Many of our job seekers at WorkDirections do not want their future employer to know they have been attending a special pre-employment programme.

An effective employment programme which is procured to deliver sustainable employment outcomes will, of course, take account of local labour market conditions and help job seekers prepare for jobs which actually exist. But the relationship of this programme with employers will be through the job seekers or, if direct, on behalf of the job seekers, as a kind of sales representative marketing the clients and their potential.

# 3. Progressive sustainability

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A focus on sustainable employment and the provision of post-placement support are best practice within the welfare-to-work industry. Despite this, there are still significant numbers of people ‘cycling’ through employment programmes, low-paid work and periods of unemployment. This raises a number of issues, including the necessity of measuring retention for longer. In the UK, the sustainability agenda has not been a priority; systematic measurement tends to cease after 13 weeks of work (or time off benefits) and there is no measurement of sustainability at all on many mainstream programmes.

Sustainable employment needs to meet the long-term needs of the individual. Employment works in the long term if the ‘fit’ is right between the individual and the job. The constituents of this fit include the employee’s skills, attitude, expectations, motivations and aspirations. It is important to note that sustained employment does not necessarily entail a single sustained job. The first job that an individual takes may be a stepping stone to further job opportunities.

In order to provide sustainable, and hopefully progressive, employment, funding should follow a client into work and provide support for as long as is practical. This raises the question as to whether funding mechanisms and, indeed, procurement more generally, can improve the quality of the initial employment outcome and incentivise the provider to facilitate progression.

One approach to this is that of the National Employment Panel who have suggested that measurement of outcomes could take account of the salary level achieved. However, this ignores the fact that the first, entry-level job may be a necessary step without which higher levels of pay could not be accessed.

In ‘Skills and sustainable welfare-to-work’ (Mansour, 2005), WorkDirections advocates a funding mechanism which rewards the provider for job placement, but which places a higher premium on the individual retaining work – measuring this at 13, 26 and 52 weeks - with the final payment attracting a bonus if the individual has achieved a salary increase (above the rate of wage inflation and/or moving them beyond the tax credit threshold) in that time. If funding is unequivocally linked to the outcome of sustained employment then this enables the provision of post-placement support that is responsive to individual need. The National Audit Office (2005) has made similar recommendations in regard to Workstep and New Deal for Disabled People.

## 4. Deadweight and creaming

Two issues that are raised when the funding of employment programmes is discussed are the problems of 'deadweight' and 'creaming'.

Deadweight refers to those people who would have found work (or left the benefit register) without the support of the programme. For example, if 50% of people find their own job within the first six months of unemployment, any money spent on services for people in this period will be wasted on at least half of the target audience. Creaming, sometimes called 'cream skimming' or 'cherry-picking', is the practice of working with those that are easiest-to-help and neglecting those with more complex or multiple needs. The manner in which contracts are procured has a significant impact on the degree to which either activity occurs.

An example of where these issues are raised is in relation to the New Deal for Disabled People (NDDP) programme. The National Audit Office (2005) identifies anecdotal evidence that some providers select customers who will progress most quickly into employment in order to meet performance targets. Their report states that Jobcentre Plus Disability Employment Advisors had expressed concern that their local job brokers would only take on clients who had less-severe health conditions and were closest to potential work. Of course, this means that those who are most disadvantaged within the labour market may be overlooked.

Contractors were invited to tender for NDDP contracts on the basis of price, which resulted in a large number of low unit price and low volume contracts offering generalist services. There were also relatively low numbers targeted by the programme; Jobcentre Plus only had sufficient funds to contract for places for around 4% of the total Incapacity Benefit population. A low unit price, when combined with a relatively low intended impact on the overall client group, can encourage creaming or a focus on those closest to the labour market. Driven to demonstrate geographical coverage with relatively limited resources, the targeted percentage impact, and therefore the contract volume, is necessarily low and there is little incentive, or need, to reach out with assertive engagement – increasing concern that the programme does not move beyond deadweight.

Furthermore, a low unit price does not facilitate sufficient flexibility within the programme to purchase expensive specialist interventions for the 'hardest-to-help'. Creating multiple small contracts in each geographical area means that few providers have the critical mass to influence associated local service delivery, such as the provision of health-related services or the employment of the specialists required for this client group. The issue of competitive pricing models is discussed further in section seven.

Outcome funding, as advocated in this paper, is criticised by some on the grounds that it actually encourages creaming by providers. This can be addressed through the funding mechanism without losing the essential focus of an outcome emphasis. The most common way to mitigate against both deadweight and creaming is to limit the potential client group to those identified as most likely to be at risk. It is difficult to make generalisations about how hard it is to help someone; but length of unemployment is a sound basic indicator of distance from the labour market, which is good enough in most cases for targeting programmes and funding. The longer someone is out of work, the harder it becomes to get them back into work.

Where multiple providers are introduced, they are often introduced with the client group shared longitudinally, ie with all clients of the same characteristics (including length of unemployment) shared between the different providers. In Australia this, along with an attempt to avoid deadweight, has led to some perverse incentives. Clients are referred to one of the Job Network providers in that area, either by random allocation or by client choice, at the moment they register as unemployed. There are then certain,



tightly-prescribed activities that must be available. If a job seeker gets a job during the first 12 months on the provider's books, a small outcome fee is paid. Once the job seeker reaches 12 months of unemployment, they are deemed harder-to-help or more 'disadvantaged'. If they are successful in securing employment after this point, the provider receives a much larger outcome payment. Between nine months and 11 months, the provider is effectively discentivised from active engagement with the client.

If the client group was instead segmented latitudinally, then the incentive could be focused solely on performance achievement within the target group and within the appropriate funding model. So, you would have some providers who only worked with clients up to 12 months; theirs would be a business of larger volumes each attracting smaller fees, probably delivered through resource-rich premises without dedicated caseload-carrying advisors. Other providers would then take clients from 12 months to 23 months. Perhaps others would be dedicated to 24 months plus. This approach would also have its difficulties, however, including disrupting the relationship between client and provider and the danger of multiple handover points increasing the risk of clients being lost at transition points.

It is also possible to procure using a funding gradient where financial rewards increase incrementally based on the percentage of the eligible population moved into work. This model is based on the assumption that the 'cream' naturally rises to the top, so the 'further into' the caseload (or stock) a client is, the harder they are to place. This would entail providers being targeted to place a certain number of the benefit population into work. Providers would then be paid a set fee for each of the first percentage block (for example, 10%) they got into sustainable work. This fee would be increased for the achievement of the next 10% and so on. In order for programmes to be financially viable providers would need to dig deeper into the caseload. This would require a firm risk/reward balance which would need to sit at the heart of the contract and, potentially, be reviewed on an ongoing basis. However, the additional sophistication in comparison with a model of varying payment levels based on an initial needs or capability assessment, would drive greater equity through the matching of financial reward to the incremental risk incurred by the provider.

