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

<table>
<thead>
<tr>
<th>Category</th>
<th>Sustainment Payments</th>
<th>Job Outcome Payment</th>
<th>Attachment Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. JSA 18-24</td>
<td>£400</td>
<td>£1,200</td>
<td>£200</td>
</tr>
<tr>
<td>2. JSA 25+3</td>
<td>£400</td>
<td>£2,800</td>
<td>£200</td>
</tr>
<tr>
<td>3. JSA Ex-IB</td>
<td>£400</td>
<td>£5,000</td>
<td>£200</td>
</tr>
<tr>
<td>4. JSA seriously disadvantaged</td>
<td>£400</td>
<td>£5,000</td>
<td>£200</td>
</tr>
<tr>
<td>5. ESA volunteers</td>
<td>£400</td>
<td>£2,300</td>
<td>£1,000</td>
</tr>
<tr>
<td>6. ESA Flow</td>
<td>£600</td>
<td>£4,700</td>
<td>£1,200</td>
</tr>
<tr>
<td>7. ESA Ex-IB</td>
<td>£600</td>
<td>£9,600</td>
<td>£3,500</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Sector</th>
<th>August 2011</th>
<th>July 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>295</td>
<td>292</td>
</tr>
<tr>
<td>Public</td>
<td>133</td>
<td>125</td>
</tr>
<tr>
<td>Vol &amp; Community</td>
<td>420</td>
<td>368</td>
</tr>
<tr>
<td>Total</td>
<td>848</td>
<td>785</td>
</tr>
</tbody>
</table>
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, Tommorrow’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