

Oxford Economic Forecasting

Transforming Employment Related Services

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on behalf of the

Employment Related Services Association

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1 Key Points and Recommendations

1. With substantial success, the UK has pioneered the use of private and voluntary sectors in providing services to assist the workless find jobs. With the Government's third term agenda for welfare reform, and the forthcoming procurement rounds, now is the right time to implement further change to deliver significantly better results.

2. Operating experience, and international evidence, show that the mixed procurement and provider role played by Jobcentre Plus (JCP) inhibits best practice. The role of JCP should be clearly defined. These roles should be separated giving one agency a pure focus on paying benefits, deciding on eligibility and managing the contracts. JCP should either be focused only on its interface functions as a public service gateway, or if it is to continue to deliver employment related services these functions should be devolved into a distinct public sector provider that competes with other providers on an equal footing.

3. The incentives in the system need to become more outcome focused. A contracting system that is purely based either on a payment per customer no matter the outcome (full pay, no cure), or only on successful outcomes (no cure, no pay), is unlikely to meet the objectives of policy, but the current balance is too much towards the ends and not the means. The evidence from the experience in Employment Zones is strongly in favour of a greater focus on outcomes driving more innovation and better overall results for customers. JCP should not set out the details of the service they want but should define the outcomes they desire. Extending this approach would lead to a higher performance from the system as a whole.

4. The development of a transparent rating system, clearly identifying the performance of providers against desired outcomes would deliver major benefits. This would incentivise providers to deliver if strong ratings increased the likelihood of follow on contracts. It would share information on performance among all stakeholders and would provide a management tool for the procurement agency.

5. Significant effort should be made to streamline the information gathering and reporting elements of the system. This offers a high pay-off with a redirection of resources from administration to delivery.

6. While there is encouraging progress, there are points of detail in the contracting of services that need to be addressed to strike the right balance between contestability and the costs of the tendering process. These include:

- (i) avoiding overly short, small contracts
- (ii) protracted decision making
- (iii) allowing insufficient time for implementation
- (iv) the balance of risk between procurers and providers

7. The changes advocated offer the prospect of better outcomes, more innovation and more resources for helping the unemployed through savings in administrative costs borne by both the procurer and the providers. The evidence from the 13 Employment Zones shows that the types of change set out below have contributed to up to 10% more of the long-term unemployed securing work than outside these zones. Accordingly extending the outcome based approach of the Employment Zones and adopting the other recommendations of this paper would see a marked improvement in the numbers of long-term jobless across the country securing employment.

2 Introduction

Welfare to Work policy has been at the forefront of public service reform and it has pioneered the use of the private and voluntary sector providers to deliver employment related services. These employment, placement, or reintegration services comprise intensive job counselling and case management for long-term unemployed jobseekers. There is much to praise in the system that has evolved since 1997, but it is equally important to push ahead with developments that will further enhance the performance of the system to deliver cost effective outcomes for customers. As the Prime Minister has emphasised, it is an on-going challenge to improve the delivery of public services. This paper sets out key changes that would allow these performance goals to be achieved.

At a high level, the management of an approach that uses competition among a diverse range of providers to deliver employment services needs clear guidelines and defined areas of competence for all those involved. The underlying thrust of the system should be to deliver incentives to providers and customers, ease the flow of information between the procurer and the provider and set controls with a view to obtaining more outcomes. These outcomes can be clearly defined and include programme starts, job starts and sustained employment. The process by which these outcomes are delivered do not need to be prescribed to the final detail – rather allowing flexibility in the actions taken fosters innovation and trust with customers, as well as reducing administration and bureaucracy. The recommendations in this paper would improve the balance of this system of governance, and draw on experience in the field in the UK, and on examples of good practice internationally.

Currently Jobcentre Plus (JCP) procures services from private and voluntary sector providers via a myriad of individual, often highly specific, contracts. The management of these contracts by JCP often involves a high degree of administration and an undue emphasis on the process by which the provider seeks to deliver outcomes for client groups. Thus the system is focused too much upon the means (process), rather than the ends (outcomes). As is argued below, a system that moves more to outcomes, both for the incentives for all stakeholders and in terms of measurement and control, is likely to provide the best route forward. In other words there is a need to rebalance the incentive and control elements of the governance system, while implementing new systems to make information more readily available to all stakeholders.

