



WorkDirections®



Reducing dependency, increasing opportunity: options for the future of welfare-to-work

A RESPONSE FROM WORKDIRECTIONS
– PART OF THE INGEUS GROUP
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Summary

WorkDirections UK has been providing welfare-to-work services in the UK since 2002. We work with long-term unemployed people accessing New Deal 18-24, 25+ and Employment Zone services as well as lone parents and people claiming Incapacity Benefits. As part of the Ingeus Group, our international experience, delivering services in France, Germany and Australia in addition to the UK, provides us with a unique insight into how the contracting process affects the quality of service provided to the individual. In all four countries there are examples of best practice as well as opportunities to increase effectiveness.

We are pleased to offer this paper as an initial response to some of the issues raised in David Freud's report. We hope further to stimulate the debate and continue to generate ideas which will lead to the development of programmes that enable people to gain sustainable, and progressive, employment.

Freud sets his report within the context of the success that welfare-to-work programmes have achieved over the last decade. However, as he identifies, there is both room and requirement for improvement, in terms of contract and programme design as well as quality of delivery and sustainability of outcomes. We welcome the desire to raise and address the higher level questions about outsourcing, procurement, longevity of impact and the cost-effectiveness to the Exchequer in terms of programme spend and benefits saved.

WorkDirections supports the broad recommendations made in the report to pursue longer term outcomes for clients through individualised assistance, achieving this through increasing the level of outsourcing to the private and voluntary sectors.

It is essential that any changes in contracts and delivery build on the strengths of existing provision in addition to identifying new ways in which performance, particularly around sustainability and assistance for the 'hardest to help', can be improved. It is clear that there is an important continuing role for the public employment service to play in delivering effective services for those 'closest' to the labour market. Equally, it is recognised that the private and voluntary sectors have appropriate skills and experience to deliver individualised services to support those 'furthest' from the labour market into sustainable work.



There is room for improvement, in contract and programme design, quality of delivery and sustainability of outcomes



In principle WorkDirections supports:

- **A more personalised, individual-focused service** – evidence, particularly from the Employment Zones, has shown that where programmes are inherently flexible, providers are better able to design and deliver sustainable interventions that meet the needs of each individual client.
- **Outcome-based funding** – if the objective is sustainable employment, then that is what must be financially rewarded. There must be an unambiguous direct correlation between the policy and programme objective and what is purchased.
- **Larger contract parameters** – these ensure that providers are able to invest both in quality infrastructure and programme development and enable new providers to consider market entry. They should facilitate the balance of risk and reward between the government purchaser and the provider.
- **A focus on retention and progression** – there remains a very strong case to align the skills and employment budgets to ensure that interventions achieve greater longevity through a consistent and coherent approach to sustainable employment and ongoing skills development.
- **Aligning conditionality** – by focusing on mandating engagement rather than activity or work, increasing levels of conditionality can help successfully to challenge the sense of isolation and helplessness felt by people distanced from the labour market.
- **Linking programme funding and benefit savings** – explicitly making the connection between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME), the two funding streams that support those out of work and their journey towards the labour market, means that the risk and rewards of outsourcing performance are clearly mapped against the total cost and savings to the Exchequer.
- **Transparently measuring performance** – there is an identified need within the UK market to address performance measurement and improve the sharing of best practice through increased transparency. The introduction of a more effective benchmarking system should lead to better performance, but would require certain conditions – including standardising IT and data capture – to be met.
- **Testing and piloting** – the proposals from Freud are radical and untested so having a number of pilot contracts is essential. However, it will be critical to choose the pilot areas with great care, in order to ensure that the impact of significant existing outsourced programmes can be controlled for.

Back to work support

A more personalised, individual-focused service

Individualised interventions sit at the heart of the WorkDirections approach. The relationship between the advisor and the client – and the flexibility available to design interventions to meet the specific needs of each individual – underpins the success, or otherwise, of welfare-to-work programmes in reaching those furthest from the labour market.