The NDDP model has more potential than it has been able to demonstrate to date. However, avoiding the charge of a lack of additionality and creaming would require significantly increasing the reach of the programme, as well as moving away from a competitive pricing model. This paper recommends that the programme is targeted nationally to reach a quarter of the current 'stock' of the benefit population, whilst retaining the underlying assumption that at least 50% of those accessing support will move into work. Aiming at just the 'flow' onto the benefit, as suggested for the roll-out of Pathways to Work, is potentially funding a high proportion of deadweight. A possible funding model, a 'target accelerator', which uses a funding gradient both to drive engagement and to reflect the increasing needs of people 'deeper' in the stock, is proposed in the next section.

## 5. The ‘target accelerator’

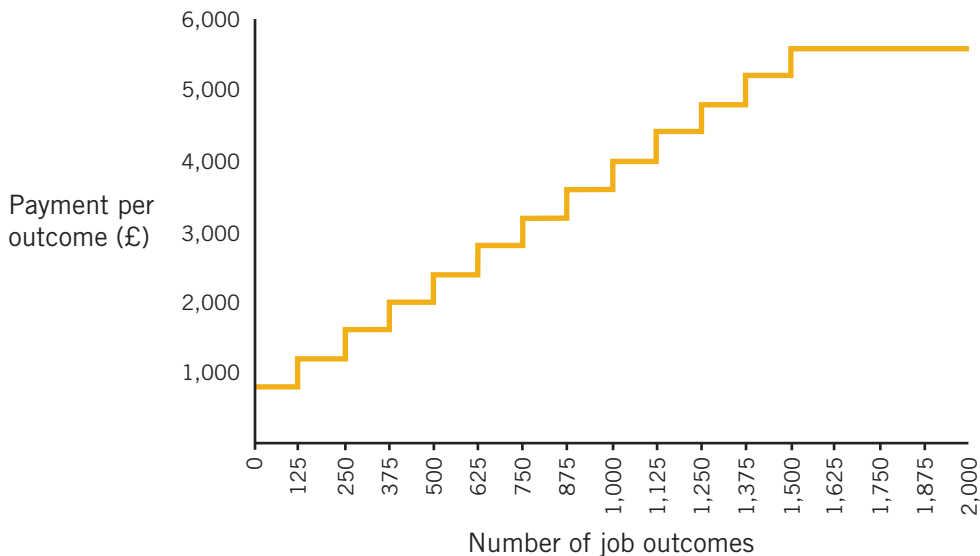
The ‘target accelerator’ is a new type of funding model that is designed to:

- Incentivise the provider to support as many people as possible into sustainable employment;
- Build on the effect of outcome-linked funding to accelerate performance further beyond the current levels of successful programmes;
- Mitigate against both deadweight and creaming to reach deeper into the target population;
- Pass risk from the procurer to the provider for investment and cost of delivery, whilst financially rewarding high performance;
- Achieve this in a reasonably short time frame.

The basic principle of the ‘target accelerator’ is that it starts with a finite, or capped, number of people being required to achieve outcomes. This must be a high, and therefore significant, percentage of a given target group. The premise is that the further you reach into that group, the harder they become to help and the more it will cost to achieve the outcomes.

Figure 2 shows the simple principle behind the target accelerator. As the number of sustained outcomes increases, the fee paid to the provider increases, in recognition of the higher costs they will incur by reaching ‘deeper’ into the stock to those with a higher level of need.

**Figure 2: Target accelerator model - payment scale, year one**





The provider receives a scale of payments, based in any one year of the contract on the number of people they help. As explained below, this scale increases from one year to the next as performance ‘triggers’ are achieved. The proposal is that these payments are split three ways equally between job outcome, 13 weeks’ sustained employment and 26 weeks’ sustained employment. This drives a reasonably long-term level of support but also enables a realistic cash flow for the provider. To make presentation easier, the outcome fees are lumped together as a single sum.

For the purpose of this illustration the model is based on a medium-sized city (such as Sheffield, Leeds or Manchester) that has a stock of 30,000 people who have been in receipt of one of the incapacity benefits for six months or more.

In this illustration, for the first 124 people into work in year one, the provider receives £800 per sustained outcome. For clients 125 to 249, they receive £1,200 per outcome. For clients 250 to 374, they receive £1,600 per outcome. These payments increase incrementally with every 125 additional clients into work by a further £400, up to 1,499 clients. For the 1,500th client into work, and any other subsequent outcomes, the payment reaches a maximum of £5,600 per client.

There would actually need to be a lead-in of six months to enable the programme to ‘bed in’ and to build up the caseload, so the first claim period would be from 0 to 18 months. Thereafter, each claim period would be over 12 months.

If the model stopped here, it would be possible for the provider to optimise a level of financial return, gearing up perhaps to secure just 500 job outcomes, and to resource for this and no more. So, in order to drive the provider further into the stock – to incentivise and reward this behaviour – three ‘triggers’ are introduced which recognise three different levels of further engagement with the stock of clients beyond a base level, and the commensurate increased needs of each of these ‘deeper’ clients.

## The 'target accelerator'

For example, in Figure 3, the first trigger is set at 500+ clients into work within a year; the second trigger is 1,000+ clients into work and the third trigger is 1,500+ clients into work.

For each trigger the provider reaches, their funding per outcome in the subsequent year starts one increment higher along the payment scale than the previous year.

If, in the first 18 months, the provider does not reach any of the trigger points (say, achieves 400 job outcomes), then in the subsequent 12 months they stay on the base level, with exactly the same funding model.

If, however, they achieve TRIGGER ONE, and help between 500 and 999 people to secure employment in the first 18 months, then in the subsequent 12 months their funding starts at £1,200 per job outcome, ie one increment higher up the payment scale. They then receive £1,200 for each of the first 124 people starting jobs, then £1,600 for the next 124, then £2,000, and so on.

If they achieve TRIGGER TWO, and secure between 1,000 and 1,499 job outcomes, then in the subsequent 12 months their funding starts at £1,600 per job outcome. In this next 12-month period, the same trigger points operate and these again determine the level of funding in the subsequent year.

After the initial six-month lead-in, the contract runs for five years, or five year-long claim periods.