This paper offers proposals to:

- refine the role of Jobcentre Plus in securing outcomes for client groups
- introduce a rating system to identify and support good practice to encourage improvements where required and to provide a benchmark for future tendering exercises
- ensure contestability, competition and innovation
- reduce the costs of tendering and delivering contracts – costs ultimately borne by the public purse.

3 Role of Jobcentre Plus

JCP plays an important role as a public service gateway. In particular it has a key role in paying benefits, investigating fraud, deciding on eligibility and commissioning and managing employment related service providers. At present JCP is both a procurer and provider of services. This mixes the roles of referee and player in one organisation. For example, the “spine” of the Pathways to Work programme (Work Focused Interviews) has not been contested and is exclusively delivered by JCP, while the use of in-house brokers for the New Deal for Disabled People (NDDP) provides an example of a less than level playing field between JCP and employment related service providers. In particular, the situation that arises when JCP advisers are given the choice of referring to an independent provider to an organisation that is merely an extension of JCP does not lead to the competition that drives efficiency and performance.

A better solution would be for the role of JCP to be redefined. It should either be focused only on its interface functions as a public service gateway, or if it is to continue to deliver employment related services these functions should be devolved into a distinct public sector provider that competes with other providers on an equal footing. This would allow one agency to:

- define client groups
- lay down qualification criteria for individuals
- administer and service benefits
- undertake decision-making and appeals
- procure services
- evaluate bids
- design incentives and penalties with the aim of achieving successful outcomes for customers
- monitor the performance of providers.

Any separate agency could then operate as a public sector delivery channel, and would be incentivised and monitored in the same way as the other providers, as well as providing services where the option of a third-party provider was not available.

This clearer distinction in roles would also help with other areas in which improvements are desirable. The focus of the resulting interface agency should move towards outcomes and away from prescriptiveness of the process of delivery. The recently released Notice on the contracting strategy for the JSA New Deal¹, while welcome for the important role it recognises for specialist providers, remains too prescriptive of the specific actions that are to be undertaken in the process of moving customers from welfare to work rather than focusing on purchasing outcomes. Section 4 below provides some specifics on how a transparent monitoring system could be developed that would put the spotlight on outcomes.

¹ Notice to Providers, Contracting Strategy, 28th September 2005, see <http://www.jobcentreplus.gov.uk/cms.asp?Page=/Home/Partners/NoticetoPartnerOrganisations/3104>

For incentives directed at providers, while a contracting system that is purely based either, on a payment per customer no matter the outcome (full pay, no cure), or only on successful outcomes (no cure, no pay), is unlikely to meet the objectives of policy the balance should shift more in the direction of incentives to deliver outcomes, with less prescription by the procurement agency on the exact process. Among other things this would foster innovation.

Recent research on Employment Zones (EZ)²³ – currently comprising 13 of the hardest hit areas in terms of unemployment where public-private partnerships have been formed to deliver innovative solutions to long term worklessness - gives strong support to a system that allows for greater flexibility of process and a focus on outcomes. A study (Hales et al) following the experience of individual job seekers concluded that the Ezs were 8-10% more effective in helping participants into work – particularly for jobs involving more than 16 hours work per week - than if the programme operating had been New Deal 25 Plus. This result is supported by an econometric study (Hasluck et al) that finds a significant effect in the EZs on the rate at which target groups find jobs. Moreover this positive effect is not offset by lower take up of jobs by other groups of jobseekers.

Box 1: Too much focus on process

The New Deal for Disabled People (NDDP) Job Broking service is contracted out to a range of private and voluntary sector providers. Payments to providers are made for the achievement of five different outcomes: registrations of eligible participants onto the programme, full time job starts and sustained employment and part-time job starts and sustained employment. However micro-management of these contracts by Jobcentre Plus which requires that these contracts sit solely within their regional structure and that each outcome per month should be monitored and managed at a district level, results in one organisation which is delivering the Job Broking service in nine of the eleven Jobcentre Plus regions reporting against 252 variables per month. Missing any one of these 252 targets results in reduced payments, while overachieving does not result in additional payments.

