

# SCOTLAND'S FUTURE EMPLOYMENT SERVICES

Literature Review

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*In January 2016, NIACE and the Centre for Economic and Social Inclusion  
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**Learning and Work Institute**

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# CONTENTS

Introduction and overview .....	3
1. Client Assessment .....	4
2. Measuring Distance Travelled: Models and measurements to define progression outcomes .....	8
3. Delivery: What works for whom .....	15
4. National, regional and locally targeted services.....	20
5. Benefits of Private, Public or Third Sector Delivery .....	27
6. The black box approach versus specifying minimum service standards.....	32
7. Partnership to support jobseekers with the most complex needs .....	36
8. Encouraging innovation in service delivery .....	42
9. Paying for Results.....	47
10. Contract size, length and shape .....	53
11. Best practice in commissioning and management.....	58
12. Mandatory and Voluntary Programmes .....	65

# INTRODUCTION

This paper sets out research evidence on key parameters of employment programme design, with implications for future programmes. It is intended to act as a resource for the Scottish Government and its stakeholders in designing the devolved successor to the Work Programme.

The paper is structured around twelve key parameters:

1. Client Assessment – how we understand participants' distance from work and diagnose their support needs
2. Measuring Distance Travelled – how we measure non-employment outcomes
3. What works for whom – a high-level summary of what works
4. National, regional and locally targeted services
5. The benefits of Private, Public or Third Sector Delivery
6. The black box approach versus specifying minimum service standards
7. Partnership to support jobseekers with the most complex needs
8. Encouraging innovation in service delivery
9. Payment by Results
10. Contract size, length and shape
11. Best practice in commissioning and management
12. Mandatory and Voluntary programmes

# 1. CLIENT ASSESSMENT

## Description

The tools and processes used to determine the level, intensity and nature of employment support needs of claimants.

## Background

Client assessment and assessment tools typically serve two key functions: to *predict* the likelihood of long-term worklessness, and to *diagnose* the most appropriate employment support. There are therefore two types of assessment process:

- **Gateway assessment** – where an assessment process is used to allocate and prioritise resource. These are often relatively short, prescriptive, lighter-touch interventions that screen claimants into categories for subsequent support. Good examples of gateway tools are the ‘Jobseekers Classification Instrument’ (JSCI) in Australia, the ‘Work Profiler’ in the Netherlands and the ‘Probability of Exit to Employment’ tool in Ireland.
- **Diagnostic assessment** – where an assessment process informs or determines the (subsequent) support that is received. These are often more in-depth processes, perhaps over a number of interventions, carried out by front-line practitioners. Continental European systems have a number of examples of assessment processes that are systematic and integrated into the wider functions of the Public Employment Service – such as the Danish ‘Employability Toolbox’. Many continental models use staff trained to degree level or higher on the assumption they will be more likely to identify and assess complex needs.

There is generally strong appetite and support for using assessment tools both to better prioritise and personalise support, but often only limited evidence on the effectiveness of profiling tools as compared to using adviser discretion, durations on benefits or other methods to assess clients. There are three key risks:

- False positives and false negatives – leading to increased costs either in intervening too early or too late.
- ‘Pygmalion effects’ – where the process of assessing need itself influences outcomes (which may include negative impacts, by reinforcing or legitimising perceived barriers)
- Knowing what works for whom – even where needs are accurately assessed, the benefits of doing this will only be felt if it is known ‘what works’ in addressing those needs

## What works in assessment

On **gateway assessment**, the UK government tested a version of the Australian JSCI in 2010.<sup>1</sup> This used a short set of questions to try to predict the likelihood of new JSA claimants becoming long-term unemployed. The tool correctly predicted around **one in three** claimants. This was substantially more accurate than random chance (one in twelve), but clearly meant that in most cases the tool did not predict long-term unemployment. In addition, the JSCI trial did not test the effectiveness of subsequent interventions – a tool with a predictive power of one in three may be very successful if the effectiveness of any subsequent interventions outweigh the costs of false positives or negatives, but this was not tested.

The accuracy of the JSCI itself has not been evaluated. The precise workings and weightings of the questions used is not made public, so as to reduce the risks of contract ‘gaming’ by providers. This has led to criticism of the tool for being opaque, and also left it open to charges of manipulation by government. The delivery of the assessment process – with 80-90% conducted by phone – has also led to criticisms of high error rates, and that some groups (like homeless people and those with mental health problems) are mis-diagnosed.<sup>2</sup>

However there do appear to be effective models. The Dutch Work Profiler uses twenty questions and is considered to have an accuracy of around 70%<sup>3</sup>, while the Irish PEX model correctly predicted those with the highest likelihood of long-term unemployment in around 85% of cases.<sup>4</sup> However even effective models can have drawbacks – a similarly powerful tool developed in Finland was withdrawn from use after it became clear that advisers did not find it useful or trust its results.<sup>5</sup>

Overall, the evidence suggests that it is feasible to develop a resource allocation tool based on administrative and objective data. However its success would critically depend on the quality and robustness of the modelling; adviser buy-in; and adviser skills and capabilities. There are also clear risks of mis-diagnosis, and of non-disclosure among those with more complex needs.

On **diagnostic assessment tools**, these often either operate as an extension of a gateway assessment (with the systems in the Netherlands, Germany and Denmark combining diagnostic and gateway elements), or are carried out by service providers

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<sup>1</sup> Matty, S. (2013), *Predicting likelihood of long-term unemployment: the development of a UK jobseekers' classification instrument*, Department for Work and Pensions

<sup>2</sup> Department of Education, Employment and Workplace Relations (2009), *Review of the Job Seeker Classification Instrument*

<sup>3</sup> Wijnhoven, M.A, Havinga, H. (2014), *The Work Profiler: A digital instrument for selection and diagnosis of the unemployed*, Local Economy, (Vol.29)

<sup>4</sup> O'Connell, P.J, McGuinness, S, Kelly, E, Walsh, J (July 2009), *National Profiling of the Unemployed in Ireland*, The Economic and Social Research Institute

<sup>5</sup> Ripiinen, T. (2011), *Risk profiling of long-term unemployment in Finland*, Tempo Economics

as part of their internal processes (with many examples of diagnostic tools within the UK Work Programme). As such, there is very little published evaluation evidence of the effectiveness of diagnostic tools independently of other parts of the assessment process or a baseline of not using a tool. However, research and practitioner feedback<sup>6</sup> suggests that key factors influencing the effectiveness of models include:

- Adviser skills and capabilities – particularly in more advanced systems, with higher degrees of adviser discretion to interpret data or rules
- Ensuring adviser buy-in and support
- Effective adviser training, guidelines and regular review of processes
- The extent to which assessment can look at holistic factors – including environmental influences, wellbeing, motivations and wider barriers to work
- As far as possible standardising the process of information collection and assessment
- Rationalising the collection of information – including through better use of data sharing and administrative data
- Having clear and effective referral processes between stages of assessment and of support
- Effective alignment or joining up of services – in gathering data, sharing information and referring to services

## Knowledge gaps

The three key areas where our knowledge is weaker are:

- Better understanding the mix of subjective and objective factors that may best predict long-term unemployment in a UK context
- The key determinants of successful diagnostic tools
- The link through from gateway or diagnostic assessment to which interventions then ‘work’ for those claimants

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<sup>6</sup> See for example: Rudolph, H and Konle-Seidl, R (2005), *Profiling for Better Services: Report on the European Profiling Seminar*, Institute for Employment Research, Nuremberg; Weber, T. (2011), *Profiling Systems for effective labour market integration: thematic synthesis paper*, The European Commission Mutual Learning Programme for Public Employment Services; and Loxha, A., and Morgandi, M. (August 2014), *Profiling the Unemployed: A Review of OECD Experiences and Implications for Emerging Economies*, World Bank Group, Social Protection & Labour

## Implications

- There would likely be a need to access DWP administrative data in order to develop a gateway tool.
- A gateway tool would need to be tested alongside different intervention models, to determine which combinations of assessment and support are most effective.
- Depending on programme design, diagnostic assessment may well sit with service providers within contracts – with them making judgements on how they personalise support. This has implications for how evidence and learning on ‘what works’ is shared, and what may need to be done to facilitate effective assessment (for example around partnerships, data and adviser capability).

## Useful sources

[Reports of 2011 European conference on profiling systems](#)

[Review of OECD experiences \(2014\) \(PDF\)](#)

[DWP 2013 research on applying the JSCI](#)

## 2. MEASURING DISTANCE TRAVELLED: MODELS AND MEASUREMENTS TO DEFINE PROGRESSION OUTCOMES

### Description

The term *distance travelled* refers to the progress that a beneficiary makes towards a programme goal, such as entering employment. In practice, distance travelled tools often aim to measure participants' achievement of 'soft' outcomes (such as personal and interpersonal skills) that are thought to be important in moving towards 'hard' outcomes such as sustained employment.

### Background

Distance travelled tools can fulfil different functions within employment programmes and their effectiveness needs to be considered with this in mind. These various functions include:

- They may be used by funders (and providers) to understand or measure programme achievements more holistically, going beyond the 'hard' outcomes, such as job entry, on which a programme is typically measured.
- They can be used by commissioners to enable improved performance management of service quality. Moreover, if used as a payment criteria, in an outcome-based funding system, distance travelled measures may also help to focus provider resource on clients with more complex needs who are unlikely to achieve a hard employment outcome within the programme timescale.
- They can support providers in making improvements to service quality, by helping to identify aspects of the programme that are effective or ineffective.
- Finally, they may also function as a tool for use with programme participants to illustrate to them the progress they have made.