The proposed targets have the potential to change significantly the appearance and consequence of social exclusion in a medium-sized city. The risks entailed in achieving this degree of societal impact are largely borne by the provider of the programme, rather than the procurer, with reward for success mitigating that commercial risk. If the provider enables 10,000, or a third of this population of 30,000 to access and sustain employment beyond six months, the cost, over five-and-a-half years, would be in the region of £60 million, or £6,000 per sustained outcome. But, on the other hand, if the provider is able only to assist fewer than 2,500 people to sustain work, ie less than 10% of the total, it would cost £3.5 million or £1,400 per sustained outcome.<sup>5</sup>

*5 - To contextualise the scale of these figures, a single person on Incapacity Benefit receives around £6,936 per year in benefit payments. A couple with two children, where one partner is on Incapacity Benefit and one is not working, receives around £15,299 (National Audit Office, 2005).*

**Figure 3: The target accelerator**

**YEAR ONE (for claims made from 0 to 18 months)**

	TRIGGER ONE			TRIGGER TWO			TRIGGER THREE						
<b>BASE</b>	0-124	125-249	250-374	375-499	500-624	625-749	750-874	875-999	1,000-1,124	1,125-1,249	1,250-1,374	1,375-1,499	1,500+
<b>Jobs</b>													
<b>Fee</b>	£800	£1,200	£1,600	£2,000	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200	£5,600

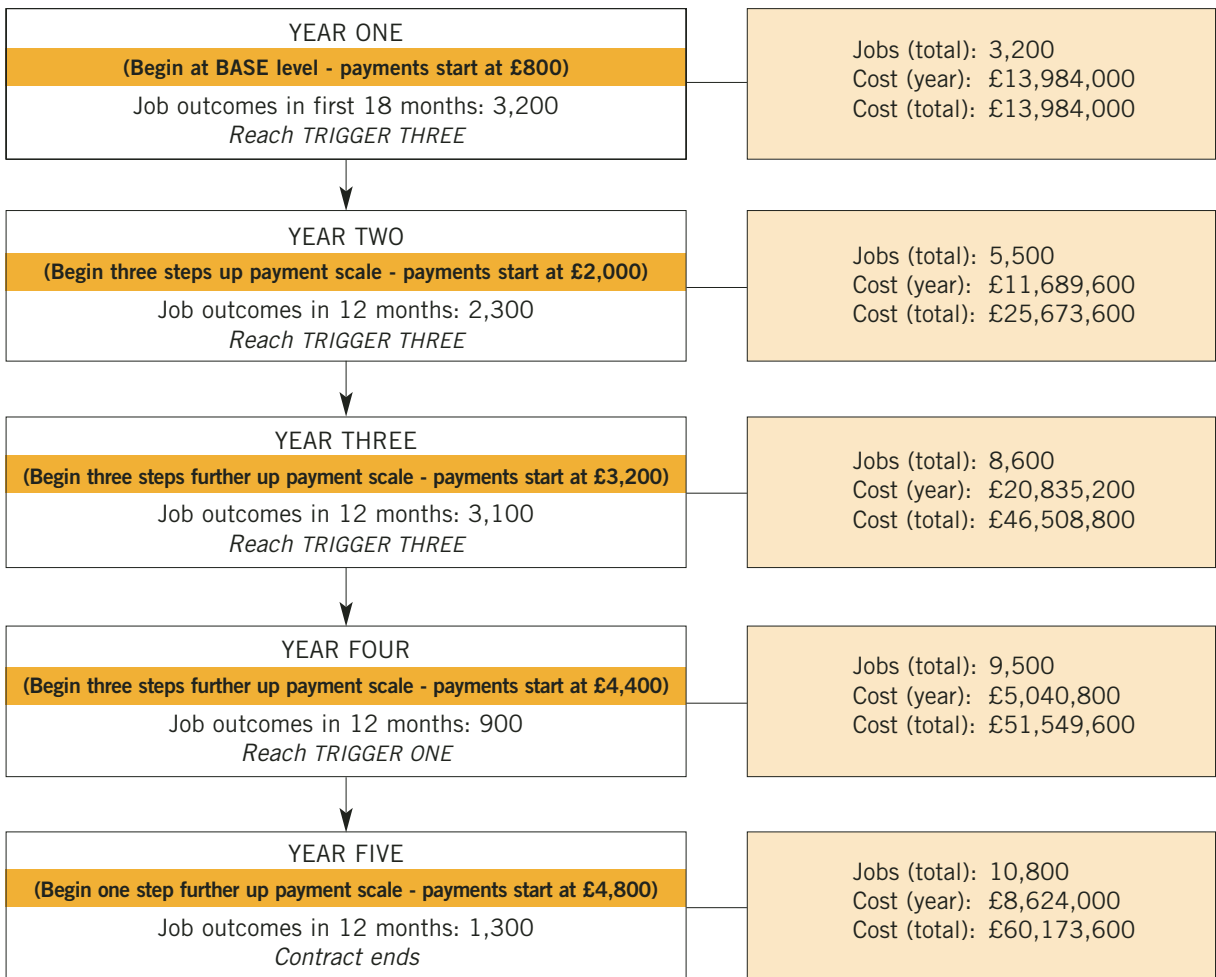
**YEAR TWO**

	TRIGGER ONE			TRIGGER TWO			TRIGGER THREE						
<b>BASE</b>	0-124	125-249	250-374	375-499	500-624	625-749	750-874	875-999	1,000-1,124	1,125-1,249	1,250-1,374	1,375-1,499	1,500+
<b>Jobs</b>													
Provider achieved BASE level outcomes (0-499) so is paid as below in the subsequent 12-month period:													
<b>Fee</b>	£800	£1,200	£1,600	£2,000	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200	£5,600
Provider achieved TRIGGER ONE outcomes (500+) so is paid as below in the subsequent 12-month period:													
<b>Fee</b>	£1,200	£1,600	£2,000	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200	£5,600	£6,000
Provider achieved TRIGGER TWO outcomes (1,000+) so is paid as below in the subsequent 12-month period:													
<b>Fee</b>	£1,600	£2,000	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200	£5,600	£6,000	£6,400
Provider achieved TRIGGER THREE outcomes (1,500+) so is paid as below in the subsequent 12-month period:													
<b>Fee</b>	£2,000	£2,400	£2,800	£3,200	£3,600	£4,000	£4,400	£4,800	£5,200	£5,600	£6,000	£6,400	£6,800