Moreover despite the availability of the information required for monitoring on various systems, the provider is required to report on each variable. This duplicates administrative effort and is estimated to cost 20% of the total cost of the contract. For example, there have been over 62,000 people placed into work from incapacity benefits via NDDP, with every one of those successes and all payments to job brokers requiring a faxed form to the JCP payments team.

Another area of JCP's current role where there is scope for improvements is information handling. There is a clear need to streamline the system. In particular use should be made of information already held on government systems and re-keying of data that is available electronically elsewhere avoided as much as possible. This would reduce costs for both the procurement agency and the providers, so allowing more resources for the key task of helping customers into work. For example web-based forms and common reporting formats would be a major step forward and would mirror initiatives that have proved successful in Australia and the Netherlands. It is in this type of area that prescription is required rather than in the delivery of services.

² Reported in Contracting-out the Public Employment Service: A New Institutional Economics Perspective, Oliver Bruttel in "Innovating active policies: measures, institutions and methods" (provisional title), edited by Jaap de Koning and Lieve de Lathouwer, publisher: Edward Elgar

³ For more information on Employment Zones see <http://www.employmentzones.gov.uk/>

4 Rating System and Contestability

There are clear advantages to be derived from a transparent rating system for both the procurer and service providers. The Australian experience – see Box 2 – is particularly strong in this regard and helps to demonstrate that, if implemented correctly, with success and action levels set neither too low or too high respectively, a rating system can drive better performance through:

- regular feedback mechanism for both the procurer and the service provider
- means of moving away from too much emphasis on process by the procurer
- “carrot and stick” if used as part of the re-tendering / performance evaluation process
- communication avenue to staff and customers
- indicator of best practice
- barrier to providers that are good at bidding but poor at delivering.

With these benefits a rating system that would adopt and develop the elements of best practice to be found in the systems employed by other nations, including the Australian and Dutch systems, should be implemented in the UK.

The current system does not necessarily generate as much competition, and associated benefits such as cost of delivery, innovation and flexibility, as could be achieved by offering larger, longer contracts, with providers empowered to identify and attract new customers. Longer contracts could be balanced by a transparent performance ranking system that would identify where outcome performance is below acceptable standards and change is required – either by the incumbent or from a move to another provider on grounds of non-performance by the incumbent.

In a system characterised by short, small contracts, where economies of scale are difficult to achieve, and where the fixed start-up and exit costs represent a significant share of the overall budget, the fact that individual contracts are contested does not mean that the stream of services bought via these contested contracts is as cost-effective or generates as much innovation as longer, more stable relationships. Where there is a clear risk that contracts will not be renewed at agreed intervals, or may even be terminated for sub-standard performance if measured against an accepted set of standards and peers facing the same pressures, then competitive forces – and their benefits in terms of quality of service and innovation – are likely to be greater.

To ensure that competition plays its role, a clear system of outcome-based indicators should be an integral part of the system. Not only do these provide feedback to both the procurer and the service provider on performance, they also act as a substitute for the price and market performance signals that characterise markets with frequent purchases and sales.

Box 2: Australia – an exemplar

Australia has moved to a system that separates the role of procurement and delivery and now largely relies on third-party organisations to provide employment services. The system is underpinned with a web enabled database and a focus on outcomes. For example while the Department of Employment & Workplace Relations (DEWR) is alerted if a provider has not met with a customer for four weeks, the content of that meeting is not prescribed by the DEWR.

In the management of this system a “star” rating is used to assist with the evaluation of employment service providers over the course of a contract. The star ratings are based on performance measures which identify those service providers that are best in assisting job seekers to find jobs. They provide for comparisons between organisations operating in different geographic areas. Differences in the labour market conditions under which service providers operate (for example, unemployment rates and employment growth) and differences in the characteristics of the job seekers they assist (for example, duration of unemployment and age) are accounted for in assessing performance.

