

Payment by Results and the design and delivery of the Work Programme

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Background to use of PbR contracts in employment services

- Most experience of PbR contracts has comprised combinations of commencement and service fees with a more or less significant proportion of provider income or other incentives (such as contract renewal, or performance bonuses) linked to the achievement of agreed outcomes and/or performance standards.
- Range of payment for job outcome variants includes up to 40% of contract value in Australia, to 10% in much of the USA, to 100% outcome based funding in a small number of US and Dutch 'no cure, no pay' contracts. Such outcome payments have typically been paid when participants placed in jobs and retained employment for 13 and/or 26 weeks - exceptionally bonuses paid at 52 weeks.
- Coalition Work Programme more radical in both scale and approach - 85%, moving to 100% outcome funding; 2.5-3.3 million participants combined with other ***innovations in the design, management and delivery of contracted employment services.***

Contract evolution in GB

- Uneven transition to ‘payment for job outcomes’ and less prescriptive contracts – the TEC experience , and influence on NDs
- By mid 2000s over 2,000 profit/non profit providers hold JCP contracts with DWP contracting directly for new variants (EZs)
- Consolidation partly driven by smaller-scale version of prime model in NDs and ‘Pathways’; small increase in income dependent on job outcomes , but prescribed service content.
- By 2008 down to 797 organisations delivering 1,153 contracts with annual £1bn value (90% of spend with 160 organisations).
- Freud Review (2007):
 - Retain Jobcentre Plus – a public/private partnership
 - Existing contracts process driven, categorical, short term, inflexible, inefficient
 - Tendering and administrative costs, e.g., job entry evidence - paper based system, which providers argued was onerous, costly, and stopped them claiming outcomes
 - Proposed debt-financed welfare reform, prime contractors, up to 7 year contracts and payment for outcomes - creating ‘multi billion £ market’ with access to capital

DWP Commissioning Strategy (2008)

- Procurement of employment programmes transferred to DWP in 2008, followed by publication of CS - a conscious attempt to develop a 'market' with a new approach to contracting.
- Key elements:
 - Larger, longer and fewer contracts (5 years/2 year extensions)
 - About 30 'top tier' or prime providers, expected to manage supply chains including specialist, local and third sector subcontractors
 - Payment for long term outcomes (partly funded from benefit savings) – focus on jobs not activities
 - Provider flexibility – 'black box' – quality assurance (Ofsted/JCP)
- Market-making:
 - DWP to have an active role in developing and managing contracts and responsible for market 'stewardship' (Merlin Standard)
 - Attract new providers and additional investment into the market
 - Increase skills and expertise of civil servants – more time to focus on strategic goals

The first Commissioning Strategy contracts

- **Work Choice (2010-15):**
 - Supported employment programme aimed at individual's with complex barriers to work – 3 modules – about 15,000 participants
 - Delivered by 8 prime providers across 28 'Contract Package Areas' and by Remploy Employment Services - £450m over 5 years
 - 70% monthly service fee; 15% placement: 15% 26 week sustainment
- **Flexible New Deal (Oct 2009-June 2011, closed Sept):**
 - For young and long term unemployed
 - 20% service fee, 50% short job outcome (13 weeks), 30% sustained job outcome (26 weeks), (revised to 40:40:20 in tendering process, Jan 2009)
 - Commenced in half the country - starts 407,690; 13 wk outcomes 75,250; 26/30 wk outcomes 49,740
- **Personalised Employment Program:**
 - Multi-client group contract, to be tested in two districts
 - **Accelerator Funding Model** to incentivise provider to engage with whole cohort –e.g., for a cohort of 100 people commit to getting 60 into employment, price paid is lower for first 15 into jobs, and highest for final 15 into jobs.
 - ITT indicated 30% service fee paid at intervals, 40% short job outcome (13 weeks), 30% sustained job outcome (26 weeks)

Work Programme procurement

- Pre-qualification - *'Framework for the Provision of Employment Related Support Services'* – 35 primes selected (from 91). Had to demonstrate track record of delivering large and complex contracts, previous performance and financial strength (annual turnover of at least £20 million).
- Subsequent 'mini-competitions' for WP. 180 bids from 30 primes to deliver in 18 CPAs – 18 primes selected (15 private; 2 VS; 1 public). Each 5/7 year contract estimated to be worth between £10 and £50 million a year , cater for 2.5m-3.3m.
- WP bids assessed on a scoring system that gave equal weight to quality and cost.
 - **Quality** - service delivery, approach to supply chain management, resources the organisation would deploy, and implementation plans
 - **Cost** – performance and price discount offers

