



**Improving Employment Outcomes: A Policy
Paper by the Employment Related Services
Association**

December 2006

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1. Executive Summary

1.1 ERSA believes that success in obtaining employment outcomes can be influenced by market conditions and contracting policy. To this end, ERSA has analysed the current market and contracting arrangements used by Government in engaging employment service providers.

1.2 ERSA makes the case for reform of current contracting practice and offers a critique of the recently introduced prime contracting model. Although the model attempts to make the contracting process more efficient, ERSA argues that this comes at the expense of diversity and individualisation in service provision. ERSA believes that to encourage a dynamic market place of providers the number of contractors must be reduced but competition should remain within a district. Longer term contracts should be available with three year contracts the minimum offered to tender.

1.3 The programmes offered to benefit claimants must offer total flexibility and individualisation to achieve the best outcomes. In order to achieve this, a generic programme would allow the client and adviser to find the best route into employment for the client, avoiding the prescriptive nature of specific programmes. The risk of 'cherry picking' clients can be mitigated by offering payment differentials for clients based on an assessment of their distance from the labour market. Current contracts also encourage concentration on those closest to the labour market because of the capped rewards on offer. Introducing uncapped contracts would be a radical step towards helping those furthest from the labour market and would more accurately reflect the costs of helping those with severe and multiple support needs.

1.4 The extension of customer choice is an essential part of building a welfare system fit for the 21st Century. ERSA believes that choice increases successful outcomes and promotes a dynamic market place. With the shift towards prime contracting the active choice lies in the hands of Jobcentre Plus rather than the end-user. We should instead be giving the customer the information necessary for them to make an informed choice of provider. Only then can we embed choice into the process and produce an innovative, customer-focused welfare system.

2. About ERSA

2.1 ERSA is the representative body for providers of publicly funded employment programmes. It aims to raise the profile of the provider network with interested parties, and constructively engage with Government and other policy-makers on issues affecting its membership.

2.2 ERSA's membership consists of both private companies and not-for-profit organisations¹, ranging in size from small organisations to some of the largest providers in the UK. ERSA's members collectively represent a significant proportion of the sector with over 50% of Jobcentre Plus provision spend going to ERSA members.

¹ ERSA's Membership at November 2006: A4E, Action for Blind People, Agens, Breakthrough UK, Carter & Carter, DISC, Employment Opportunities for People with Disabilities, Enham, Inbiz, Instant Muscle, Maatwerk, Mencap, OSW, Papworth Trust, Pecan, Pluss Organisation, Rathbone, RBLI, Reed In Partnership, Regenerate Glasgow, Remploy, RNIB, RNID, Salvation Army, Seetec, Sencia, Shaw Trust, TNG, Tomorrow's People, Turning Point, Working Links, WTCS Ltd, YMCA Training

3. Contracting Policy and Market Diversity

3.1 It has been recognised by Jobcentre Plus that with over 900 contractors there are far too many resources going into contract management. Clearly the system needs to be streamlined and made more efficient by having a smaller number of larger contracts. ERSA is very supportive of this position but believes it is important that the number of contractors in the Welfare to Work market is sufficient to allow diversity of provision, encourage innovation and provide choice for clients and ultimately better value for taxpayers.

3.2 One way Jobcentre Plus have sought to do this is to use a prime contracting model. Here, a tendering competition is held within a district for a prime contractor to run a programme within that district using sub-contractors if necessary. The prime contractor manages their own sub-contractor/s and therefore Jobcentre Plus's management of the contract is only through the successful prime contractor.

3.3 This represents a step in the right direction. It moves away from Jobcentre Plus-led models and gives a greater role to the PVS. Nevertheless ERSA has concerns that it is not the optimum model for contracting and does not believe that the prime contracting model should represent the end of the road for contracting reform.

3.4 It is obvious that the current system needs to be made more efficient, however diversity of provision is also a pre-requisite for high performing, outcome-driven providers. ERSA believes that prime contracting risks losing diversity of the provider network for the sake of securing efficiency.