A service providers rating can vary from ‘1 Star’, indicating room for improvement, to a maximum of ‘5 Stars’, reflecting excellent performance. Approximately 70% of providers’ sites are rated at ‘3 Stars’ or better. Five per cent are rated at ‘5 Stars’, and 4% at ‘1 Star’. (The ratings categories include half star increments to give a finer gradation of relative performance.) Outcomes for the long-term unemployed receive the greatest emphasis, particularly jobs that result in the complete cessation of income support payments, and there is also an extra incentive for placing highly disadvantaged job seekers and indigenous people into long term jobs.

In the Employment Services Contract 2003–2006 purchasing process the star ratings formed an important part of the assessment for existing service providers. Those with ratings of ‘3.5 Stars’ or higher were normally offered ‘Invitations to Treat’, allowing them to continue at their pre-existing business levels. Thus the star rating exercise provides a significant incentive for existing providers. In the transition from the second to the (current) third contract, the best 60% of existing providers on the basis of the Star Rating were offered a contract renewal (without tender).

The star ratings were also used in the subsequent assessment of tenders for the remaining business and are used as a key criterion in assessing the potential re-allocation of business within each geographic area at each six-month “contract milestone”. In any area where there are significant differences in the performance of providers, the DEWR examines the potential for rewarding strong performance by increasing the service provider’s business level. This is achieved by reducing the business level of one or more providers with relatively low star ratings. This introduces a transparent element of competition into the system.

The performance – outcomes and efficiency - of the Australian system has improved markedly in recent years. For example 690,000 job seekers were placed in 2004/2005, up 70% on the 405,000 placed in 1999/2000, while the total costs fell from A\$3.2 billion to A\$1.9 billion over the same period.

5 Aspects of Tendering

There are a number of areas of detail where contracting could be improved. Some of these are already being addressed – for example in the JSA New Deal. These improvements should be reflected across all contracts so as to obtain improved performance from welfare to work programmes.

5.1 Costs

Specific cost-related issues for employment services providers are the costs of:

- tendering and re-tendering in relation to contract size, including instances of very short time periods for preparing contracts
- delays between tendering and letting contract
- variations of contract terms during the contract period
- the proliferation of small, overly prescriptive, contracts that serves to reduce competition, stultify innovation and results in higher delivery costs
- reporting on progress and results.

(a) Tendering

While recognising that tendering costs represent part of the cost of being in the business, the current costs of tendering are often not proportional to the size of the potential contract. Even in cases where a provider's bid to success ratio is as high as 3 to 1, and only large contracts are pursued, the monetary cost of the tendering input can equate to 5% of the total value of the contracts won. With more typical bid to win ratios this cost will be even higher. Moreover, the costs of re-tendering for follow-on contracts are not significantly lower than the costs of bidding for the original contract. These costs are ultimately borne by government and reduce the resources available to deliver services to the client groups.

Given the cost burden of making bids, a system characterised by complexity of types of scheme, geographic area covered and length of contract may discourage rather than encourage competition, and exclude specialist providers. Providers are likely to be selective in choosing tenders for which to bid, only choosing to bid for substantial contracts or where they know that their prospect of winning the contract is particularly high – that is when the competition for the contract is weak. Complexity also adds to cost, and rationalising the number of contracts in particular is likely to be most beneficial by enabling substantial efficiency savings to be made through reductions in administration, management and monitoring costs.

These pressures are exacerbated when very quick turn-around is required in the preparation of a submission, and the conflict between the substantial length of time often allowed for assessment of bids and the short implementation period. There are examples of tender periods of as short as two or three weeks. Applying for such tender opportunities necessitates a commitment of considerable resources at short-notice – something that may not be possible for most potential bidders – thus reducing competition and risking less than complete bids.

The costs of the current system also impact on Jobcentre Plus (JCP). It has been estimated that as much as 50% of costs of some New Deal contracts may be swallowed by administration costs.

An ideal system should therefore take the impact of the cost of the bidding and implementation process into account and seek to strike the right balance between ensuring contestability and the costs of the tendering process. There are a number of ways that this can be done:

- Less demanding information requirements and complex initial application forms
- Use of Framework Agreements where feasible, combined with specific access to new providers
- Providing a reasonable time period in which to respond to tenders – a period of 8 – 10 weeks is viewed as appropriate by the service providers
- Developing a commonality of information requested, rather than asking for similar information in different ways
- Use of web-based forms
- Reduced complexity in the system
- Longer contracts that reduce the costs of re-tendering, balanced by clearer performance indicators and partnership working to ensure that scheme goals are met
- Rolling contracts that explicitly take into account the results of the monitoring / measurement system (see above)
- Adding explicit recognition in the contract for bidding costs to make this cost of running the system more transparent.