## The 'target accelerator'

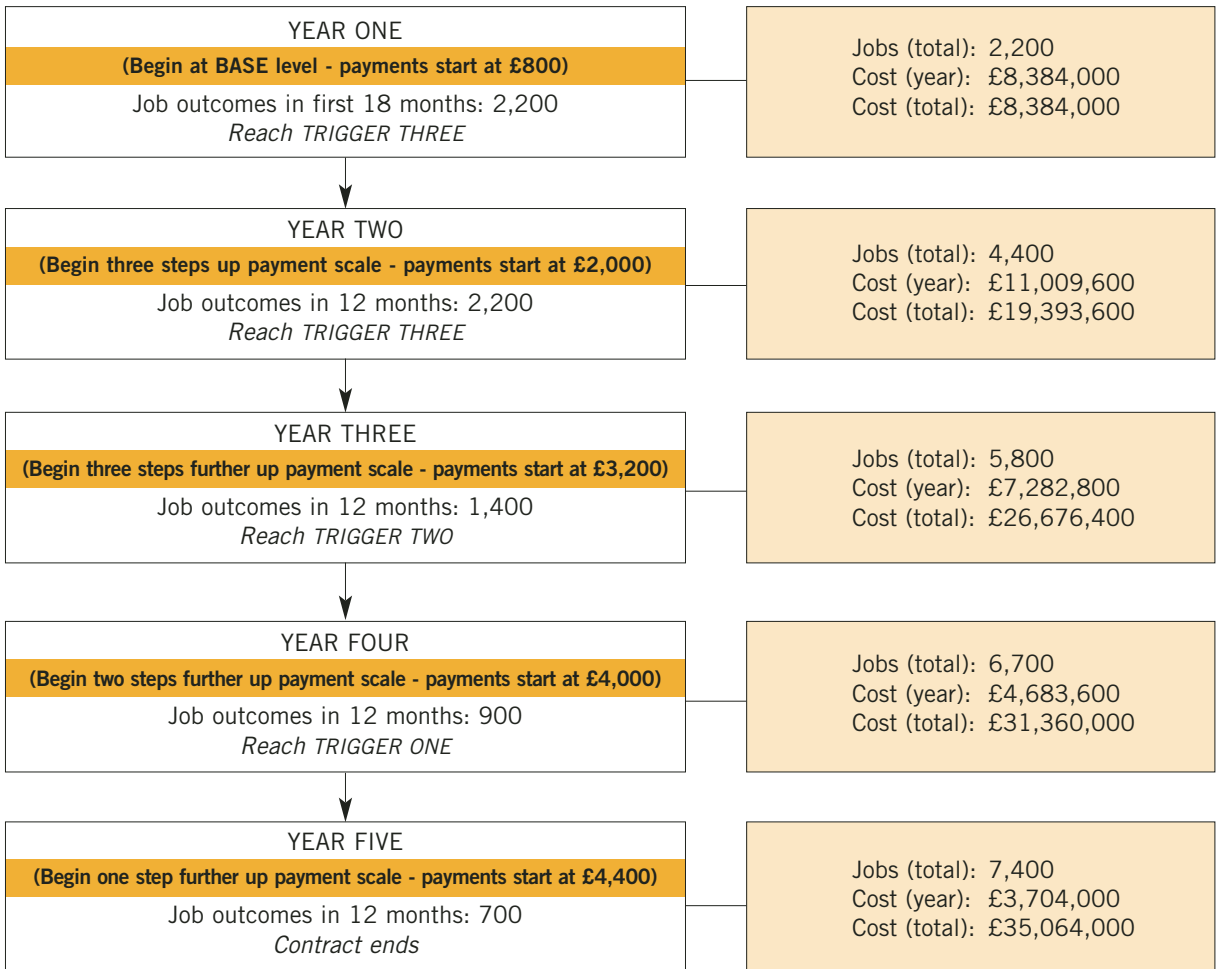
Figures 4 and 5 illustrate detailed scenarios that show how performance levels are linked to payment levels, ie how variances in a provider's performance over a five-year contract are reflected in variances in the payment model in each year.

**Figure 4: Target accelerator scenario one**





**Figure 5: Target accelerator scenario two**



## 6. Localisation and engagement

### Localisation

There is a need to balance local service delivery – engaging individuals in their own immediate surroundings with services that wear a familiar face – and challenging the isolation and limited aspirations of socially-excluded communities. Most of the successful Employment Zone providers are located in bright, professional premises in the commercial centres of their areas. In order to drive successful engagement, and reach further into the community to assist more people, they utilise a network of local partnerships but, importantly, deliver their own face-to-face interventions from areas of commerce and employment.

The reality for many working people is that they travel for some distance (or in London, for some time) in order to get to work. For example, in Southwark, only 34% of people who live in the Borough and work do so in Southwark itself, and three-quarters of the jobs in the Borough are filled by people commuting in (Census 2001). However, employment services are often designed on the assumption that unemployed people will not travel, and this is rarely challenged. WorkDirections believes that it does not make sense to design an employment programme that limits participants' aspirations to local jobs. The reality for many is that there are more opportunities available for both entry-level jobs and progression once they look beyond 'local'.

There is one form of localisation that is fundamental to the successful procurement of employment services: this is the need for providers to be able to localise their services at the level of the individual, facilitating a focus on the individual's experiences and needs rather than an assumption of need based on an aggregation of 'barriers' at the level of the neighbourhood or housing estate. The experience and consequence of life on that estate is going to be very different for each individual living there, just as the experience and consequence of being 55 years old, or black, or dyslexic, or depressed, is very different for each person.

This requires a procurement framework that enables significant levels of flexibility, and that drives creativity. This appears to be delivered best through a funding structure that rewards the meeting of clear objectives and gives providers the room and the incentive to tailor their levels of spending according to the varying needs of the individual.

### Engagement

The vast majority of individuals on the large welfare-to-work contracts in the UK, such as Private Sector Led New Deal and Employment Zones, are mandatory referrals. For many providers who deliver services to voluntary clients, one of the key issues is engagement. However, as proposed in the previous section, the underlying characteristics of these mandatory funding models (which are essentially volume businesses, where volume equals job starts), can be extended to use the same business drivers to influence the level of engagement on voluntary programmes.

Procuring for engagement requires defining and quantifying the target group, before agreeing an informed target based on the proportion of this group that could be moving into sustainable employment. This target should be realistic in order to achieve a viable balance between risk and reward for both procurer and contractor. It should also be aspirational and stretching in order to mitigate against creaming. This target – based on a percentage – then needs to be translated into actual volumes of potential programme outcomes. It is these volumes (representing sustainable employment outcomes) which are procured. The onus is on the provider to engage people onto the programme in order to achieve the volumes of outcomes which ensure financial viability.



The most successful engagement mechanism developed at WorkDirections is through challenging one of the usual silos of delivery/funding in order to create an extensive, results-oriented partnership with another public service delivery arm. Following lengthy negotiation with the Director of Public Health at one of the Primary Care Trusts (PCT), we have established the New Deal for Disabled People (NDDP) in Birmingham as a type of Locally Enhanced Service. Our initial trial with South Birmingham PCT quickly expanded to cover the four Trusts in the city. GPs can now refer patients to our NDDP programme in the same way as they refer to other specialist health services such as smoking cessation programmes. They are funded for each referral to our programme if the individual then signs up with us. The GP receives a further payment if and when the client goes on to achieve an employment outcome, and a third payment when that employment sustains for at least 13 weeks. The money for this comes from NDDP funding rather than from the Trusts. There are numerous spin-off benefits to this relationship with both GPs and Primary Care Trusts, and the link is far more cost-effective than the alternative model of placing employment advisors in surgeries.

The question of whether or not to mandate participation for clients who are currently only voluntarily engaged is discussed further in our response to the Welfare Reform Green Paper.

# 7. Contract design and management

## Measuring performance

The Australian Star Rating system has been much discussed as a model of continuous performance measurement. It is based on a statistical regression model which attempts to control for exogenous factors such as labour market conditions and the personal characteristics of job seekers. Expected job outcomes (calculated using a regression model) are compared with actual outcomes to generate performance scores. These are then weighted to give a total score. Sites are ranked, and stars allocated, based on this score.