Distance travelled tools have primarily been advocated and used within specialist employment programmes that serve client groups with more complex needs or multiple barriers, who need to stabilise their circumstances and will take longer to achieve hard work outcomes. In these instances, such a tool can offer evidence of participant progress in situations where employment is a more distant prospect. For example, in the UK the evaluation of Work Step – a specialist employment programme for disabled people<sup>7</sup> – recommended the development of a distance travelled tool in order to improve the measurement of programme quality and in-

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<sup>7</sup> The Workstep employment programme provided support to disabled people facing complex barriers to getting and keeping a job. It ended in October 2010.



programme performance<sup>8</sup>. In the US, The Oklahoma Milestone Payment System is an example of specialist vocational rehabilitation provision for disabled people that offered rewards to providers for achieving milestones on the path towards employment outcomes<sup>9</sup>.

In the context of the move towards outsourcing of public employment services and payment-by-results funding models, it has also been suggested that measures based on distance travelled or intermediate outcomes could be used to trigger provider payments in programmes serving more disadvantaged groups. This is because of the concern that fully outcome-based contracts (i.e. paid wholly or largely on employment outcomes) encourage providers to concentrate their efforts on clients who can achieve employment outcomes quickly or cheaply, thus disadvantaging those with multiple barriers to employment<sup>10</sup>. ERSA's review of the future of employment services, for example, argued that for disabled people and those requiring higher intensity support, new funding models were needed, which might include payments for distance travelled<sup>11</sup>. Similarly, a review of the future of the Work Programme by ACEVO and Shaw Trust (2013) also concluded that DWP should consider making payments for intermediate outcomes for those furthest from the labour market<sup>12</sup>. Examples of intermediate outcomes suggested included achieving relevant qualifications, gaining more stable housing, or improvements in physical or mental health.

This approach – of paying for intermediate outcomes on the pathway to employment - has been taken in the Government's Troubled Families programme. Introduced in 2012, the programme aims to incentivise local authorities and their partners to 'turn around' the lives of troubled families – those with complex and multiple challenges. The 1<sup>st</sup> phase of the programme included payments to authorities for 'progress to work' (as well as sustained employment outcomes), which comprised voluntary participation in an employment preparation programme, such as the Work Programme or ESF provision. The narrow nature of these intermediate targets was criticised by some providers, and phase 2 of the programme (launched in 2015) moved away from pre-defined outcome targets, instead paying providers for 'significant and sustained progress' on a range of outcomes specified in a locally defined outcomes plan. Government guidance suggests that appropriate intermediate outcomes might include achieving a recognised vocational qualification,

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<sup>8</sup> Purvis, A., Lowrey, J. and Law, R. (2009) *Exploring a distance travelled approach to WorkStep development planning* DWP Research Report 566

<sup>9</sup> See <http://bgc.pioneerinstitute.org/oklahoma-milestone-payment-system/>

<sup>10</sup> DWP (2014) *Work Programme Evaluation: Operation of the commissioning model, finance and programme delivery* DWP Research Report 893

<sup>11</sup> ERSA (2013) *Evolution not Revolution: recommendations for the future provision of employment support for the long-term unemployed*

<sup>12</sup> ACEVO/Shaw Trust Work Programme Review Group (2013) *Refinement or Reinvention?: The Future of the Work Programme and the role of the voluntary sector*

sustained participation in work experience or successful completion of an apprenticeship<sup>13</sup>.

The challenge in using soft or intermediate outcomes to trigger provider payments in this way is that there is limited evidence on the effectiveness of distance travelled measures in predicting subsequent employment outcomes. So even with a well-designed tool, the risk is that you measure outcomes that are not predictive of work entry and therefore risk misdirecting resources by encouraging staff to divert effort into the elements being measured.

## What works in measuring distance travelled

There is a limited evidence base regarding what works in measuring distance travelled. There is an expansive literature comprising user guides and case studies, which distil good practice in designing and implementing distance travelled measures from reviews of practitioner experiences. There is very limited evidence, however, on the effectiveness of distance travelled measures in terms of programme impact. There is also a lack of evidence on which particular measures better predict longer term hard outcomes (e.g. sustained employment). More generally, findings from US evaluations show that relatively short-term employment-related performance standards that are often rewarded in programmes, do *not* tend to be good indicators of long-term impacts.<sup>14</sup>

## Evidence on payment models using intermediate outcomes

The Oklahoma Milestone Payment System is a widely influential model in the US, which rewards providers of supported employment services for disabled people for achieving milestones towards employment<sup>15</sup>. The milestones attracting payment combined both process, output and outcome indicators, including:

- Determination of need (10%)
- Vocational preparation (10%)
- Job placement (10%)
- Job training (10%)
- Job retention (15%)
- Job stabilisation (20%)

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<sup>13</sup> Department for Communities and Local Government (2015) *Financial framework for the expanded Troubled Families programme*

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/409682/Financial\\_Framework\\_for\\_the\\_Expanded\\_Troubled\\_Families\\_Programme\\_april\\_2015.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/409682/Financial_Framework_for_the_Expanded_Troubled_Families_Programme_april_2015.pdf)

<sup>14</sup> A review of welfare to work studies that measured three year effects found that measures of average earnings levels were most closely associated with the largest long-term impacts for the most disadvantaged, see Finn, D. (2009) *Differential pricing in contracted out employment programmes: review of international evidence* DWP Research Report 564

<sup>15</sup> See Finn, D. (2009) *Differential pricing in contracted out employment programmes: review of international evidence* DWP Research Report 564

- Case closure (25%).

An evaluation found that the new model was effective on a range of aspects including improving waiting times for the service, reducing the time to job placement, reducing costs per closure and a reduction in paperwork. However as the milestone payment model replaced the earlier fee-for-service model, this is what it was assessed against rather than against a pure outcome based funding model. There was also some criticism of the programme for ‘creaming effects’, as providers became more selective about who they admitted to the programme following the introduction of the new payment model. Again, this is against the baseline of a fee-for-service model of funding.

It is too early for there to have been a thorough assessment of the use of intermediate outcome measures in the Troubled Families programme. A National Audit Office report in 2013 stated that there was a risk that the ‘progress to work’ measures on this programme would not be cost-effective since there was little previous experience of deploying these types of progress measures and no consistent data on their impact on employability<sup>16</sup>.

### **Effective measurement of soft outcomes**

User guides to measuring distance travelled (e.g. IES, 2000; Lloyd and O’Sullivan, 2003; WEFO and DWP, 2003;) often suggest that it is beneficial for projects to develop their own bespoke tools rather than using ‘off-the-peg’ varieties, due to variation across projects in activities and intended outcomes, client groups and resources. Developing a bespoke tool - especially if staff (and potentially beneficiaries) are included in the development process - can also be beneficial in terms of promoting staff understanding and buy-in to the tool, which is important to successful implementation.

The main limitations of developing project-specific tools in this way are that this can result in a proliferation of tools that are not designed, tested or administered in such a way as to make them valid and reliable (Blades et al, 2012). This means they are less likely to be trusted by project staff and commissioners of services. Bespoke tools also make comparability across projects impossible, and are also resource-intensive for programme staff (due to development time). The relative weight given to these strengths and limitations will depend upon the purposes for which the tool is developed.

The key elements of a distance travelled tool include: a set of target indicators relating to the outcomes that the project wants to achieve; a scale or profiling system for assessing client’s ability on each indicator; baseline assessments and

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<sup>16</sup> National Audit Office (2013) *Programmes to help families facing multiple challenges* HC 878 SESSION 2013-14 3 DECEMBER 2013

subsequent reviews to measure progress; a system for analysing and reporting results, and staff training on use of the system (Lloyd and O’Sullivan, 2003; WEFO and DWP, 2003).

Some of the key challenges in developing bespoke tools include:

- Validity – Ensuring that the tools genuinely measure what they’re supposed to measure in a reliable and consistent way.
- Subjectivity in assessment - A key issue is whether assessments are made via participant self-assessment or in collaboration with project staff.
- User-friendliness – Tools need to be easy to administer, meaningful to participants and not interfere unduly with service delivery.

A number of benefits of using distance travelled tools have been identified in terms of client and staff experiences (see e.g. Purvis et al, 2009; London Borough of Hounslow, 2015). These include:

- Improvements in the customer development planning process
- An opportunity to standardise and develop provider staff working practices
- An opportunity for line managers to review case work and engage in outcome-focused discussions during staff supervisions
- An opportunity for staff to refocus on the aims of the programme
- A greater degree of customer engagement with the programme
- An opportunity to motivate customers and to increase self-confidence
- A supportive process to facilitate customer progression
- A consistent approach within and between organisations in describing where clients are on their journey towards employment

Commercially-developed distance travelled tools have the advantage of being already developed and tested, although there is limited evidence available on their validity<sup>17</sup>. They usually have to be purchased and may require specific staff training to use. Relevant tools include the Soul Record, Outcomes Star and the Rickter Scale. There are also academically-developed scales, which have the advantage of being independently validated, but none of these measure employability in general.

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<sup>17</sup> For an overview see ‘Review of Frameworks, Tools, and data sources for Talent Match’, NPC and Young Foundation, 2012

Examples include the Rosenberg Self-Esteem Scale, the General Self-Efficacy Scale and the Warwick-Edinburgh Mental Wellbeing Scale.