Evidence from WorkDirections' delivery experience and UK research has repeatedly demonstrated that a client is best assisted through individual face-to-face contact with a personal advisor - with additional support, as required, from appropriate specialist advisors, skills development, or other services and activities. This means that advisors must have the **freedom and flexibility to create real solutions** according to the needs of each individual client. The same flexible approach to delivering services has proved to be successful for all types of clients on all types of benefits - mandatory or voluntary, older or younger, skilled or unskilled. This can be demonstrated through the results achieved by WorkDirections with clients on Jobseeker's Allowance, Incapacity Benefits and Income Support.

Similarities and differences between clients exist across benefit groupings. Indeed, a significant number of clients move from one benefit to another. It is worth noting that the disadvantages that arise from segregating clients by type of claim can also occur if they are grouped by barrier to work. This may be because the actual barrier to work is not immediately evident or because there are multiple issues which need to be addressed concurrently. Failing to do so can lead to a fragmented experience for the client. A barrier-led approach as opposed to a work focus can also act to reinforce a sense of helplessness on the client's part.

We appreciate the rationale for a comprehensive **screening tool** (in Australia, they use a Job Seeker Classification Instrument (JSCI)) to determine client levels of disadvantage and establish the fee to be paid for assisting the client into employment. This information also makes it possible to measure and recognise providers' performance in achieving outcomes for those at greater risk of long-term unemployment.



Advisors must have the freedom and flexibility to create real solutions according to the needs of each individual client



In the case of the Australian Job Network, clients at the point of first making a claim are scored according to a range of the criteria identified as significant in contributing to their risk of remaining unemployed. This scoring tool is called the **Job Seeker Classification Instrument (JSCI)** and is a series of questions intended to be quickly answered about age, education, geographical location, country of origin, disability, stability of accommodation, disclosed ex-offender status, and personal characteristics. Responses to these prompt questions might trigger a further specialist assessment (for example if the person has a disability) or referral to a non-work-focused programme to address more serious needs, or referral to the Job Network.

When referred to the Job Network the client may be designated as 'Highly Disadvantaged', according to the aggregate JSCI score. This means that the client is fast-tracked to more intensive assistance from the Job Network provider and attracts a higher level of funding available for discretionary spend by the advisor. It also means the provider is paid a higher level of fees for a sustained outcome for that client, and receives bonus points for the outcome in the performance measurement and ratings system.



It is especially important to identify and record accurate information about a client's circumstances



The JSCI is not an assessment of the client's needs, or intended to determine the particular way a client should be assisted to achieve employment. The function of the JSCI is to classify clients for the purpose of referral to appropriate services and to indicate levels of risk and potential reward to the provider. Given the importance of the risk and reward function, it is especially important to identify and record accurate information about a client's circumstances, and to record changes in status that might occur, as they frequently do for unemployed people.

Another aspect of the JSCI is that the score needed to achieve 'highly disadvantaged' status can be adjusted. This means fees can be rationed and budget requirements anticipated.

Focus on retention and progression

WorkDirections has long supported enhancing the ‘work first’ welfare-to-work approach by increasing the focus on retention and progression. This requires **connecting the employment and skills agendas** in order to promote more sustainable outcomes.¹ It is vital that the focus on work is not lost, and that in an attempt to improve the ‘quality’ of outcomes programmes do not become ‘training first’. The evidence is unambiguous – the benefits of skills training are experienced when it is clearly linked to and combined with work.

The research from the Employment Retention and Advancement Demonstration pilot² highlights that all too often ‘work first’ and sustainability are seen as conflicting methodologies. However, we would argue that a **focus on sustainability aids job search success** – clients are more likely to engage and commit to the process when they feel their needs are the central consideration. It is important that the quest for sustainability does not in itself become a barrier to finding work. ‘Good’ jobs should not become something that people stay out of work in order to get; instead ‘first’ jobs should be approached as stepping stones and clients coached in the best ways to use them to achieve their long-term goals.

Freud suggests **measuring retention** over a three year period. This is a significant period of time which requires a careful balancing of risk and reward to make it financially viable. The stages at which interim payments could be claimed and the proportional size of such payments would be crucial.

There is also the central issue of **tracking**. Many clients, understandably, want no further contact with a provider once they are in work, preferring to leave that part of their lives behind them and expecting providers to maintain contact for a full three years is both untested and probably unrealistic. Measurement would be most effective if done through the Inland Revenue. This would also release providers from any prescription about how retention is best achieved. The best pre-employment programmes provide clients with the skills to navigate the labour market successfully when required to in the future – up-front retention and progression support should be no less well rewarded than other types of ongoing activity.