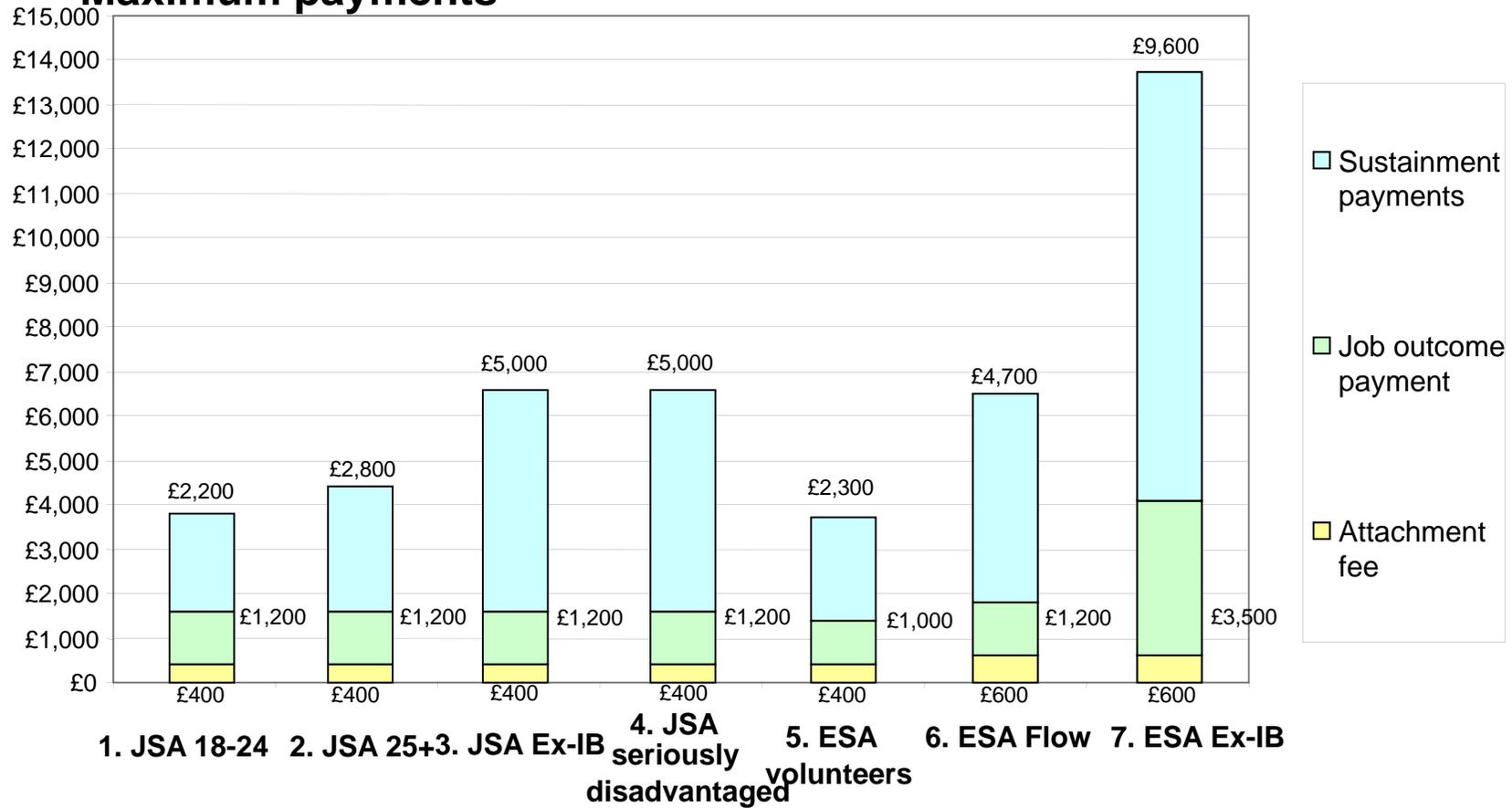
Work Programme funding model

- Differential payments calibrated with benefit category as proxy for level of difficulty
- Payment largely by results – a small ‘attachment fee’ which falls each year and is zero by year four.
- No payment for job entry - only pays for a job outcome after 3 or 6 months in work.
- Payments for sustained jobs continue for up to two years.
- No cap on recruitment, in part because some payment from future benefit savings (AME-DEL funding)

Work Programme differential payments

(average spend per participant estimated at £1,347)

Maximum payments



WP – price and performance

- DWP set maximum differential prices for each payment category by assessing benefit savings of placing a claimant in sustained employment combined with their estimates of the cost to the provider of delivering an outcome (based on evidence from earlier programmes).
- Contracts specified:
 - *maximum prices*
 - *non intervention* levels
 - *minimum performance* levels (for three main groups, about 70%)
- Primes outlined a performance offer and could offer price discounts , allowing them to take local/regional circumstances into account
- Primes expected to exceed minimum performance level by 10% to keep contracts, exceeding by 30% to attract a bonus
- Annual market share shifting from June 2013, if meet MPL

WP supply chains

- Two or three competing prime providers in each CPA – top 2 primes have estimated third of the market (Ingeus-Deloitte, est £727m; A4e, £438m)
- Different **prime models**
 - *Prime Managing Agent* (G4S, SERCO, Rehab-Jobfit)
 - *Prime Delivery Agent* (typically subcontract between 30% to 40% of provision, but one as little as 10%)
- WP **supply chains** organised into:
 - ‘tier one’ (often ‘end to end’ delivery)
 - ‘tier two’ (call-off, spot purchase, service level agreements, etc.)
 - other ad hoc purchasing

| Supply Chains | Sector | August 2011 | July 2012 |
|---------------|-----------------|-------------|-----------|
| | Private | 295 | 292 |
| | Public | 133 | 125 |
| | Vol & Community | 420 | 368 |
| | Total | 848 | 785 |