## Knowledge gaps

The areas where our knowledge is weak are:

- The effectiveness of distance travelled measures in terms of programme impact, e.g. do distance travelled tools help in promoting better outcomes for claimants with multiple barriers? And do some tools do this more effectively than others?
- Which intermediate or soft outcome measures better predict longer-term hard outcomes (e.g. sustained employment)?
- Experiences of employment programmes with payments based on soft outcomes.

## Implications

- Distance travelled tools can improve programme experiences for participants and staff and aid in monitoring performance quality. It would be useful to provide guidance for providers on appropriate measures and tools to use for this.
- There is currently no consistent and widely agreed approach to measuring distance travelled for employment programmes. Consideration could be given to developing a standardised tool for measuring employability for use across programmes.
- There is currently a very limited evidence base to support the use of provider payments for intermediate or distance travelled outcomes as an alternative, or in addition to, outcome payments based on 'hard' measures such as employment and earnings.
- There is a need to strengthen the evidence base regarding the links between distance travelled measures and longer-term employment outcomes, perhaps through commissioning research to examine this, and ensuring that programme evaluations include consideration of links between soft and hard outcomes.

## Useful sources

[WEFO and DWP Guide to measuring soft outcomes and distance travelled](#)

[IES Guide to measuring soft outcomes and distance travelled](#)

[NCB Measuring employability skills](#)

Links to selection of established tools:

- [The SOUL Record®](#)
- [Outcomes Star](#)
- [Rickter Scale](#)
- [Rosenberg Self-Esteem Scale](#)
- [General Self-Efficacy Scale \(GSE\)](#)
- [The Warwick-Edinburgh Mental Wellbeing Scale \(WEMWBS\)](#)

## 3. DELIVERY: WHAT WORKS FOR WHOM

### Description

A high level summary of which interventions work best for which groups of out-of-work people.

### Background

We consider that the key objectives of support are to ensure that participants are able to actively look for work; find the right work; get into work and then stay there. The evidence suggests that this means in particular ensuring that participants:

1. **Have the tools to look for work** – including the confidence, resilience, right networks, and practical jobsearch skills
2. **Have the right skills for the labour market** – which may be interpersonal skills, organisation and teamwork, or vocational or professional skills
3. **Can address the ‘signal’ of being out of work** – which leads employers to overlook people because they have a gap in their CV
4. **Can overcome practical barriers** – like caring responsibilities, a disability, transport costs and so on

In all cases, generally the longer that someone is out of work, the worse things get: confidence, resilience and networks get worse; barriers to work can get worse; skills become less relevant to the workplace; and ‘signals’ to employers get stronger. For this reason, *not* intervening can lead to an individual’s situation getting worse.

Most interventions will address some but not all of these factors. But where interventions do try to address all four, they will tend to be more intensive, broad-based and often expensive – so for example combining adviser support, group work, focused training and work placements. Often these more intensive interventions are rationed for those out of work longer or facing more significant barriers to work (and so more likely to be disadvantaged).

It is important to note that while we know a fair bit about what works and why, there is surprisingly little research that rigorously measures the *additional* impact of what we do. Put simply, we tend to measure how many people get a job, rather than how many got a job who wouldn’t have got one without support. So caution should still be used in interpreting and using these findings.

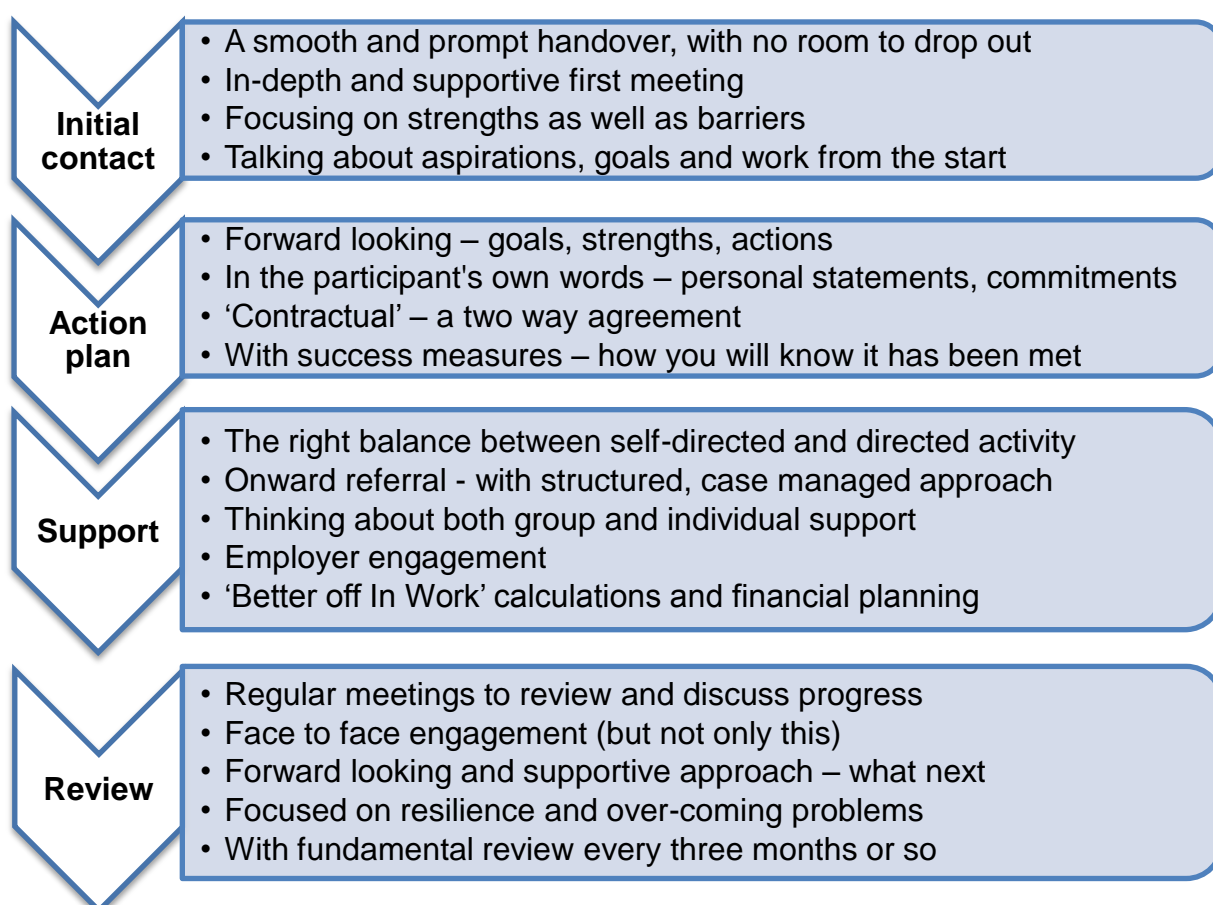


## What works for whom

There is a range of evidence summarising what may work for whom<sup>18</sup>, although as noted this often draws on source material without robust impact assessments.

Across all of this research, the importance of **personalised, adviser-led support** is emphasised. The precise nature of this support will vary according to the needs of those supported and the nature of the programme. We consider that high-quality support boils down to four key elements.

### The characteristics of effective adviser support<sup>19</sup>



Adviser skills also appear to be critical, and there is some evidence from the European Union on **what skills matter most for advisers**<sup>20</sup> – around personal

<sup>18</sup> See for example Hasluck, C. and Green, A. (2007) *What works for whom? A review of evidence and meta-analysis for the Department for Work and Pensions*, Department for Work and Pensions Research Report 407; Martin, J. and Grubb, D. (2001) "What Works and for Whom: A Review of OECD Countries' Experiences with Active Labour Market Policies", *Swedish Economic Policy Review*, Vol. 8, No. 2

<sup>19</sup> Reproduced from CESI (2015) *Delivering employment projects: A practical guide for prospective delivery organisations for 'Building Better Opportunities'*; Big Lottery

<sup>20</sup> Sienkiewicz, L. (2012) *Job profiles and training for employment counsellors*, *European Commission Mutual Learning Programme for Public Employment Services*, European Commission



empathy and attitude, their understanding of employability and employment needs, understanding of the jobs market, and practical skills in managing caseloads and organising their work. The sections below summarise the evidence for key groups prioritised in employment programmes: disabled people, old and young people, and lone parents.

## **Disabled people and those with health conditions**

There is extensive research on support for disabled people and those with health conditions, which is summarised in the *Inclusion report Fit for Purpose*<sup>21</sup>. This points in particular to common themes around:

- **Personalisation** – ensuring that advisers are able to tailor support and vary the nature and intensity of support according to participants’ needs, aspirations, the impacts of impairments and so on
- **Effective partnerships** – particularly with health professionals but also family and networks
- **Employer engagement** – often combining ‘agency’ and ‘individual’ support (the former focused on meeting employers’ recruitment needs and placing disabled people as part of that; the latter on one-to-one job matching and brokerage)
- **Highly skilled advisers that have small caseloads** – the evidence suggests that specialist disability advisers are necessary, and caseloads need to be small enough to allow for more individualised attention
- **Intervening at the right time** – and in particular intervening earlier, including before people leave work.