It also presents providers with comparative performance statistics, for the Employment Service Area in which they operate, on a weekly basis. Only a change in relative performance changes the rating, so a site with consistent performance may see their star rating fall if the Job Network as a whole improves. In order to achieve the same star rating, providers have to improve performance with each contract.

The information is used by the Australian Department for Employment and Workplace Relations when re-contracting. In 2002, the top 60% of Job Network providers were automatically offered contracts for 2003-06. In 2005, contract extensions were awarded to providers achieving over two-and-a-half (out of five) stars. Those not reaching this benchmark have had to re-tender in the open market. Star ratings were also used to assess tenders for the remaining business. Poor star rating performance during the contract can also result in re-allocation between tendering rounds.

The Australian National Audit Office reported in 2005 that the system has 'enduring value' but noted that the system and method of calculation should be in the contract; and that providers should get better information about performance against contracted Key Performance Indicators (absolute indicators) rather than just star ratings (a relative measure).

Implementing a comparative star ratings system would undoubtedly increase performance among providers in the UK. However, such a system requires a number of key conditions to be met, including: commonly-defined contract outcomes; a standardised IT and data capture system; standardised job seeker profiling; and reliable data on labour market contexts. The UK system may be some way from being able to meet these conditions. Nonetheless, more should be done in the meantime to provide regular, transparent, comparative performance data on all providers. A detailed assessment of the Australian system will be published by WorkDirections shortly.

## Quality or performance

The need for good quality services is often asserted, although there is a lack of clarity over what this means in practice. Quality and contractual compliance are often confused, with meeting contractual requirements being identified as an indicator of quality, rather than the expected minimum. Equally, a desire for high quality services can lead to an audit regime that makes administrative demands on providers which actually hinder the delivery of sustainable employment outcomes for their clients. The significant cost to both purchaser and provider of implementing an audit regime underlines the importance of ensuring it provides value.

The objectives of procurement and contract management can sometimes pull in different directions. This was demonstrated in the recent auditing of Action Plans in the Employment Zones. Because of the close partnership between the providers and the contract managers, this approach has since been reviewed and revised. However, it provides a good example of how the quality of a responsive service is best driven through a focus on performance rather than assumptions regarding isolated quality measures.



A good quality Action Plan drives a client's participation on a programme and may have a significant impact on their potential outcome. The Plan sets out their starting point, their desired destination (perhaps including long-term as well as realistic short-term goals) and the personalised route which will enable them to get there. It is a sort of two-way service level agreement between the provider and the client. It is very specific, timebound and, ideally, fully costed. It maintains momentum and can reward activity with the positive reinforcement of achievement of measured 'steps'.

Many of the participants on the Employment Zones have been unemployed for a number of years and may have chaotic lifestyles, fluctuating health conditions (including mental health issues), or be stuck in an ingrained pattern of unemployed behaviour. It is likely they have come to perceive interaction with public service institutions as negative and disempowering. To challenge all this and effect change could require a very careful rebuilding of trust and a fairly protracted negotiation of an Action Plan.

Employment Zones were audited on whether or not an Action Plan had been signed by all mandated clients within four weeks of referral to the programme. If no Action Plan had been signed, the full Stage 2 payment<sup>6</sup> was reclaimed. The provider was faced with the choice of introducing a 'quality process' which would deliver a piece of paper with a signature, and thereby secure funding, or risk the loss of income by taking the time to agree a plan that met individual need and increased the chances of sustainable employment.

Alongside a performance target which drives the right behaviours, there needs to be a clear compliance framework that facilitates the delivery of best practice solutions, rather than restricting provider flexibility through unnecessary bureaucracy. This framework can be defined by two elements. The first is a clear and simple focus on the desired quality outcomes. The second is the specification of any non-negotiable constraints implied by the rights and responsibilities of service users; for example, if the objective is to mandate a benefit recipient to attend a programme in return for their benefits, then the provider must be required to maintain a minimum level of contact or to dismiss people for non-participation. If the aim is to ensure the provider does not exclude anyone (e.g. to 'cream' the easier-to-help), then a minimum level of contact must be defined below which the provider loses funding.

Contract management can also be used to enhance quality through identification and dissemination of best practice. Providers can be contractually obliged to participate fully in sharing best practice through formal and informal networks, both between competing providers and with other organisations delivering different services.

### **Contract parameters: size and timing**

The importance of economies of scale in ensuring contract viability has underpinned a number of the arguments made in this paper. Size is important both in terms of being able to have a critical mass of clients and in terms of contract length.

For providers to invest in a high quality infrastructure - in terms of staff, processes and premises - they need to have confidence in the longevity of the market and time to generate a return on initial investment. This also provides a realistic platform for new providers to consider market entry. Short duration contracts create barriers to entry and are in the interests of existing (usually smaller) providers. The Employment Zones, with their five-year contracts and significant programme size, have encouraged new providers to enter the market at each contracting round.

*6 - See Appendix three.*

## Contract design and management

Economies of scale improve value for money for stakeholders through increasing efficiency and reducing the costs associated with the procurement and contract management process. They also help reduce duplication and fragmentation. This benefit can be maximised by integrating a number of funding streams, both within and across Departments. There is such waste in the overlap between higher-level objectives and consequent service delivery as funded across different government bodies.

An argument has been made for guaranteeing providers a minimum number of clients. There is undoubtedly a necessity for accurate information to be made available pre-tender in order that providers can decide whether they think contracts are viable. Recent contracting opportunities have been released with predicted flows that are significantly higher than either previous experience or local knowledge would suggest. This creates distortion and invalidates the planning process.

However, the provision of accurate information should negate the requirement for guaranteed numbers. Guaranteeing payment for a minimum number of clients, irrespective of whether they are seen (or placed into work) introduces inefficiency, and does not ensure good value for money. It shifts risk back to the public procurer. Furthermore, programmes which combine mandatory and voluntary referrals introduce a level of control over numbers, as providers have the opportunity to build up programme numbers from a variety of claimant groups.

There is also a requirement for serious consideration of the impact of multiple providers on contract size. Some markets have the capacity for a number of providers to operate a good quality service offering clients a choice of service. However, inefficiencies of other programmes are compounded by seeking to provide choice, and at times this is to the detriment of the overall quality of the service. An outcome-funded programme drives the providers to perform through pressure on their bottom line; to achieve the maximum number of outcomes for the largest possible surplus or profit. It is not necessary to introduce the additional competition of parallel provision.

### The cost of over-performance

If procurement is based on an outcome funding model then there is always a possibility that providers will over-achieve against expectations, which may create budget difficulties. This risk can be mitigated by careful planning. There is sufficient data in the UK market now to enable accurate prediction. Flexible, long-term framework partnership agreements, as previously discussed in this paper, would also enable a response to higher-than-anticipated achievement through, for example, changing the client group that is targeted.