3.5 Over time, prime contractors will naturally seek to minimise their costs through using as few sub-contractors as possible. This model merely moves the costs of contract management from Jobcentre Plus to the prime contractor. It is likely that prime contractors will begin to deliver more themselves and use subcontractors less. The natural conclusion of this is that subcontractors will eventually have insufficient business to support their overheads in a particular District and will move out. This will leave the prime contractor to deliver all the services and when contracts are re-tendered leave no credible competition in the District.

3.6 Although the model seems to carve out a role for the specialist or smaller providers in performing the sub-contracting, it does not account for the likelihood that many such organisations will be swallowed by larger prime contractors or be put out of business should prime contractors take on their work. Although there is essentially nothing wrong with that outcome should the larger organisation be

able to seamlessly provide the same services; it is unlikely that a larger, hitherto volume driven, organisation could provide the same level of individualisation in service provision that the small specialists are so successful in providing to their niche clientele.

3.7 Although the contracting process provides for competition between providers within a district, the actual result for the district is a local service monopoly with no choice being passed to the customer over which provider they would want to use. The impetus to be innovative and strive for continuous improvement in performance diminishes once a contract is won as the customer base within the district is now a captive audience; they have nowhere else to go for their service.

3.8 Prime contracting not only risks limiting creativity in service delivery and progression in improving outcomes, but it is at odds with the government's own choice agenda. Contesting the contract in itself gives no choice at service-user level. Choice is available to Jobcentre Plus in awarding the contract and to the prime contractor over which, if any sub-contractors they engage, but the customer who is to receive the service cannot exercise any choice. Choice not only improves performance of providers but is an important factor for user satisfaction and must be seen as central to improving outcomes. If the customer is not happy with their service provider they are not as likely to engage and achieve a successful outcome. As participation in employment programmes are a condition of receipt of benefits in many cases, there are clearly defined rights and responsibilities of the customer; an explicit social contract between customer and provider, the likes of which are rare in any other area of social provision. By giving the customer choice over who they enter into this social contract with, it follows they are going to be more willing to actively participate. You afford the service-user an equal relationship in the contract, and they have the chance to exercise autonomy which is essential in shaping their attitude to approaching the programme.

3.9 A further risk of the model is that should the prime contractor perform so poorly Jobcentre Plus consider rescinding the contract; the difficulties this would present in finding other contractors to move into the district and the time it would take for them to set up sufficiently, may make Jobcentre Plus rather reluctant to take the decision to do so. This is obviously unacceptable for both the customer and taxpayer and removes one of the main driving forces for high performance, the ultimate sanction of losing the contract.

3.10 So although prime contracting takes a step forward in increasing the efficiency of the system, it compromises diversity, with all the benefits that brings and affords no choice to the customer. What needs to be developed, in consultation with PVS providers is a model which allows for more than one

provider in a district but which sets reasonable limits on the number of contracts managed by Jobcentre Plus.

3.11 Jobcentre Plus have indicated that they are looking to reduce the number of contractors. Rather than achieving this through having one Prime Contractor in each District, ERSA believes that Jobcentre Plus should have a minimum of three contractors. This would have the advantage of

- Retaining performance competition within given labour markets, encouraging innovation
- Ensuring a monopoly does not develop, thus making pricing more competitive
- Providing a choice of service providers for both clients and employers

3.12 If each Jobcentre Plus District had three providers the maximum number of providers in the market place would be 150. In reality many providers would have more than one contract and it is likely that the number of providers would be around 50.

3.13 Although we recognise that in some districts there may be concerns over the economic viability of having three providers, we believe that in most cases this could be offset by reducing the number of programmes (as addressed in the next section), thereby allowing providers to take on a greater number of clients cross-cutting existing programme groups. If there remain serious concerns about the economic viability within a region, consideration should be given to increase the geographical area covered by the contract as it is likely to be better for quality of client service and price to have competition between 3 providers over larger geographical regions with well defined contracts and outcomes, than to have single monopolistic providers in smaller regions.