There is a wealth of evidence for the ‘**Supported Employment**’ model<sup>22</sup>, which prioritises rapid entry to the right employment even for very disadvantaged groups – typically described as a ‘place, train, sustain’ model. It has five key elements:

- **Engagement** – Raising expectations of disabled people, families and workers
- **Vocational profiling** – Identifying aspirations, needs, skills, and job preferences
- **Job matching** – With a focus on a rapid transition to a sustainable job
- **Employer engagement** – an ongoing relationship and employers as partners

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<sup>21</sup> Purvis et al. (2014) *Fit for Purpose - Transforming employment support for disabled people and those with health conditions*, Centre for Economic and Social Inclusion

<sup>22</sup> See for example OECD (2010) *Sickness, disability and work: breaking the barriers. A synthesis of findings across OECD countries*, OECD

- **In-work support** – building on workplace support as well as adviser support

Core elements of this model are also found in related approaches such as Individual Placement and Support (IPS)<sup>23</sup>.

**Peer support and group engagement** can also play a key role. This is well evidenced particularly in supporting those with common mental health conditions<sup>24</sup> – where group work has been demonstrated to help participants to build confidence, follow through on commitments, support and reward each other, and overcome setbacks/ build resilience.

### **Age and the labour market**

Research suggests that age itself can be a barrier to returning to work.

For older people, the specific needs of disadvantaged older people can include **IT capability and jobsearch skills, self-esteem and confidence, and uncertainty about transferable skills.**<sup>25</sup> There is also a strong overlap between age and **disability and ill health.**

For young people, disadvantage appears to be particularly concentrated amongst those outside full time education and with poor qualifications. Young people tend to move in and out of work and education more quickly than others, so it can be particularly challenging to understand what works. However research evidence<sup>26</sup> suggests that critical success factors for young people without qualifications include: having **smaller scale** programmes that feel less ‘institutional’ and are shorter in duration; **focusing on work experience and the transition to work** so as to address employers’ concerns about work skills; and having **holistic support** in recognition that young unemployed people may need more help in adjusting to work habits and behaviours. Programmes that combine training with work experience, contact with employers and assistance with job search appear more likely to have positive impacts.

### **Lone parents**

Lone parents are a particularly diverse group. Many will have children, the number of children they have will vary, as will their age and the age of their children and their

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<sup>23</sup> Sainsbury Centre for Mental Health (2009) *Doing what works, Individual placement and support into employment*. Briefing 37.

<sup>24</sup> Audhoe, S. S., Hoving, J. L., Sluiter, J. K. and Frings-Dresen, M. H. (2009) ‘Vocational interventions for unemployed: Effects on work participation and mental distress. A systematic review.’ *Journal of Occupational Rehabilitation*, 20(1), 1–13

<sup>25</sup> Foster et al. (2014), *Employment support for unemployed older people*, Age UK

<sup>26</sup> Wilson, T. (2013) *Youth Unemployment: Review of Training for Young People with Low Qualifications*, BIS Research Report 101

circumstances. They are known to cycle in and out of work<sup>27</sup>, whilst many will stay of benefits for an extended period of time. Support is more likely to need to support them to **build their confidence and upskill**; while also providing necessary **support with childcare and finding and applying for more flexible jobs**. **In-work support** for this group is also critical, particularly to help manage challenges around childcare and delays between starting work and getting paid.<sup>28</sup>

## Knowledge gaps

- We know generally less about the impact of interventions that are less common – and in particular the costs and benefits of more intensive, higher cost interventions such as job creation or intermediate labour markets
- We also know less about the long-term impacts of interventions – as some that may have limited payback in the short term (such as training interventions) may lead to stronger long-term impacts

## Implications

- The adviser role, skills and capabilities are critical – there may be value in specifying roles and functions in any tender process
- Which target groups are most important will likely need to be informed by labour market analysis – but disabled people, older people, disadvantaged young people and lone parents are all likely to be key groups
- Support for disadvantaged groups can still maintain a strong focus on employment – as ‘place then train’ models demonstrate

## Useful sources

DWP review on ‘What Works for Whom’

European Union resources on Public Employment Services and adviser skills

Inclusion research on ‘what works’ for disabled people/ those with health conditions

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<sup>27</sup> Evans et al. (2004) *Lone parents cycling between work and benefits*, Department for Work and Pensions

<sup>28</sup> Casebourne, J. and Britton, L. (2004), *Lone parents, health and work*, Department for Work and Pensions

## 4. NATIONAL, REGIONAL AND LOCALLY TARGETED SERVICES

### Description

What works and how to balance consistency and excellence with scope for flexibility for locally designed services to meet localised need.

### Background

The UK has had one of the most centralised employability systems in OECD countries<sup>29</sup>. There has been little flexibility permitted at the local and regional levels in the main design features of employment programmes. However, there has been persistent experimentation in affording flexibility in the delivery of provision which has, to a certain extent allowed for 'locally' designed services. However, this flexibility has mostly applied to DWP contractors.

Central to building in flexibility is resolving the issue of **accountability** for programme performance and finances. Flexibility to enable locally designed services should not necessarily be equated with the devolution of budgets and responsibilities to lower levels of government – there are a number of different ways in which flexibility can be given.

The perceived **benefits of local flexibility** centre on the improved performance which can be derived from aligning programme design with the needs of local employers and the characteristics of local workless people. **Integration** with services which are already controlled at the local level (or where there is a strong local influence) should also lead to more personalised services as well as efficiencies. It is also argued that local flexibility can help **re-balance growth** between areas through targeted initiatives, for example, through the City Deals.

However, there are **well recognised risks** in permitting flexibility at the local level, the main ones being significant variations in service delivery and performance, and the loss of potential economies of scale. In addition, the lack of local **capability and capacity** in designing and managing programmes is often cited as a reason why control should be retained centrally. Finally, there are potential public expenditure risks if under-performing programmes lead to a decrease in off-flow from benefits and therefore an increase in welfare payments.

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<sup>29</sup> Flexible Policy for More and Better Jobs, OECD, 2009

## What works

The OECD has studied<sup>30</sup> flexibility and accountability in a number of countries (not the UK). Their emerging findings were:

- There is **wide collaboration** by ‘local labour offices’ and the majority think this had a positive impact
- Flexibility is determined by a **‘broad set of management tools’**. There is a trend in the countries studied to set outcome targets rather than input or output targets – this permits national government to retain control over results while allowing flexibility at the local level. Most commissioning occurs at the national level – this delivers economies of scale but may prevent local partners building relationships with providers.
- **Accountability and flexibility** are not mutually exclusive. Governments are advised to monitor the “overall management context they are creating” and keep accountability processes simple, avoiding the dangers of micro-management.
- **Accountability without increasing bureaucracy and reducing flexibility.** Two approaches are proposed for consideration: 1) having an appropriate and broad performance management framework; 2) develop horizontal accountability, by which is meant how local offices are scrutinised by local partners/communities. An example of this could be the Local Integration Boards in Greater Manchester (see Partnership section).
- **Right level of capacity and right geography.** Flexibility at the local level needs the appropriate infra-structure – personnel, organisational, and fiscal. This may involve national government investing in all or parts of this infra-structure. However, it is probably not possible to build capacity everywhere at the same rate, therefore ‘incremental responsibility’ should be used allowing more flexibility to those areas that can demonstrate they are ready.
- **Avoiding perverse effects.** Quantitative targets often produce perverse effects. These can be mitigated by interactive processes for setting and agreeing targets and by using strategic objectives rather than hard targets. ‘Joint targets’ can help encourage a ‘system of mutual accountability’.
- **Break out of policy silos.** When dealing with complex and vulnerable claimants it is not just labour market programmes that require flexibility but other budgets as well. Horizontal collaboration should be encouraged but this

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<sup>30</sup> Building Flexibility and Accountability Into Local Employment Services: Synthesis of OECD Studies in Belgium, Canada, Denmark and the Netherlands, OECD, 2012

requires “national governments to move way from hierarchical command and control models”.

The OECD report contains a useful table that summarises ‘areas of management’ and ‘tools and instruments for flexibility’.

A review on Welfare to Work devolution in England by Dan Finn for the Joseph Rowntree Foundation<sup>31</sup> sets out the lessons from a review of recent policy developments in Britain, Canada, the USA, the Netherlands, and Germany. The summary findings are:

- In other countries, the devolution of welfare to work spurred local actors to integrate the delivery of employment, training and other services and to improve performance.
- Devolution of the Work Programme (WP) and other welfare to work services should be tailored to local governance capacity and should be an explicit aim of City and Growth Deals, rather than a tacit local objective.
- There should be further devolution of the working relationship between Jobcentres and local government and more coherent partnership agreements to help facilitate integrated service delivery.
- Central accountability and greater local control can be aligned through negotiated agreements, performance reporting systems, and the incentives and sanctions embedded in conditional central funding such as block grants and black box contracts.
- Variation in service delivery should be accommodated but welfare to work devolution must be underpinned by transparent national minimum standards, especially where participation is mandatory.
- Performance requirements should help shape devolution in ways that are likely to contribute to poverty reduction, and future welfare to work provision should reward job entry, retention and progression rather than only caseload reduction.

Finn’s review also covers lessons from LECs/TECs in the 1990’s when there was an extensive attempt at devolution to local employer controlled private companies established for the purpose of managing skills and employability budgets. However, in general LECs/TECs are an example of where the tension between local and national accountability was never satisfactorily resolved. This is because national government still treated them as a local delivery mechanism for centrally determined

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<sup>31</sup> Welfare to Work Devolution in England, Dan Finn, JRF, 2015

programmes. Contracts were awarded annually and there was little local flexibility beyond the targets and budgets set in the contracts.