It is also important to understand the full cost-benefit of such high performance. The nature of such contracts is intended to pass as much of the risk as possible to the provider. Ideally, welfare-to-work programmes will be self-funding, as the cost of delivery is more than covered by benefit savings and wider exchequer revenue benefits. For example, the estimated net benefit (after all programme costs are covered) to the economy of the New Deal for Disabled People has been estimated at £400 per job entry in the first year. However, the longer the job sustains, the more the benefit to the economy (National Audit Office, 2005). The problem is one of timing and the way that public finances are set, which sees programme costs and benefit payments (and therefore potential savings) measured separately and without correlation. The timing issue might be solved, to a certain extent, if linked to the question of sustainability, with providers tied to tracking and supporting clients in and progressively through employment for much longer.

It is possible for funding to be capped by inserting maximum possible contract values, although this may conflict with wider policy objectives. For example, the New Deal for Disabled People has been contracted to cater for fewer than 4% of the Incapacity Benefit claimant population. Providers were given numerical targets identifying the maximum number of people moving into work for which they would be paid. There is no additional funding available for exceeding contracted values, despite an environment in which providers identify that they have the capacity to do more, and the Government has a policy objective of reducing the Incapacity Benefit claimant count by one million within a decade.

## **Competitive or fixed pricing**

A competitive pricing model is supposed to ensure cost-efficiency. Typically, such a process ends up with a shortlist being drawn up of tenders which satisfy the necessary criteria in relation to quality and risk, and the contract is then awarded to the provider who is offering to deliver the service for the lowest price. This might be the price for delivering certain milestones or, as was the case for New Deal for Disabled People, for the number of sustained job outcomes. One extreme version of this model actually uses an e-bidding system with a shortlist of providers logging on at an allotted time and then bidding each other down in price until the cheapest offer is the last remaining.

There are, however, a number of significant dangers inherent in this model and it is questionable whether it really delivers efficiency given the likely impact on programme effectiveness.

In a competitive pricing exercise, providers are obviously incentivised to compete on the basis of price. After a point (which is very quickly reached), it is not the size of their profit margins which are being squeezed but, in order to achieve cost savings, it is the expenditure on premises, staff salaries and client resources. The quality of the service procured is seriously compromised. In fact, there are implications for welfare-to-work provision as a whole, whether outsourced or not, if these short-term pressures are exerted on the costs realistically required in order to deliver a professional service.

Providers will offer lower and lower unit prices in order to secure a place in the market, but in the process will generate unsustainable pricing levels which, in turn, will produce an unstable and low quality market. They may actually offer a level of performance which they will not be able to deliver, knowing that subsequent contract management is likely to be 'soft' on them. They may base their offer on insufficient evidence or they may lack commercial awareness, discovering only after contract-award that their offer is ultimately untenable. There are considerable risks in all these for the procurer.

## Contract design and management

There is a great deal of information available now in the United Kingdom about the relative costs of delivering different programmes to different client groups. As proposed earlier, a framework partnership agreement would allow for flexibility in a long contract with, perhaps, the focus of a long-term programme shifting from one client group to another. But both procurer and provider need to build this framework on the basis of a realistic, fixed pricing structure informed by the delivery experience.

### Contracting timetable

The outsourcing process for employment programmes is often delivered to very tight timescales, both in terms of the time given to providers to compile their tenders and, importantly, in the time allowed for implementation of operations following announcement of the contract award. This is particularly true for smaller programmes. It is not uncommon for providers to be given a month or less between receiving the results of the bidding process and being asked to deliver. This limits the viability of market entry for new providers (if they are committed to quality performance), as well as the opportunities for innovative delivery, and building up potential participant interest in entry to voluntary projects.

The second round of the Private Sector Led New Deal tendering process, which occurred between December 2001 and November 2002, provides a good practice example of a viable contracting timetable. This can be broken down as follows:

**Figure 6: Example of a viable contracting timetable**

Month	Activity
1	Advertisement for expressions of interest
2	Briefing sessions hosted, and pre-qualification questionnaires issued (PQQs)
3	PQQs assessed and provisional shortlist drawn up
4	Invitations to tender (ITT) issued to bidders
6	Provider surgery events hosted, enabling providers to speak directly to Districts. Bids due in
6-8	Bid assessment, financial viability risk assessment (FVRA) and bid assessment panel
8-9	Final post-tender negotiations
9	Contract award notification
9-12	Post-contract support/development
12	Contract commencement

The time elapsed between each stage in this timetable could be viewed as an absolute minimum requirement.

# 8. Conclusion

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Behaviour follows funding. What is procured, and how it is procured, is determined by the funding model used, the volume and geographical spread of the contract, the contracting timetable and the contract duration.

There is currently around £4 billion spent on a combination of Jobcentre Plus direct services and outsourced welfare-to-work provision. There is sufficient funding to meet most, if not all, of the needs of our unemployed service users in terms of creating access to sustainable employment. However, present procurement practice and subsequent contract management do not maximise the potential of this spending.

If the objective is sustainable employment, then this is what we must fund first and foremost. 'Sustainability' can obviously be measured at different points but programmes will be more effective if this is pushed well beyond the current 13-week point and potentially rewarding salary progression as well. The most effective procurement model used to date in the United Kingdom is the Employment Zone model, which can be readily adapted and extended (without becoming overcomplicated).

It is vital that we avoid falling into traps of generalisation regarding the needs of individuals. The services which are most effective in achieving sustainable outcomes are those which are flexible and individually-responsive. They use discretionary funds to create bespoke solutions. They transcend assumptions based on ethnicity, gender, qualifications, physical or mental conditions, or locale. These programmes usually have the size and scope to subcontract specialist interventions.

Long-term contracts enable an appropriate distribution of risk and reward between the Government purchaser and the provider. Such contracts might run for up to ten years. A 'framework partnership agreement' would allow for the provision to be changed during this time without the considerable cost of re-tendering, responding to changes in the environment or in the purchaser's objectives - shifting focus, for example, from one client group to another.

Employers' needs must obviously be met, otherwise employment is not sustained. This means tailoring services according to labour market demand. Welfare-to-work provision can broker the relationship between employer and potential employee. It should not, however, attempt to force the latter into a shape determined by the former if there is no fit or mutual benefit.

In order to remove the possibility of 'deadweight' and 'creaming' it is necessary to have large enough contracts that are carefully targeted at particular clients. Length of unemployment is a reasonable indicator of degree of dependency and disadvantage.

It is possible to use outcome-focused funding to drive engagement as well as performance. This is obviously important as our attention increasingly shifts to clients on non-mandated benefits such as Incapacity Benefit. An aspirational, but realistic, model - the target accelerator - is proposed in this paper, which could have a dramatic impact on the consequences of incapacity and unemployment, while ensuring the risk rests mainly with the providers. The key is a recognition that the marginal cost (and consequent saving) of getting someone who is on long-term Incapacity Benefit back into work increases the further into the stock the provider reaches.