3.14 Furthermore, to maintain financial stability, longer term contracts should be offered as too often contracts of less than three years duration are put out for tender. This has the effect of restricting investment in services by the successful provider as they are not assured of the long-term future of the business. The shorter the duration of contract offered, the higher the capital depreciation. This is an inefficient practice which prevents the maximum resources being invested in services to the client because by necessity a larger proportion of total spend is made on hardware, premises and other set-up costs. Additionally, the costs of re-tendering for both potential and existing providers are high, and organisations may be discouraged from competing given the short duration of the contract on offer. ERSA recommends that to encourage high quality competitors for contracts and to ensure investment in services for customers, contracts of a minimum of three years should be offered. An additional advantage of longer term contracts is that they allow providers to forge good working relationships and partnerships

with local employers and community organisations, to the benefit of both clients and the wider local community.

3.15 Such a dynamic market place would ensure competition driving up performance, reducing prices and still achieve the Jobcentre Plus goal of significantly reducing the number of contractors they have to manage. It is worth noting that in both Australia and the Netherlands, both markets smaller than the UK, over 100 providers are competing for contracts. ERSA would be happy to work with JCP and DWP officials to take this forward and move towards the optimum contracting model.

4. Generic or Specific Programmes?

4.1 Currently there are a plethora of programmes based on factors ranging from geography to ethnicity, from benefit type to length of unemployment. This is in large part the reason for the numbers of contracts that Jobcentre Plus manages. Programmes do not allow for customisation to the individual needs of the client as they are prescriptive rather than flexible.

4.2 This number of programmes can be confusing for the customer and costly for the provider. Many programmes also offer similar core services which could easily be streamlined. A generic programme would simplify the current situation, allowing providers to offer appropriate services to the client with a single point of contact.

4.3 This generic contract should not be confused with a generic service to clients. Indeed ERSA believe that this contracting environment would encourage the opposite and that service would be delivered on an individual basis. Rather than Jobcentre Plus buying what was thought to be the right service for lone parents or long-term unemployed clients, providers would agree an individual plan with each client and be rewarded only on success.

4.4 A risk of the generic model is that providers may end up offering very different levels of support, leading to a 'postcode lottery' scenario for the customer. To counter this effect, increased emphasis and payment on sustained outcomes must be enacted within contracts to ensure that providers are truly offering clients a service tailored to their specific needs in obtaining employment. ERSA would also welcome the input of local stakeholders into the planning of service delivery to ensure that what is being offered by providers meets the needs of the community and is appropriate to variable local conditions.

4.5 Under a generic programme one would have to take account of the varying amount of time and support a customer would need to enter the workforce. Otherwise it would not make financial sense for providers to concentrate on any group other than those who represent close-to-labour-market high volume outcomes. A system of payment differentials to acknowledge the client's circumstances could be introduced to prevent those furthest from the labour market being left behind in a volume driven approach. Specialist providers would also benefit as their true costs in helping the furthest from work would be more accurately represented through payments than is currently the case.

4.6 The current system of capped contracts means that those most able to be helped are often those who gain successful outcomes from programmes. This is not so much a consequence of provider cherry picking but more one of employers taking the best candidate for the job. As providers deliver a contract

the services they bring to bear on a given client group often result in those clients most able to assimilate information or adapt their behaviour more quickly achieving sustained job outcomes. Those clients who are slower and less able to take on information and adapt take longer to find work and sometimes this can be a process of years. By capping contracts Jobcentre Plus have introduced a system that favours those clients closest to work. Uncapped contracts will have the opposite effect and will encourage providers to continue working with those furthest from the labour market in the knowledge that eventually they will be paid for the outcome. Providing robust measures are in place to ensure that only those who need this type of intensive support receive it and that those delivering it do so to the highest standards, this would enable adequate resources to be available to make achieving outcomes a realistic goal rather than a pipe dream for this group.