Evaluations of ‘what works’ in active labour market measures do not distinguish between public expenditure or programmes at different levels of government<sup>32</sup>. The emphasis is on what works in the nature of interventions and not at what level of government they are controlled. As such, ‘governance’ as an influence on programme performance is not transparent or controlled for in meta-analyses of programme impact.

This means there is no direct comparison of impact between programmes delivered at different levels. Such comparisons are intrinsically difficult because of different target groups and outcome measures. In a recent review of local programmes in England<sup>33</sup> this problem was acknowledged:

“We [NIESR] had intended to compare the performance of the selected schemes with national programmes. However, although they produce outcome figures, it became apparent that the programmes were different in ways which made such comparison difficult: they were offering something different to national provision; they were often helping different people; and they had different expectations, which included intermediate outcomes. Importantly, the local programmes were voluntary, requiring active recruitment and retention of clients.”

This becomes a problem when there are, in effect, two separate systems for funding employability – national programmes and locally designed and funded programmes. This currently exists in GB where there is little connection between the Work Programme and local initiatives which have often been developed to supplement the perceived failings or gaps left by the Work Programme. The lack of integration of ESF funds also exacerbates the situation. However, there can be some merit in a clear distinction between national and local programmes but only when this is a deliberate policy intent.

National programmes are often assumed to have economies of scale for commissioning, contract management, and service delivery. However, the conditions to achieve economies of scale under each of these aspects are often dependent on other decisions unrelated to geography (see sections 11 and 12 for related discussions). Achieving ‘economies of scale’ which lead to realisable savings of public expenditure are more related to: 1) the total number of contracts in the system; 2) where the costs of contracting are borne in the system; 3) the length of the contracts.

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<sup>32</sup> For a recent example see ‘What Works? A Meta-Analysis of Recent Active Labour Market Program Evaluations’ Card et al, IZA, July 2015

<sup>33</sup> Local authority schemes supporting people towards work, NIESR, 2015



There is no public evidence on the extent of any efficiencies or savings, if any, as a result of economies of scale. DWP asserted in their 2014 Commissioning Strategy that they think there are economies for large contracts “particularly relating to analysis and administration” but these have not quantified them.

The **costs of commissioning** primarily relate to the complexity of the tenders, the administrative costs of processing multiple bids. The shift from hundreds of contracts for the New Deal to thirty nine for the Work Programme should have reduced costs. However, the complexity of Work Programme design, tenders, and assessment of bids increased considerably. Larger contracts bring greater risks which increases complexity. Nonetheless, there is likely to have been a reduction in DWP administrative costs over the last ten years as the number of contracts have reduced and the commissioning has been centralised from regions but this has not been quantified. However, a more significant saving would have been the reduction in the frequency of commissioning – longer contracts of five years compared to three years.

The use of prime contractors with large contracts in effect moves some of the commissioning costs from government to bidders. The **costs of tendering** may not have reduced at all for bidders, and may have increased. Prime contractors have to bear the risk of substantial expenditure when bidding for complex contracts and absorb the commissioning costs of a supply chain. Sub-contractors complained (during Work Programme commissioning) about the cost of multiple proposals and negotiations with prime contractor bidders.

The **costs of contract management** are more related to decisions on the extent and depth of contract scrutiny and audit, as well as IT systems. A ‘light touch’ regime could be more easily applied to small, local contracts compared to the high risk represented by possible systemic failures in large contracts. Validation of provider claims is a major administrative cost where effective IT systems can make an impact. For example, the complexity of Work Programme validations<sup>34</sup> was caused by the failure to link with HMRC data. Finally, there is a choice about the nature of contract management – is it restricted purely to target management and fraud prevention or does it also include service quality inspection?

**Service delivery** economies of scale are difficult to substantiate since these mostly relate to the direct costs of contractors. However, contract bids should broadly reflect whether large contractors can deliver for less. However, not all reductions in unit cost can be attributed to economies of scale – staff remuneration and the delivery model will have a substantial bearing on cost. It is estimated that the current average payment per Work Programme participant is £1,190 which is a reduction from the estimated £1,600 for the Flexible New Deal. However, the NAO Work Programme

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<sup>34</sup> See NAO Work Programme report



report stated “DWP expects to spend £41 million less on the Work Programme between June 2011 and March 2020 than it would have done for similar levels of performance on previous welfare-to-work programmes.” This is a marginal saving given an estimated 1.9 million participants in this period and does not reflect a change in the level of commissioning if the comparison is with the Flexible New Deal, but could do if compared to the regionally commissioned New Deal.

In summary, whilst there may be some direct cost savings as a result of the economies of scale of national programmes these may not be significant. However, cost savings can be derived from other aspects of commissioning and contract management, such as the length of contracts. Also, if regional or local programmes can deliver higher performance this may mitigate any additional costs there may be.

The **target groups** and the nature of the service requirements for a programme will bring different considerations about the level at which contracts are commissioned. Where the focus is on more employable jobseekers and providing basic jobsearch services there will be economies of scale in delivering standardised models through prime contractors with large contracts. However, specialist services for disadvantaged and vulnerable groups are more likely to be of smaller scale and need to place an emphasis on integrating other local services (such as health). DWP recognised this in their Commissioning Strategy “Where we commission some more specialist services, particularly for those furthest from the labour market, we will utilise different commissioning models, including the use of smaller scale contracts ...”.

## Knowledge gaps

The OECD and Finn reports provide a comprehensive and international review and both are relatively recent. However, these are policy and process reviews which can help to sharpen up the policy choices but do not give any hard empirical evidence about what level of governance is most effective in commissioning and delivering programmes. As such considerations for the policy choices can be informed by past and current practice in GB and internationally but in the end the choices are as much determined by the nature of governance framework that the Scottish Government wishes to stimulate.

There is no robust evidence on the costs and economies of scale of contracting at different levels of government. In commissioning the Work Programme the DWP used a ‘shadow bidding’ process to better understand the cost considerations of bidders but this was not published.

## Implications

There is little robust evidence on whether employment services are best designed at the national, regional or local level in order to deliver high performance.

There is also a lack of published evidence on the costs and economies of scale for commissioning and delivery at different levels of government. In summary, the key implications:

- In general, a two system approach should be avoided where there is little or no connection between local initiatives and national programmes
- Design clarity from the outset for the roles of different levels and geographies and a Scottish framework that can tie together local and national as well as different service areas, specifically skills and health
- Clear accountability built into the framework but where bureaucracy is minimised
- Costing exercises should be conducted for delivering commissioning and contract management at different levels, taking into account the costs to bidders (and sub-contractors) and different levels of performance
- It is worth considering conducting market-testing and/or shadow bidding to understand whether there would be any significant service economies of scale in Scotland that would be reflected in the quoted price of bidders.

### Useful sources

Building Flexibility and Accountability into Local Employment Services: Synthesis of OECD Studies in Belgium, Canada, Denmark and the Netherlands, OECD, 2012  
<http://www.oecd.org/cfe/leed/buildingflexibilityandaccountabilityintolocalemploymentservices.htm>

Welfare to Work Devolution in England, Dan Finn, JRF, 2015  
<https://www.jrf.org.uk/report/welfare-work-devolution-england>

## 5. BENEFITS OF PRIVATE, PUBLIC OR THIRD SECTOR DELIVERY

### Description

What does the evidence tell us about the ability of different sectors to deliver support? What impact does the sector the provider comes from have on its performance?

### Background

Globally, the introduction of Active Labour Market Programmes has resulted in a sometimes dramatic change in the make-up of the provider base. The last decade has seen an increase in established providers moving beyond their country of origin, shaping new markets as well as delivering within them. Funding mechanisms, risk transfer and contract requirements have all contributed to a changing provider market. The politics involved in welfare reform has raised concerns amongst some providers about 'mission creep'. This sits alongside the fundamental question of whether governance structure or size is the best way of grouping and analysing providers.

The debate between the relative qualities of private, voluntary and public sector providers is difficult to evidence, because the impact of sector is difficult to disaggregate from the impact of size. The NAO characterises likely providers by motivation: large private providers as seeking to maximise profit with a good appetite for risk, and smaller voluntary sector providers as pursuing charitable objectives with a lower appetite for risk and cash flow issues.<sup>35</sup> However, the interests, activities and performance of many local and smaller charities, private sector providers and community-based organisations may have more similarities than those of providers from the same sector operating at a national or international level.

Within the voluntary sector, larger national charities have a more powerful voice.<sup>36</sup> This can be seen in the research on the current and potential role of the voluntary sector in the Work Programme, which was led by Acevo and the Shaw Trust.<sup>37</sup> This has also been the experience in Australia, where some of the biggest providers

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<sup>35</sup> [http://www.nao.org.uk/wp-content/uploads/2012/01/10121701\\_work\\_programme\\_design.pdf](http://www.nao.org.uk/wp-content/uploads/2012/01/10121701_work_programme_design.pdf)

<sup>36</sup> [http://cesi.org.uk/sites/default/files/publications/JRF\\_contracting\\_out\\_welfare\\_Australia\\_Netherlands.pdf](http://cesi.org.uk/sites/default/files/publications/JRF_contracting_out_welfare_Australia_Netherlands.pdf)

<sup>37</sup> [http://www.shaw-trust.org.uk/media/294741/refinement\\_or\\_reinvention\\_the\\_future\\_of\\_the\\_work\\_programme\\_and\\_the\\_role\\_of\\_the\\_voluntary\\_sector.pdf](http://www.shaw-trust.org.uk/media/294741/refinement_or_reinvention_the_future_of_the_work_programme_and_the_role_of_the_voluntary_sector.pdf)

come from the voluntary sector. In his recently published essay, Bovaird notes that sectors often do not conform to the stereotypes.<sup>38</sup>

There has been consistent interest from Government in the role of the voluntary sector, and in harnessing its strengths to improve delivery. However, it is not clear from the evidence that these 'strengths' (including client focus, staff commitment, community-base, broader ethical considerations) are either unique to the voluntary sector, or indeed uniformly displayed within it. Incentives need to be right, whatever the sector: ill-thought through incentives and targets can mean both private and public providers are more likely to concentrate their efforts on those participants closer to the labour market, while harder-to-help participants receive fewer services.<sup>39</sup>

## What works

One of the key issues in examining this question is the lack of available data looking specifically at this question. This makes it hard to determine what impact the governance of an organisation has had on its performance.