Providers in the British market

- ***National and local for-profits***
 - Specialist welfare to work providers - A4e, Avanta, Seetec, Working Links
 - Private Employment Agencies – Reed, Staffline (EOS)
 - Outsourcing specialists - Serco, G4S, Interserve (Rehab; BEST)
- ***National non profits*** - specialists, such as RNIB, Scope; generalists, such as Shaw Trust/CDG
- ***Regional and local nonprofits***, faith based and secular, specialist and generalist, including also regional/local branches of national nonprofits (e.g., Groundwork Trusts, Salvation Army, BTCV, Tomorrow's People)
- ***Social Enterprises/Businesses and Housing*** - Glasgow Wise Group, PLUSS, Pinnacle People
- ***Consortia formation*** – 3SC; Disability Works UK (8 specialists)
- ***Public Sector*** – Newcastle College, Local Government SPVs, Remploy.
- ***Providers from other countries***
 - For profits – Ingeus/Deloitte, Sarina Russo, ESH (Pertemps) (Australia); Maximus (USA); Calder? (Netherlands)
 - Non-profits - Ireland Rehab Group (1996 acquisition of TBG); Australia, Mission Australia (Working Links); BEST & Wise ability with CDG; Campbell Page (North Wessex Training)

WP service delivery models

- No detailed prescription of service provision – ‘black box’ - but primes had to commit to ‘minimum service standards’, communicated to participants (variation between primes)
- Varied ‘work first’ service delivery models but ‘end to end’ services typically comprise
 - Engagement/attachment/
 - Assessment and action planning
 - Case manager support with emphasis on job broking/job placement for the more job ready and targeted interventions for those with moderate or major barriers
 - Most support in-house and where required preference to refer to free or low cost specialist services, not necessarily those in supply chain.
 - Some job specific vocational training , but often referrals to other funded provision.
 - Varied approaches to in-work support, employment retention and re-engagement after job placement

Performance - Management and Oversight

- DWP acts on results, service delivery, feedback and prime mandatory self assessment (within DWP's Performance Improvement Framework)
- Oversight and performance management
 - Performance Managers
 - Account Managers
 - Compliance Monitoring Officers (ESF)
 - Provider Assurance Teams (governance, financial procedures, counter fraud systems)
 - Risk Assurance Division (fraud investigation)
 - Provider Engagement Meetings – JCP, primes, stakeholders
- If prime wishes to make significant change in service delivery/supply chain they need formal contract variation

A rocky start

- High expectations - ministerial announcements on potential of new model and role of the third sector
- Transition speedy – referrals, handover and random allocation from JCP difficult; volumes and participant composition different from that expected
- Allegations of fraud/profit-taking and ‘workfare controversy’
- Gagging of contractors and delayed release of job outcome data
- **Personalisation and innovation?**
 - “Procedural personalisation” – quality of one-to-one support
 - But genuine tailoring of support to individual needs?
 - Some evidence of selection – partly in response to high volumes
 - Differential pricing not leading to different support
 - Outcome funding is making cashflow and financing support more challenging

Work Programme performance

- Challenge - WP primes need to perform better than before, with less money per participant, in a tougher labour market context – exacerbated by out-of-date minimum performance levels
- Performance:
 - In first 14 months 877,880 referrals and 836,940 ‘attachments’ – now about 47,000 referrals per month.
 - ***By July 2012 there were 31,240 3/6 month job outcomes (3.6%) – a third of what was anticipated.***
 - None of providers reached MPL level of 9.7% (as estimated by NAO), with variation ranging from 2.2% to 5% - by Dec 2012 highest performer at 12%, lowest 5%.
 - ERSA data released in Nov 2012 reported that 208,000 people had found employment, and 29% of those who started in July 2011 had been helped into a job.
- Performance gap attributable to weaker economy, delayed claims and payments and transition issues
- Emphasis now on delivery - all primes have agreed ‘Performance Development Plans’ with 7 put on formal notice about poor performance.

What Next?

- **Spread of PbR to other services** – role/diversification of WP providers
- **Providers/supply chains** - consolidation and rationalisation – likely to be fewer, larger, possible more effective providers; continuing roles for area based/expertise specialists - continuing tensions between primes and subs around top-slicing fees, payment delays, ‘skimming’, risk transfer, ‘mission drift’.
- **Risk transfer?** – may have group of providers who are ‘to big to let fail’ – crunch period likely in 2014 (attachment fee withdrawn; year 3-5 Job Outcome discount kicks in)
- **Service delivery** - parking/creaming, innovation, variation, convergence
- **Post Work Program services and WP2**
- **Impact of Universal Credit**
 - Defining payment groups
 - Payment for partial outcomes
 - In-work conditionality