(b) **Fixed costs – length / size of contract**

Fulfilling contracts requires infrastructure. Overly short contracts – with uncertainty about the potential for follow-on work - increase the cost of delivering services, and so outcomes. Office space, IT and other office equipment all have to be supplied by the provider. Short contracts provide very short time-periods in which to depreciate this capital equipment, and risk incurring additional “exit” costs for winding up contracts. Thus a series of short contracts is likely to have higher costs than a longer contract covering the same time span – even if the same provider fulfils the series of contracts. The risk of not retaining the contract at re-tendering, and possible redundancy of the initial infrastructure, must be factored into prices for short contracts to ensure financial sustainability.

Similarly assembling a team has an element of fixed cost, including recruitment, induction and related costs. The longer the contract over which this cost can be spread, the lower the deadweight these items become on the cost of service provision. There are also additional benefits relating to the quality of staff that can be attracted, staff retention, motivation and focus.

As a result short contracts of less than three years should be avoided – except in-extremis where an incumbent provider is failing to deliver against agreed performance indicators. Similarly contracts for larger geographic areas would encourage investment in systems and people, and increase the potential pay-off to innovative solutions.

Favouring partnership working among providers would provide a balance to the barriers that larger contracts would put in the way of smaller providers.

(c) **Cost of delays / changed specification**

Protracted decision-making and changed project specifications at a late stage are both disruptive and add to overall costs. There are examples where:

- The post bid decision process became extended with final decisions taken very close to the project start date, yet with a requirement to start on the originally specified date, resulting in additional costs to expedite the establishment of the appropriate infrastructure and staff complement
- The tendering process was suspended after bids had been submitted
- The conditions for the contract were varied post the acceptance of bids – and such variations were of great enough materiality to have precluded a bid if known in advance.

Clarifying issues at outset, allowing sufficient time in the project timetable to allow for decision making by the procurer and adequate set up time for the winning bidder, and withdrawing tenders only in extremis would all help to reduce the overall costs of providing employment services, so providing better value for money. Consideration should be given to partial compensation payments to bidders when contracts are not implemented after a bidding process has been completed.

5.2 Risk

The current system does not necessarily result in an equitable distribution of risk between JCP and service providers. ERSA members recognise and accept that a degree of risk is inherent in any business environment. However this has to be balanced by potential rewards. If the balance is too much in favour of the procuring agency then the number of participants in the sector is likely to fall, risking a diminution of competition.

Financial risk is often transferred to the provider via processes imposed by JCP. For example where a provider's referrals – their "market" – is controlled by JCP the scope exists for the number of referrals to fall short of the original expectation in the contract, without the provider having the power to alter the position, and with a direct impact on the provider's financial position. For example earlier this year referrals by JCP from a number of mainstream contracts were capped as a result of JCP budget overspends, resulting in unexpected financial losses to providers. More generally, JCP's forecasting of demand has been poor, resulting in costs and difficulties for providers but with no repercussions for JCP. This is another example of how a greater focus on outcomes would improve the current system.

There has also been less recognition of the costs of changing the terms of contracts in mid-term than would typically be the case in the commercial world, where changed requirements from the purchaser typically result in a renegotiation of payments.

Developments in the governance of the system should deliver more equitable sharing of risks. Longer-term contracts would help in this regard. Of equal importance is a recognition that if JCP cannot deliver sufficient referrals then the service provider should be empowered to seek additional customers. An alternative would be to pass more of the responsibility and risk of finding customers – meeting the criteria laid down by JCP –

to the service providers, with rewards clearly linked to outcomes of numbers of customers served and sustainable jobs filled. Developments of this type would encourage service providers to shoulder more of the risk in any contract as it would balance increased risk with increased empowerment to react flexibly to circumstances different to those envisaged at the outset of the contract.