In 2013 ACEVO and Shaw trust jointly published a paper calling for 'refinement' not 'revolution' of the Work Programme. They were positive about the **diversity of the provider market**. In 2012 there were 785 organisations delivering the Work Programme, 292 private sector, 125 public sector and 368 charity and voluntary sector.

However, in order for this diversity to function, there need to be some key elements in place. Most countries, with the notable exception of Australia, retain a public employment service, even when provision is outsourced. The evidence shows that having a **performance focused PES** makes a considerable difference.<sup>40</sup> Clarity of performance objectives needs to be maintained when other public sector bodies (including local authorities and skills agencies) are involved in delivery. If these bodies are being assessed and funded by potentially competing metrics (for example, numbers completing training courses) then the ability of public sector organisations to perform well under the specific employment programme measures may be impaired.

When more than one organisation is involved **referral processes need to be clear and well explained**. Service user journeys across mixed public and private provision

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<sup>38</sup>[Tony Bovaird \(2015\): The ins and outs of outsourcing and insourcing: what have we learnt from the past 30 years?, Public Money & Management](#)

<sup>39</sup>[http://cesi.org.uk/sites/default/files/publications/JRF\\_contracting\\_out\\_welfare\\_Australia\\_Netherlands.pdf](http://cesi.org.uk/sites/default/files/publications/JRF_contracting_out_welfare_Australia_Netherlands.pdf)

<sup>40</sup> Finn, D (2010), Activating Benefit Systems for Workless People: Design and implementation lessons from Australia, the Netherlands and the United Kingdom, World Bank

can be complicated, especially for the most disadvantaged.<sup>41</sup> This can be addressed with a ‘warm handover’, which requires the service to be understood at frontline level.<sup>42</sup> This is especially important with a move to prime contractors under the Work Programme. When contracts were small, JCP advisors were more likely to know local providers. Electronic referrals and bigger primes have made this less likely.<sup>43</sup> This is a result of the structure of the contract, but can create a sense on the frontline that it is the move from known local “voluntary” sector providers to unknown national “private” sector providers has made the service more detached, impersonal and confusing for the user, when in reality the move may have been from small private to national voluntary sector provider.

One of the objectives of increased risk transfer by commissioners is to promote innovation in delivery. However, there is evidence that concern about financial survival is hampering the decision of smaller organisations to open themselves up to further risk by doing things differently. Social sector providers are especially concerned about these dynamics undermining their ability to innovate through building close relationships with citizens and communities.<sup>44</sup> In order for diversity of providers to function effectively, and for the benefits of specialist provision to be realised there is a need for **market stewardship**. DWP deliver this through the Merlin Standard which has recently been reviewed<sup>45</sup> where the main recommendation was to improve the Standard to improve its standing with sub-contractors.

Concern has been raised about the profits made from the delivery of public services. These criticisms are directed at private sector providers, although those in the voluntary sector may have similar targets for delivering a surplus. In Australia, some of the biggest voluntary sector providers were found guilty of gaming the system in order to boost income. In some countries the way profit-taking by providers may be perceived is countered by a clear statement from government on what they regard to be a reasonable return for providers. In some US states, for example, profits on employment and training contracts are capped. In Australia up to 60% of contract value is paid for delivering specific services or can only be spent on services for

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<sup>41</sup> [http://www.nao.org.uk/wp-content/uploads/2012/01/10121701\\_work\\_programme\\_design.pdf](http://www.nao.org.uk/wp-content/uploads/2012/01/10121701_work_programme_design.pdf)

<sup>42</sup> “A recurring theme throughout the research was the importance of direct contact between Jobcentre Plus staff and the external suppliers. Advisers felt more comfortable referring customers to a supplier if they had established communications and familiarity with the provision.”

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214481/rrep706.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214481/rrep706.pdf)

<sup>43</sup> [http://www.nao.org.uk/wp-content/uploads/2012/01/10121701\\_work\\_programme\\_design.pdf](http://www.nao.org.uk/wp-content/uploads/2012/01/10121701_work_programme_design.pdf)

<sup>44</sup> [http://www.instituteforgovernment.org.uk/sites/default/files/publications/Readiness%20for%20Complex%20Contracting\\_final\\_word\\_version\\_feb\\_2014.pdf](http://www.instituteforgovernment.org.uk/sites/default/files/publications/Readiness%20for%20Complex%20Contracting_final_word_version_feb_2014.pdf)

<sup>45</sup> Review of the Merlin Standard, Simmonds, DWP, 2015

participants.<sup>46</sup> Such approaches may, however, deter some providers.<sup>47</sup> Excessive profits are discussed in more detail in 10. Paying for Results.

## Costs of implementation.

It is important also to consider costs against value for money. It needs to be identified whether the key driver is to reduce costs, or to deliver better performance for similar costs (or to deliver better performance for lower costs, which was achieved in Australia). It is difficult to compare Work Programme costs across sectors due to lack of information on how these break down by provider, the extent to which programme costs are hidden by existing infrastructure, and the opportunity cost of poor performance for those most disadvantaged in the labour market. This is exacerbated as price formed a central part of the bidding process, ensuring that much of this information is kept as commercial in confidence. In an environment where the costs of the programme are fixed, and providers bid on quality it can be easier to assess cost. However, even so, it can be difficult to attribute performance to sectoral features rather than to the organisation itself.

It is important to consider costs in the broadest context. For example, the efficiency gains attributed to the Dutch and Australian models appear significant, but relatively little is known about the extent to which these gains have been offset by high commissioning and management costs for the purchaser, providers and service users.<sup>48</sup>

## Knowledge gaps

The areas where our knowledge is weaker are:

- It can be hard to determine what impact the governance of an organisation has had on performance. There is no evidence that isolates the impact of governance on programme performance.
- The extent to which involvement in national, mandatory programmes changes the ethos of non-profit organisations and their delivery methods.
- Where there are prime contractors there can be less transparency of data to identify any sector differences between performance and cost.

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<sup>46</sup> Another strategy, known as 'open book accounting', was proposed by one significant British provider for the initial stages of the WP, but DWP did not take it up. The approach was developed in the construction industry and essentially involves sharing information on income, expenditure and profits.

<sup>47</sup> Centre for Economic and Social Inclusion (2012) A New Employment Programme for Northern Ireland: A Feasibility Study

<sup>48</sup> [http://cesi.org.uk/sites/default/files/publications/JRF\\_contracting\\_out\\_welfare\\_Australia\\_Netherlands.pdf](http://cesi.org.uk/sites/default/files/publications/JRF_contracting_out_welfare_Australia_Netherlands.pdf)

## Implications

- There is no evidence on the relative effectiveness of delivery by sector. Often sector and size are conflated, with smaller, local organisations considered to be voluntary sector when they may not be.
- A lack of transparency over costs makes it hard to understand whether the sectors treat profits and surpluses differently, and whether this impacts on the service that is delivered to users.
- In addition to the general question of effectiveness it is important to consider the wider external perceptions of each sector and whether public opinion should influence decisions?

## Useful sources

[The Design of the Work Programme in an International Context](#)

[Report on the Third Sector and Welfare Reform by SCVO](#)

[Work Programme Statistics](#)



## 6. THE BLACK BOX APPROACH VERSUS SPECIFYING MINIMUM SERVICE STANDARDS

### Description

Getting the balance right between setting minimum expectations for support, and allowing service providers to determine this themselves.

### Background

Reducing prescription on employment services providers should deliver four key benefits:

- Personalisation – enabling them to deliver the support that the participant needs in order to get into work
- Innovation – with more scope to work in different ways and test new approaches
- Simplification – with less time spent (by the commissioner and provider) on demonstrating process compliance rather than achieving results
- A focus on outcomes – critically, the quid pro quo of more ‘black box’ approaches is that providers are measured and managed on the outcomes that they achieve

However, greater flexibility also leads to significant risks, including:

- Creaming and parking – that in the absence of minimum requirements or monitoring, providers will focus on those closest to work – leading to other participants having reduced services and poorer outcomes
- Lack of transparency – in what is being delivered, who is being supported and how – leading both to problems in understanding what is working, and what services people are receiving

In the UK, provider flexibility has culminated with the Work Programme – where providers set their own service standards, with only light-touch monitoring of their application, and no measurement of the quality of the services provided. This is unusual both by historical and international standards.