Indeed, the longer the retention period, the more important it becomes to consider the staging and size of **outcome payments for retention achievements** that can be reasonably attributed to the provider. It is easy to demonstrate that a



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¹ For more detail, and our recommendation on how this can be done, see the WorkDirections UK paper: *Skills and sustainable welfare-to-work* (2005)

² See report from Government Chief Social Researcher’s Office: *Designing a Demonstration Project An Employment, Retention and Advancement Demonstration for Great Britain*, 2003

provider has helped someone get a job, but it may be more difficult, if the client is in the job two or three years later, to demonstrate the extent to which this was due to the provider. Should the achievement of the retention outcome payment depend on evidence that the provider gave the client some particular in-work or skills training support, or could the retention payment reasonably be claimed on the basis that the provider helped the client find the right job? Conversely, if a client does not remain in employment for three years, to what extent can the provider be held responsible?

In formulating fair and reasonable definitions of outcomes, consideration should be given to whether a provider needs to demonstrate a level of intervention to which the impact can be fairly attributed, and the time frame in which this occurs.

We have previously suggested in the past that advancement is best assessed and rewarded by measuring salary increases, again measured through Inland Revenue data. Although this does not take account of clients who feel they have progressed by increasing job satisfaction through finding new opportunities that better meet their needs, it does provide a quantitative and easily understood concept of advancement.

Working with employers

Employers' needs are best met through a good match with a client. This is achieved through good preparation of the job seeker and skilful matching rather than manipulation of the labour market. The importance of reverse marketing cannot be overestimated, particularly when the focus is on sustainable employment. There is a real danger in asking employers to engage with welfare-to-work clients as a charitable act. Doing so prevents clients being seen as worthy employees in their own right and is not a sustainable solution.

It should be noted that there is often a disparity between what employers say they do and their actions. They need to be challenged on their recruitment procedures – many use irrelevant qualification requirements as a screening device, perceiving them to correlate to 'softer' skills levels. This is as, if not more, true for the public sector. Many local authorities, for example, espouse equal opportunities and provide a single application form for all jobs. This, however, often acts to discourage and exclude those without qualifications, making 'inclusive' interview processes irrelevant.



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The contracting model

We have outlined our thoughts on improving procurement in some detail in our paper *Buying quality performance* (2006). In this response we pick up on some issues specific to this report.

Linking programme and benefit savings

By explicitly making the connection between the strict three-year expenditure plans (DEL) and future savings in annual benefit payments (AME) supporting those out of work and their journey towards the labour market, the risks and rewards of outsourcing performance are clearly mapped against the future savings to the Exchequer.

Outcome-based funding

Outcome funding is essential. It makes the expectations of the provider explicit, provides opportunity for creativity in meeting the desired goal and mitigates against duplication and unnecessary delays. However, effective outcome funding requires the right outcomes to be funded. ‘Outcome’ payments in current programmes are inconsistent. In some cases providers are incentivised to maintain clients’ current status through an imbalance in the rewards for interim activities and job outcomes.

Outcome-based funding also provides the opportunity to address funding silos. In many cases clients’ experience of support services is fragmented – they need to visit different agencies, organisations and providers in order to build up their required support package, often resulting in frustrating repetition and delay. Funding a sustainable employment outcome should enable providers to knit together generalist and specialist interventions so that clients can receive a seamless experience.

Staggering outcome payments over a long period of time, whether that is 52 or 156 weeks, passes a considerable level of risk to the provider. This needs to be matched by a comparative level of reward. In order to manage this risk, scaled interim payments would be essential, enabling providers to claim at job placement and then at agreed stages of retention.



Effective outcome funding requires the right outcomes to be funded



There are some possible disadvantages to outcome funding which need to be considered when models are developed. These include the avoidance of creating perverse incentives – the ‘right’ outcomes need to be identified and not just ones that are thought to correlate with the objective. Appropriate targets need to be sufficiently testing, and rewards need to be enough to encourage market entry and ensure that successful providers can afford to remain in the marketplace. The public sector is already awash with targets that are seemingly achieved but which have very little connection with what its customers would regard as the achievement of objectives.