## Conclusion

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The Star Rating system, which appears to have been used effectively in Australia to increase cost-effectiveness and efficiency, has been described in brief. A longer assessment of this system and its possible applicability for the United Kingdom will be published by WorkDirections shortly.

Procurement and contract management can limit the effectiveness of delivering policy objectives on the ground through creating duplication and fragmentation. They can sustain people in exclusion as opposed to enabling them to access employment and inclusion. On the other hand, they can potentially facilitate a number of enhanced service features such as innovation, sustainable outcomes, the capturing and sharing of comparative performance, and progression in employment. The characteristics of procurement which determine success are well-established and relatively easy to implement.

# Appendix one

## A summary of outsourced welfare-to-work in the UK

The private and voluntary sectors have been involved in delivering outsourced employment services for decades. A significant amount of provision was outsourced by the Employment Service (ES)<sup>7</sup> to a variety of private and voluntary sector providers during the 1980s and 1990s. This tended to be in the form of relatively small contracts for specific interventions such as Programme Centres, Job Clubs, or identified training courses. Since 1997, there has been a change in emphasis, with the private and voluntary sectors responsible for the delivery of much larger programmes of integrated employment services, including case management.

Partnership with Jobcentre Plus still underpins the delivery structures of outsourced provision, with that organisation providing referrals to mandatory and some voluntary programmes whilst retaining responsibility for overall benefit calculations and administration. Jobcentre Plus also retains responsibility for the physical transaction of benefit payments on all programmes except the Employment Zones.

The introduction of the New Deal in 1998 saw an increase in the level of support provided to, and in the level of activity required from, long-term Jobseeker's Allowance (JSA) claimants. Additional conditionality, along with additional support, has subsequently been attached to incapacity benefits claims as well as Income Support when claimed by lone parents. The recently published Welfare Reform Green Paper continues this trend of increasing both support available and the number of conditions attached to benefits. This will require an increase in the number and variety of services delivered. The Green Paper makes clear that many of these will be outsourced.

Here follows a summary of the larger contracting exercises to date.

## PRIVATE SECTOR LED NEW DEAL

**Estimated value of private sector involvement: £60m pa** The New Deal programme represented a major innovation in terms of private sector involvement in the delivery of public employment services. There are currently 12 large, integrated Private Sector Led contracts (two areas were added to the original 10 in 2002). These cover most aspects of delivery including personal advisor services as well as all work experience and training options. This is in addition to the extensive involvement of the private and voluntary sectors in the delivery of New Deal services in the other Districts where virtually all services, apart from the core advisory intervention, are outsourced.

## EMPLOYMENT ZONES

**Value of private sector involvement 2003-04: £79m pa<sup>8</sup>** The role of the private sector in the delivery of integrated employment services was more than doubled by the introduction of Employment Zones in 2000. In April of that year, 15 Employment Zones become operational in the most deprived areas of the UK, replacing New Deal 25+ in those areas. Nine of these were delivered by the Working Links public-private consortium, which is one-third owned by the Department for Work and Pensions. Re-contracting occurred in 2004, setting up a further five years of operation, also with some merging of existing areas. The eligible client groups were expanded to include lone parents on Income Support and New Deal for Young People 'returners'.<sup>9</sup> This also saw the introduction of multiple provider zones in six of the areas. In these, JSA clients are randomly allocated to one of either two or three providers, and lone parents are able to choose a provider. This feature was introduced with the objective of further improving performance.

*7 - The Employment Service merged with the Benefits Agency in 2002 to become Jobcentre Plus.*

## Appendix one

### INCAPACITY BENEFITS PROGRAMMES

In 1999, Job Broker services for people on incapacity benefits were let through a large number of relatively small contracts. The single largest contract was let to WorkDirections in Birmingham. This voluntary programme is called New Deal for Disabled People, and has an estimated annual value of £40m pa<sup>10</sup>. Clients have the choice of up to five providers in each area. This programme is not funded at the same level as other New Deal programmes. It has national coverage, but the funding is only sufficient to cover less than 4% of the current 2.7 million incapacity benefits claimants.

The Pathways to Work pilots were launched in seven areas of the UK in 2003, and will be extended to a further 14 areas by the end of 2006. These 21 areas will cover about a third of the incapacity benefits population but will only be aimed at the flow of new claimants rather than attempting to deal with the stock. The pilots consist of a series of Work-Focused Interviews (WFIs - mandatory for some clients) and a 'choices' package. Within 'choices', clients can access support such as job broking (through New Deal for Disabled People), condition management (delivered or outsourced by the NHS) and a £40-a-week return to work credit (valid for the first year in work if the job pays less than £15,000 pa). The Green Paper outlines plans to extend this nationally by 2008, 'inviting new voluntary sector and private providers to manage Pathways to Work in new areas'.

### OTHER PROGRAMMES

Action Teams for Jobs and Working Neighbourhoods Pilots are delivered by a combination of Jobcentre Plus and private providers. These start coming to an end from September 2006.

Action Teams were piloted from 2000 and expanded to 64 areas; 24 are led by private sector providers, 40 by Jobcentre Plus. They are based in small areas with particular problems of labour market disadvantage, and use an outreach and local partnerships approach to work with specific groups (both benefit claimants and non-claimants) who have historically been reluctant to engage with mainstream Jobcentre Plus services. This is a voluntary programme providing an advisor-led service that includes job search advice, financial support and referral to other services. Evaluation of the Action Teams has raised concerns over creaming.<sup>11</sup>

Working Neighbourhoods Pilots expanded on the Action Teams approach in areas where these and other services had not achieved a high degree of success. They began in 2004, for a two-year term, in 12 sub-ward level areas with very high levels of worklessness. Seven are managed by Jobcentre Plus, and five by private providers. Maximum flexibility was seen as key; the Pilots use a pot of flexible discretionary funding, as well as local partnerships, to address the multiple barriers faced by many residents and to test local-level intensive work-focused action.

As noted earlier in this paper, there are also many other projects delivered by the private and voluntary sectors across the UK, using various funding streams including the European Social Fund, regeneration funds, local authority and Jobcentre Plus monies. In 2002-03, Jobcentre Plus held contracts with over 1,000 organisations to deliver New Deal programmes.<sup>12</sup>

8 - From an answer to Parliamentary Question PQ 211989, 10 March 2005.

9 - Returners' are individuals who have completed an employment programme but have been unsuccessful in finding work. After a qualifying period of a further six months of unemployment, claimants aged between 18 and 24 become eligible for referral back to the programme for further support. From 2004, in Employment Zone areas, young people have been referred onto Zones rather than back to New Deal.

10 - National Audit Office (2005).

11 - Casebourne et al (2006).