### What works

The strongest early evidence of the benefits of greater flexibility were illustrated in DWP’s **Employment Zone** pilots, which were run in fifteen areas in the early 2000s in place of the New Deals. In these areas, providers had stronger financial incentives to support claimants back to work and far greater flexibility in the support that they offered. Compared with New Deals they achieved significantly improved



results as well as higher satisfaction from participants – with participants more likely to feel that support was personalised and had contributed to their finding work. However, there were also wide variations in the quality and intensity of support offered.<sup>49</sup>

This learning fed into the development of **Flexible New Deal**, which replaced the New Deals from 2009. Under FND, all participants were required to have an initial interview and action plan, a minimum fortnightly face-to-face meeting, and at least four weeks of ‘full time activity’ within the twelve months on the programme. This was intended to balance flexibility for providers with minimum service standards for participants.

However the evaluation of FND<sup>50</sup> suggested that these minimum service standards were not always adhered to (with perhaps one third of participants not receiving the mandatory full-time activity), and critically that providers were largely delivering similar services to previous programmes with little evidence of innovation. Nonetheless, it did suggest that greater flexibility may have led to increased intensity of support, more continuity of advisers and improved satisfaction for participants.

The **Work Programme** has further reduced prescription and increased flexibility. Under the Work Programme ‘black box’, providers are required to deliver their own minimum service levels (set out by providers in their bids), but have no other requirements placed on them in the support that they offer participants. In practice, there is wide variation in minimum standards – with some providers committing to regular meetings and specified services, while others only make high-level statements of what *may* be available. This had led to criticism from the NAO<sup>51</sup>, who also criticised the lack of redress where support falls short of those services.

In the evaluation of the Work Programme<sup>52</sup>, many providers reported that in practice they have had less flexibility than they had expected – with DWP requiring them to deliver the services and service standards set out in their bids. Some providers complained that this increased risks of ‘box ticking’ rather than focusing on quality, and has reduced the scope for innovation. In practice, similar to FND, evaluations have found that providers are delivering similar services to previous programmes – with greater scope for personalisation and more intensive contact, but also increased risks of some participants being ‘parked’.

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<sup>49</sup> Rita Griffiths and Stuart Durkin (2007) *Synthesising the evidence on Employment Zones*, DWP

<sup>50</sup> Vegeris, S. et al (2011) *Flexible New Deal evaluation: Customer survey and qualitative research findings*, DWP Research Report 758

<sup>51</sup> NAO (2012) *The introduction of the Work Programme*, National Audit Office

<sup>52</sup> Foster et al (2014) *Work Programme evaluation: Operation of the commissioning model, finance and programme delivery*, DWP Research Report 893

Importantly, the Work Programme also has no monitoring of service quality or standards – making it unique amongst contracted-out public services. Previously this role was carried out by Ofsted, but that requirement was removed in 2011. This further increases risks of focusing on process rather than quality, and of some participants being parked (as there is no measure of participant experience). The official evaluation also found that the scrutiny of standards by the Department was lighter-touch than previous programmes.

Looking further afield, contracted-out markets have tended to follow a pattern of deregulation followed by reregulation – usually responding to fears around creaming, parking and service standards.

In **Australia**, greater flexibility was introduced in the late 1990s alongside outcome-based funding, and was associated with greater personalisation, innovation and a stronger focus on results<sup>53</sup>. However there were also concerns around variable service standards and a lack of consistency. This led to the introduction of ‘Service Guarantees’ in 2003, which set out the minimum support that jobseekers could expect, regardless of where they lived or who delivered the service. These varied according to the ‘stream’ that jobseekers were referred into at their initial assessment – for those closer to work the guarantee included an action plan, specified support with jobsearch (for example access to facilities, help with CV writing, advice on looking for work) and regular meetings; while those further from work were guaranteed monthly meetings and a period of “intensive activity”.

In the most recent contracting round (2015), these Guarantees have in effect been replaced by ‘Service Delivery Plans’ specified by providers. Unlike the Work Programme standards, these generally set out in detail the nature and frequency of support that can be expected, but they vary significantly between providers.

In the **Netherlands**, ‘reintegration services’ have considerable freedom in how they design services but must meet minimum requirements – and in particular the requirement to produce a detailed individual action plan, which must be agreed by the employment service (the UWV) and must include agreed intensive activities to support participants back to work. Again, this has been combined with funding reforms to create strong incentives to support individuals back to work and to reduce reliance on benefits. However, in response to concerns around the market being

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<sup>53</sup> DEWR (2002), *Job Network evaluation, Stage 3 effectiveness report*, EPPB Report No 1/2002, Dept. of Employment and Workplace Relations

dominated by larger providers delivering standardised services<sup>54</sup>, longer-term plans have been replaced with purchasing of more specific and prescribed support.<sup>55</sup>

Overall then, both the risks and the benefits of reducing prescription appear to be in evidence in the UK, Australia and the Netherlands. More flexibility can lead to more personalised support, greater satisfaction and probably to improved performance. However, this is associated with less transparency on what is being delivered and increased risks of some groups being parked. Greater flexibility also does not lead to substantial innovation – with a lot of evidence that providers ‘crowd around’ standard approaches. Critically, there is also a need to focus on service quality – to avoid risks of prescription leading to ‘box ticking’.

In **Northern Ireland**, ‘Steps to Success’ has tried to learn from this evidence with a model that substantially reduces prescription on providers but is underpinned by ‘Service Guarantees’ that specify common service levels – so trying to combine the best of the GB and Australian models. This has not yet been evaluated.

### Knowledge gaps

- There is only a limited number of countries with these models and only a limited evidence base within those – so research on what works and why is fairly limited

### Implications

- There is a critical link between service standards and outcomes – if you reduce prescription then it must be linked to a greater accountability for outcomes
- There is also a critical link to quality – prescription should be a proxy for quality of service, which in turn needs to be monitored appropriately
- Reducing prescription can lead to greater personalisation, but will not itself lead to innovation

### Useful sources

[Steps to Success Service Guarantee for Reed in Partnership \(pdf\)](#)

Old Australian Service Guarantees: [Stream 1](#), [Streams 2-3](#), [Stream 4](#)

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<sup>54</sup> Morrell, H. and Branosky, N. (ed.) (2005) *The Use of Contestability and Flexibility in the Delivery of Welfare Services in Australia and the Netherlands*, DWP Research Report No. 288

<sup>55</sup> Finn, D. (2008) *The British ‘welfare market’ Lessons from contracting out welfare to work programmes in Australia and the Netherlands*, JRF

## 7. PARTNERSHIP TO SUPPORT JOBSEEKERS WITH THE MOST COMPLEX NEEDS

### Description

Examples of good practice in aligning aims, roles and activity across the spectrum of delivery agents and partners, how to develop locally based partnerships to support jobseekers with the most complex needs.

### Background

‘Partnership’ covers a wide spectrum of informal and formal relationships. In general ‘partnership’ encompasses the arrangements between different organisations and agencies so that their different functions can be aligned to deliver improved outcomes. In this context we are specifically considering how this can be done for jobseekers with the most complex needs.

A distinction should be made between **strategic** and **delivery** partnerships, although some models straddle the two. The former is usually composed of those with policy and commissioning responsibilities, but often involve different interest groups. The latter is when different delivery agencies work together to provide a service and this can be done contractually through supply chains, or through formal agreements, such as to co-locate or service level agreements.

Scotland already has a strategic employability framework that recognises the need for partnership working, and has well established mechanisms to deliver this.<sup>56</sup> This is more developed than other partnership structures in England, Wales and Northern Ireland.

The main drivers for partnership in the UK in recent years can be broadly characterised as **governance**, **personalisation** and **efficiency**. ‘Governance’ in recognition that a more pluralistic and inclusive approach is needed. ‘Personalisation’ requires partnership to encourage different services to ‘join up’ to deliver for individuals with multiple needs. ‘Efficiency’ is an increasingly important driver given reductions in public expenditure.

Partnership is a mechanism that can: identify and reduce service duplication; encourage integration; develop shared services; and reduce overhead costs. All of which can lead to reductions in spending and increased productivity of the employability workforce.

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<sup>56</sup> See <http://www.employabilityinscotd.com/policy-and-partnership/delivery-infrastructure/>

In Europe and the US, the role of **social partners** means that strategic partnership is more embedded at all levels of government. For example, Workforce Development Boards in the US are appointed by local elected officials and charged with planning and oversight responsibilities for workforce programs and services in their area.

With **pressures on public funding** there is an inherent tension for how staff use their time. Increasingly policy makers, managers and staff will need to be convinced that there are real returns (however measured) from partnership working and/or the function of the partnership requires them to participate.

## What works

There is a very wide range of literature on partnership in general, but little that deals directly with vulnerable groups. Most literature on partnership is process reviews of operational issues and we have not identified an evaluation that attempts to directly attribute improved outcomes or increased efficiency to partnerships. Indeed methodologically it would be very difficult to distinguish the added value of the partnership as opposed to the actual impact of the interventions.

The OECD has published the results of an online survey of Public Employment Services (PES), in conjunction with the World Association of Public Employment Services, on long-term unemployment and vulnerable groups<sup>57</sup>. Overall the report found that for vulnerable groups **collaboration was the norm amongst PESs**.

The primary focus for collaboration was with employers, with whom 90% of PESs had regular (at least monthly) contact. Between 68-77% had regular contact with a range of different agencies, including skills providers, social welfare organisations (public and social economy), and representatives of vulnerable groups. 75% reported collaboration with economic development organisations and regional development specialists.

An evaluation of **English Local Strategic Partnerships**<sup>58</sup> summarised their 'theory of change' and the key lessons and issues they have tackled. These were:

**A shared analysis, sense of direction and capacity:** partnerships take time to develop and a local history of collaboration helps; inclusive processes are needed; leadership, accountability and a positive connection with local politicians; fostering an understanding of respective priorities of partners; sharing information; ability to take difficult decisions.