4.7 We understand that defining the groups eligible for higher payments is difficult, and that the assessment procedure needs to be fair and transparent. Nevertheless it is necessary, as providers must be rewarded adequately for their expertise and for the distance travelled with the client. An inclusive welfare to work system cannot function without recognising the extra time and effort invested in certain groups of clients.

5. Choice and Contestability

5.1 We are supportive of customer choice. The ongoing success of employment programmes can only be maintained and improved upon where those requiring such services have access to informed choice. Customers obtain maximum benefit from the programmes delivered where flexibility, innovation and customisation play a major part. Such choice can only be provided by having multiple providers in each region of delivery. Giving the customer the means by which to make an informed choice also needs to be considered.

5.2 When using any service over another, individuals base their decision upon a range of factors. Personal recommendations, company profile, reputation, location, performance, professionalism of staff, image are all possible factors in a choice. Providers that develop innovative services will have an advantage over those that do not as new services over and above what is available elsewhere is appealing to potential clients. Equally those with comfortable, modern facilities, friendly staff and convenient locations are likely to benefit from customers choosing to use them. So choice prompts the development of new services and a client-centred approach.

5.3 The model chosen by Jobcentre Plus is that after the initial work focused interview the client is referred to a provider. The issue here is informed choice, and how the market is structured to allow this to happen.

5.4 If there is only a single provider in an area, it is a monopoly. The provider may then begin to behave with the characteristics typical of monopolies. This usually leads to increases in price and/or reductions in services unless there are external factors mitigating against this. For example, the factors may be the relative power of the customer or regulation. In this case the relative power of the procuring customer, the Government, will have a strong influence on price, and hence be able to constrain behaviour on price. However the ultimate customer for the service is the individual, and here the quality of service will be less easy to constrain in a monopoly position.

5.5 This very much affects the individual client informed choice agenda, not just in terms of choice between providers, but in terms of choice to receive a high quality service meeting the individual's needs.

5.6 Allowing competition between providers will address this, as provided the contract outcomes and payments are well defined and measured; the providers will be competing on perceived quality of service. Informed choice will then be exercised by the referral behaviour and recommendations from the first work focused interview. This would potentially make it in large providers' best interest

to work in partnership with small specialist or local providers, as this may be what particular client groups value and need.

5.7 A customer has the right to know how well a provider is performing. Although we are cautious about publishing information about providers in a league-table style which could be misinterpreted and unrepresentative, we do believe that the client should have access to performance information if they wish to make it a factor in their decision making. The government should look closely at assessing providers for quality grade marks. A specialist provider working with largely complex cases would not be disadvantaged under this system as the grade would take account of this, whereas raw performance data would not. It would allow the provider to offer potential customers an independent rating and is consistent with other public services such as health, housing and education. By not giving access to this type of performance information, we would be denying the customer the full range of variables to base their choice upon.

5.8 ERSA acknowledges that there are some clients who are unable to understand or appreciate the benefits of work and that some may purposely make a choice of provider who is not best placed to help them into employment. Although this presents a problem, we must bear in mind that this applies only to a minority of clients and that the majority want to find work, so we must assist people in every way possible to make an informed choice. Jobcentre plus must manage providers to ensure that they are achieving successful outcomes. Thus the issue of clients having the ability to actively choose a poorly performing provider is erased through robust contract management.

5.9 Ultimately it is the customer who will decide what factors they deem to be important in making a choice of provider. By utilising Jobcentre Plus as a gateway to benefits and services delivered by providers, the customer could be given all the information regarding providers and services in their area by Jobcentre Plus in order to help them make a choice based on all the relevant information. This would overcome any problems that smaller providers may have in marketing their services due to lack of funds. It would however mean that Jobcentre Plus become a neutral gateway to services rather than participating in the provision of services. Otherwise they would have an inherent advantage in supplying information to potential customers.

5.10 A competitive market place would encourage providers to innovate, trying new approaches and bringing in new services to increase their comparative performance and secure repeat business in future tendering rounds. Choice and contestability are related but not synonymous and ERSA believes that both are essential to ensuring a quality, high performing outcome driven welfare to work market.