In this context, it may be helpful to conceive of ‘reward’ not only in terms of outcome fees earned, but in terms of performance ratings that could be used to allocate future business. These would play a key role in future business allocation, giving significant weight to retention and progression, and to outcomes for particularly disadvantaged groups of clients.

This approach may merit particular consideration in privately debt-financed welfare-to-work provision. Weighting payments towards retention will add costs to the outcome fee to be paid by the Government - a privately financed provider would be required to borrow more at higher interest rates than the Government could. Given that the Government would, effectively, have to pay this debt premium through the contract tariffs, it is worth considering options for more cost-efficient provider incentives.

Such an approach would of course rely on the Department for Work and Pensions’ capacity to engage or interest alternative providers so that business re-allocation is a genuine option. It would also require a time frame long enough reasonably to observe provider performance, yet short enough to maintain provider performance incentives to win additional business. It is also essential that there is a coherent and consistent system of provider performance measurement which at present does not exist in the UK.



It is also essential that there is a coherent and consistent system of provider performance measurement



Larger contract parameters

We recognise the importance of economies of scale in ensuring contract viability. Size is important in terms of a critical mass of clients, and also in terms of contract length. **Longer contracts promote stability** and encourage market entry. They also provide better value for money through reducing costs associated with repeated contracting rounds. Employment Zones offer five year contracts at present, and these have been successful in encouraging new entrants at each round.



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Implications of Regional monopoly contracting

The Freud report suggests that contracts should be let at the Regional level. In the UK, this is very large and would include an area the size of the whole of the West Midlands, London or Scotland. By contrast, the Provider Led Pathways to Work competition has been commissioned at District level. An increase to a regionally sized contract (which could be ten times the size of a District contract), as proposed by Freud, would change the dynamic of those able effectively to compete.

It appears that the proposal to let contracts on the scale of Regional monopolies primarily addresses the challenge of how to finance future welfare-to-work provision. Given this, and following Treasury recommendations about the necessary conditions for private finance initiatives (PFIs), it is vital to apply some, at this stage hypothetical, value-for-money tests in advance of such a scenario.³ Such tests should, of course, inform the design of pilots.

There is some partial evidence from the Employment Zones that the **competition between multiple providers leads to improved performance**. We would suggest that at pilot stage it would be beneficial to trial both monopoly and multiple provider approaches.

³ See HM Treasury, PFI: *Strengthening long-term partnerships*, March 2006.

Implications of private debt-financed programme delivery

In many ways, the Freud proposals are analogous to the PFI approach to large capital investment projects. They are about obtaining private finance to fund employment programmes, which is equivalent to investment in human capital. Given that there are likely to be severe constraints on public expenditure in future years (funded from DEL), the approach of private finance to fund programmes (funded out of future savings in AME) is obviously very attractive and is something which has already attracted all-party support. Indeed the Conservative Party proposed a similar approach in November 2006.

Debt-financed privatised welfare-to-work service delivery logically entails the inclusion of debt costs in the fee that is eventually charged to the Government for the service. This is the case even assuming that the fee will not be paid until the result is achieved. To that cost must be added a risk premium for the service provider, as well as its costs for letting, monitoring and managing any sub-contracts that it will be required to have.

As the Department for Work and Pensions has not previously purchased this level of debt-financed welfare-to-work services before, we think it should test the market in terms of the kind of tariffs that will attract sufficient interest. We suggest it should consider inviting interested prospective Regional bidders to participate in cost-modelling scenarios. Among other things, these should demonstrate:

- The basis on which they would calculate assumptions of employment and retention outcomes
- The kinds of tariff regimes for outcomes that they believe would work
- The level of a hypothetical outcome fee that would be necessary (assuming a Regional contracting scale) for the provider to remain financially viable
- The proportion of that hypothetical outcome fee that would necessarily be applied variously to debt servicing, sub-contractor payments, management fees for the Regional provider, and other costs.