12 - From an answer to Parliamentary Question PQ 144598, 12 January 2004.

# Appendix two

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## Three funding approaches

The funding structure needs to deliver the policy intent. It is fundamental that it achieves an effective balance between risk and reward for both procurer and provider. There are currently a number of different funding mechanisms being used to pay for employment programmes. Though often combined in different permutations, at their simplest level funding mechanisms can be described in terms of the following three models:

### 1. Outcome funding

Payment is provided on achievement of outcomes; generally either job start, retention in work, or a combination of the two. Examples of programmes operating outcome-based funding are Employment Zones and the New Deal for Disabled People.

#### Benefits:

- Very clear driver of performance
- Funding is linked to required outcomes
- Providers are rewarded when policy objectives are met
- Risk of failure of performance is reduced for procurer
- Payment structure is simple.

#### Disadvantages:

- The 'right' outcomes need to be identified
- There is a danger that perverse incentives can be created
- Without sufficient scale there is a danger that creaming will be encouraged
- Procurers need to ensure that outcome targets are sufficiently testing, and that potential rewards are enough to encourage market entry.

### 2. Milestone payments

Sometimes called 'fee for service', payments occur at set points, most commonly at the start, mid-point or completion of a programme. Milestone payments can also be awarded for completion of other activities, such as qualifications gained.

#### Benefits:

- Can create better cash flow for the provider, which encourages market entry
- Easier to plan cost of programmes
- Reduces the risk to the procurer of over-performance leading to an exceeding of the budget.

#### Disadvantages:

- By rewarding participation rather than results the procurer can expend money even when the policy objective is not met
- Milestones can drive the wrong behaviour; for example, by rewarding a focus on qualifications rather than employment, participants could end up being out of work for longer, or losing the opportunity to access jobsearch support within the time frames of the programme
- By linking payment to specific process achievements the contract becomes more prescriptive, and providers offering flexible activities may lose out financially, irrespective of their success.

## Appendix two

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### 3. Guaranteed funding

The procurer guarantees a sum that will be paid to the provider for delivery of a programme. This mechanism tends to be used rarely, generally in the delivery of pilots when innovation is required in order to encourage risk-taking.

**Benefits:**

- Can be good for highly innovative pilots, encouraging risk-taking by providers
- Encourages new providers to enter market. This can be particularly important if there is little capacity or history of outsourced provision.

**Disadvantages:**

- Payment is still required for poor performance. This is more disadvantageous if there has been no comprehensive evaluation programme enabling lessons to be learned
- If this process is used for programmes other than pilots, the disadvantages of the milestone payment mechanism are also felt
- Can lead to 'places' being procured even when there are no clients available to fill them
- Can encourage inefficiency and bad value for money.

# Appendix three

## The Employment Zone model

An Employment Zone (EZ) programme is divided into a number of stages. Each stage has a trigger that starts the stage; once a stage starts a payment becomes due to the provider.

The table below lays out the stages/payment types, what triggers them and the payment that becomes due once the stage has started for each client group. Mandatory participants are referred by Jobcentre Plus. Voluntary participants are lone parents, who can be marketed to direct. This model became considerably more complex (possibly unnecessarily) in the second contracting round for provision to start in November 2003 (for single provider areas) and April 2004 (where there are multiple providers in each area).

**Figure 7: Employment Zones stages and payments**

Stage/Payment	Amount	Claim trigger
Stage One – up to four weeks	<ul style="list-style-type: none"> <li>Mandatory participant: £300</li> <li>There is no Stage One for voluntary clients</li> </ul>	<ul style="list-style-type: none"> <li>Participant starts the Zone</li> </ul>
Stage Two – up to 26 weeks	<p>Mandatory participant:</p> <ul style="list-style-type: none"> <li>£1,200 for those aged 18-24</li> <li>£1,415 for those aged over 25</li> </ul> <p>NB The exact amount of this payment varies by area. This example is based on Nottingham</p> <p>Voluntary participant:</p> <ul style="list-style-type: none"> <li>£150 at engagement</li> <li>£275 on completion of six weeks on Stage Two of the EZ</li> <li>£275 on completion of 11 weeks on Stage Two of the EZ</li> <li>£275 on completion of 16 weeks on Stage Two of the EZ</li> <li>£275 on completion of 21 weeks on Stage Two of the EZ</li> </ul>	<ul style="list-style-type: none"> <li>Contractor has agreed Costed Action Plan (CAP) with client</li> <li>Interview for entry to Stage Two has been conducted and evidenced (Pre-entry Interview)</li> <li>Implementation of activity in CAP has commenced</li> </ul>
Stage Three – first job outcome payment	<ul style="list-style-type: none"> <li>Mandatory participant: £400</li> <li>Voluntary participant: £475</li> </ul> <p>NB This payment is made for all participants that commence paid employment during, or within 13 weeks of leaving, Stage One, Stage Two or Follow On</p>	<ul style="list-style-type: none"> <li>Participant starts in a job or self-employment with the appropriate supporting evidence</li> </ul>
Stage Three – second job outcome payment	<ul style="list-style-type: none"> <li>Mandatory participant: £400</li> <li>Voluntary participant: £475</li> </ul>	<ul style="list-style-type: none"> <li>Contractor provides evidence that the participant has remained in employment or self-employment for five weeks continuously, and has not renewed their claim for income replacement benefit in that period</li> </ul>
Stage Three – third job outcome payment	<ul style="list-style-type: none"> <li>Mandatory participant: £3,600</li> <li>Voluntary participant: £3,600</li> </ul>	<ul style="list-style-type: none"> <li>Contractor provides evidence that the participant has remained in employment or self-employment for 13 weeks continuously, and has not renewed their claim for income replacement benefit in that period</li> </ul>

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# WorkDirections UK and Ingeus

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WorkDirections UK is part of the international Ingeus Group of companies delivering effective and efficient welfare-to-work services. The Group, which has been operating for over 16 years, now delivers programmes through subsidiaries in the UK, Australia, France and Germany.

The Ingeus Centre for Policy and Research produces original research, responses to government consultations and business development activity in the countries in which we operate.

Launched in the UK in November 2002, WorkDirections UK's business is helping socially excluded and disadvantaged individuals to find suitable and sustainable employment.

Our welfare-to-work operations support people who have become long-term unemployed, as well as single parents, and those who have been separated from the labour market as a result of health issues.

WorkDirections delivers Private Sector Led New Deal programmes in Central and West London, as well as Employment Zones in Nottingham, Birmingham, Brent, Haringey and Southwark. In addition, services for people on Incapacity Benefit are provided through our New Deal for Disabled People programme in Birmingham and Incapacity Benefit Outreach Projects in Brent and Southwark.

In less than four years WorkDirections UK has become one of the largest and most respected providers working with Jobcentre Plus.

WorkDirections has almost 300 staff in the UK, and well over 25,000 clients have accessed our services.

Jane Mansour

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