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The 2006 Treasury survey of privately financed initiatives reports that of 500 operational PFI projects delivered, about half have been new or refurbished schools; 185 new or refurbished health facilities; and 43 transport projects. These kinds of projects typically involve large capital investments. Welfare-to-work services require most of their investment in working capital in order to cover the costs of having highly skilled specialist advisors. The implications of this key difference for how best to exploit the new opportunities possible with PFI need to be reviewed, modelled, and tested.

Though the clear priority of a Freud model is on long-term employment and retention outcomes, there are some service quality processes in which the Department might want to retain an interest. These might include the application of sanctions; time lags for seeing clients; or ensuring attendance and participation on programmes.

There is also the question of the extent to which the Department would want to take an interest in the way Regional providers monitored and measured, rewarded and sanctioned the performance of their sub-contractors.

Longer contracts do require poor performers to be managed; supported to improve, but ultimately with provision for contracts to be removed. The system for doing this needs to be transparent and understood by all. Due to the contract scale and level of financial risk suggested, opportunities to re-allocate business to alternative providers are likely to be limited, and the consequences of this need to be considered.

The Australian star ratings system⁴ is often used as an example of best practice in this area. It takes account of variables in job seeker and labour market characteristics to enable the regular reporting of **comparative performance ratings** for each site for each provider in the Job Network system. Changes in relative performance change the rating, and ratings are used to determine contract extensions and whether providers can increase or lose business share.

There could be advantages to implementing a comparative performance system in the UK. However, we are some way from being able to meet the key conditions required for this to work effectively: commonly defined outcomes; a standardised IT and data capture system; and standardised job seeker profiling.



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⁴ See WorkDirections UK paper, *Performance measures for welfare-to-work programmes: The relevance of Australian star ratings to the UK*, 2007.

Rights and responsibilities

Aligning conditionality

There are two separate issues regarding conditionality: increasing the level of intervention for claimants of inactive benefits, and increasing levels of conditionality (to be consistent with Jobseeker's Allowance) for lone parents once their youngest child has reached 12 years of age.

Claimants need opportunities to access advice about work, additional support and to understand employment possibilities. We believe this often requires more intensive interactions than the current benefit regime allows. The evidence, and indeed our daily experience, suggests that **mandating participation** in good quality work preparation for those for whom it is appropriate is an essential component of the State's duty of care. A focus group we undertook with Incapacity Benefits claimants in 2006 found the overwhelming consensus to be that regular (they suggested quarterly) work-focused interviews would be helpful. They felt it was fair to be asked to attend interviews when they were claiming benefits. Importantly, however, they noted that **health considerations should be a factor** in determining regularity of contact. They also identified the need for skilled, sensitive and knowledgeable advisors.

Working towards employment is more likely to be successful when the client is engaged, empowered and feels in control. It is therefore important that mandated clients are made to feel that they are willing participants. This needs to be balanced against a background of long-term non-intervention, where clients are likely to be demotivated, depressed and disengaged.

Consequently, we support the idea of aligning Income Support for lone parents once their youngest child reaches a set age, and conditionality aligned with Jobseeker's Allowance when the youngest child turns 12 seems to be a reasonable point. However, we would suggest that there needs to be a **transition between the benefits**, with lone parents receiving increasing levels of intervention and support as their child reaches secondary school age. This would be with the goal of enabling lone parents to leave Income Support for work, rather than for Jobseeker's Allowance. If they were to move onto Jobseeker's Allowance, we would want to see them fast-tracked to the higher level of support which the report proposes is delivered by the private and voluntary sectors.



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WorkDirections UK and Ingeus

WorkDirections UK is part of the Australian-owned Ingeus Group of companies which provides effective, accountable welfare-to-work services. The Group, which has been operating since 1989, now delivers services through subsidiaries in the UK, Australia, France and Germany.

WorkDirections UK produces research and responses to policy initiatives and consultations which can be found in the 'About us' section of our website – www.workdirections.co.uk.

- Launched in the UK in November 2002, WorkDirections UK supports socially excluded and disadvantaged individuals to find suitable and sustainable employment.
- Our welfare-to-work operations assist people who have become long-term unemployed, as well as single parents, and those who are not working 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 Benefits are provided through our **New Deal for Disabled People** programme in Birmingham and **Incapacity Benefit Employment Project** in Brent.

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