**Vision and strategy:** adds value to local governance and priorities for action; resolving tensions over distribution of scarce resources

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<sup>57</sup> Tackling Long-term Unemployment for Vulnerable Groups, OECD, June 2013

<sup>58</sup> Evaluating Local Strategic Partnerships, Geddes et al, University of Warwick

**Implementation:** maturity and progress; claiming credit for actions

**Outcomes:** process and service outcomes.

Some programme evaluations cover the institutional arrangements for the delivery of the programme and make observations about their impact on performance. Hasluck & Green<sup>59</sup> summarised the findings of many of these evaluations:

“Evidence suggests that a providers’ experience of working in a particular local area – where they have established networks and contacts – is likely to have an impact on their success. ... Over time changes in organisational frameworks and targets may impact on delivery.”

This suggests that provider performance can be increased by strong networks and contacts in a local area and these networks can be facilitated by local partnerships. However, there is not necessarily a direct connection. Anecdotal evidence suggests that where Work Programme providers do not engage sufficiently with local partnerships (where they exist) then there was little motivation for partnerships to engage with providers and (at worst) it could lead to a lack of trust and the potential for duplication. In other words, the lack of a partnership approach can lead, in some circumstances, to less trust, inefficiencies, and poorer performance.

This would suggest that the most effective way of realising the potential benefits of partnerships is to involve them in the process of appointing contractors – in one way or another. However, there will also be risks in doing this. For example, a local provider can have good networks and be favoured by a local partnership but still not deliver the expected level of performance.

A recent example of resolving this tension is **Local Integration Boards** in Greater Manchester for the delivery of the Working Well pilot<sup>60</sup> (for WP returners on ESA). Whilst Working Well was contracted centrally by Greater Manchester the contractors were required to join Local Integration Boards co-ordinated by local authorities. These ensured that the contractors were networked with the right partners and that service integration was a priority. Local partners suggest these have been effective and contractors recognise that it has helped them reach performance targets. A provider commissioned evaluation<sup>61</sup> concluded “ ... integration with local services was said to be working more effectively than with the Work Programme.”

At the delivery level there is now much emphasis on how partnership working can lead to **co-location and shared services**, which can both lead to financial

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<sup>59</sup> What Works, Hasluck and Green, University of Warwick, 2007

<sup>60</sup> For an overview see

[http://stats.cesi.org.uk/events\\_presentations/SeminarSeries2014/Tacklingemployment/MatAinsworth.pdf](http://stats.cesi.org.uk/events_presentations/SeminarSeries2014/Tacklingemployment/MatAinsworth.pdf)

<sup>61</sup> Interim Evaluation of Working Well, Scott Dickinson, July 2015



efficiencies and improved service integration for the customer. There is some evidence that co-location is not only cost effective but can also lead to improved services for customers. Currently a key driver for this is the end of DWP leases on local Jobcentres in 2018. This is leading Jobcentre Plus to examine what local presence they need and how this is best delivered. At the same time, pressures on local government finance are leading to a greater use of shared services across local authorities and with other agencies.

Whilst there has been no attempt at the quantification of benefits (and therefore whether co-location and shared services are cost effective) there are a number of evaluations that report on the perceived benefits. For example:

- Scottish Government evaluation of Integrated Employment and Skills Pilots<sup>62</sup> which concluded:  
  
“Advisers at both SDS and JCP felt that the integrated service was most effective where staff were co-located, as co-location was most likely to offer customers a sense of a truly seamless service.”
- BIS ‘Evaluation of the Deepened Co-location Trials’ between Jobcentre Plus and Next Step  
  
“Co-location in Jobcentres enables Next Step to provide access to services for key priority groups. Sharing facilities is not only cost-effective in the longer term but also has the potential to enhance the offer for Jobcentre customers.”
- London Councils<sup>63</sup> report on Troubled Families concluded that multi-agency working and co-location was a critical success factor
- A Welsh Government evaluation of Jobcentre Plus in Children Centres<sup>64</sup> where it was assumed the improved impacts of the pilot were in part due to co-location.

There are now numerous small examples of co-location of Jobcentre Plus staff with local initiatives, often local government. For example, MyGo is an employment centre especially designed for all young people and is a delivery partnership between Suffolk County Council, Jobcentre Plus and EOS Works.

## Knowledge gaps

There is a very wide literature on partnerships but few that can directly attribute partnership working to improved outcomes. The key knowledge gaps are therefore:

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<sup>62</sup> <http://www.gov.scot/Resource/Doc/354697/0119753.pdf>

<sup>63</sup> <file:///C:/Users/dave.simmonds/Downloads/LondonCouncilsTroubledFamiliesProgrammeReport.pdf>

<sup>64</sup> <http://gov.wales/docs/caecd/research/121012jobcentrepusen.pdf>

- Do delivery partnerships add value in a cost effective fashion?
- Does co-location and integrated services across partners add value in a cost effective fashion?
- Is it feasible to measure improved outcomes as a direct result of certain forms of partnership working?
- Are there certain forms of partnership which are more likely to deliver efficiencies and increase outcomes?
- Specific evaluation evidence on the impact of Local Employability Partnerships, which will be forthcoming.

## Implications

- Is the current governance and institutional partnership framework sufficient for delivering Scotland's new responsibilities for employment programmes?
- Is there the need for a fundamental review of the purpose, functions, and funding of partnerships?
- In any reform of strategic partnerships due regard needs to be given to how relationships, trust and local knowledge are maintained and increased across the delivery infra-structure
- Delivery partnerships have the potential to deliver added value, but the cost effectiveness of these gains are not a given.

## Useful sources

Innovative Financing and Delivery Mechanisms for Tackling Long-term Unemployment <http://www.oecd.org/leed-forum/publications/FPLD-handbook7.pdf>

Theory of Organisational Partnerships – partnership advantages, disadvantages and success factors, Ron McQuaid, Stirling University, 2009  
<http://dspace.stir.ac.uk/bitstream/1893/16959/1/Partnerships%20chap%2009%20%20McQuaid.pdf>

US Workforce Investment Boards:  
<http://www.doleta.gov/usworkforce/wia/summarywia.cfm>

[http://www.nawb.org/documents/Publications/WIOA\\_Overview-090314.pdf](http://www.nawb.org/documents/Publications/WIOA_Overview-090314.pdf)





## 8. ENCOURAGING INNOVATION IN SERVICE DELIVERY

### Description

One of the central arguments for opening up the employment services market has been to encourage innovation.<sup>65</sup> Has this worked and how can further innovation be encouraged?

### Background

Commissioners have used a number of methods to encourage innovation in delivery. Three commonly used approaches are:

- Identifying a requirement for innovation at the bid stage (and rewarding bidders who demonstrate new approaches through the points/assessment structure)
- Specific grants for innovation, to be bid for in addition to mainstream programme monies
- Removing many of the requirements of the programme, enabling providers' considerable freedom to design their approach. Commonly referred to as a 'Black Box' approach, this was seen on a smaller scale in earlier iterations of employment programmes, for example Employment Zones and the Personal Job Account.

One of the key issues is the balance between innovation and accountability. With each contracting round in Australia, the government has introduced additional process requirements to increase provider accountability. One of the unintended consequences has been to reduce opportunities for innovation.<sup>66</sup>

There are numerous examples of innovation in employment services; from EOS's 'work spaces',<sup>67</sup> to partnerships with GPs to encourage referrals, to changing the structure of delivery by creating primes that do not deliver. A vital question for a competitive market is how you encourage collaboration and sharing of best practice. It can also be difficult to isolate the impact of a particular innovation from the programme effect, or the broader economic context. To overcome the latter issue the

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65 See, for example: Tony Bovaird (2015): The ins and outs of outsourcing and insourcing: what have we learnt from the past 30 years?, Public Money & Management, where "allowing providers to be more innovative" is listed as a key reason for moving to a purchaser/provider split

66 Finn, 2011, Finn, D (2011), Job Services Australia: design and implementation lessons for the British context, Department for Work and Pensions, UK.

67 The Work Programme provider, EOS, have created areas in their offices which resemble 'real' work spaces. These include a functioning gym, a café, a warehouse, an office and a shop. Clients 'work' alongside completing jobsearch activities with a Personal Advisor in order to build experience, job (and even company) specific skills and links with employers.

Behavioural Insights Team are using randomised control trials to test some specific innovations in employment services.

## What works

There has been significant international interest in what works in employment services. World Bank research identifies five key interventions that are central to effective delivery.<sup>68</sup>

- Early intervention
- Verification of jobsearch
- Density of contact
- Jobseeking Agreements/Action Plans
- Direct referrals to jobs

Much (although, importantly, not all) of the innovation seen in employment services falls into these five areas. For example, contact with clients now occurs through a variety of different media, including text, phone and online as well as face-to-face meetings. Methods of building commitment used in other arenas (including health and fitness) such as habit trackers, recording your own data and the use of membership points have been adapted to support client motivation as they engage with providers.

There is considerable evidence about the importance of the locus of control. In the same way that a Black Box approach enables providers to design their own solutions, so some providers have given advisors and clients considerable space and support to innovate on an individual basis. The Personal Job Account, an integral part of the Employment Zones, facilitated this, as finances were made available to support steps to work, without prescription about how it should be spent or a limit for individuals.<sup>69</sup> Interestingly, when this idea was rolled out beyond the programme, the flexibility was lost, it became a set amount (based on EZ average spend) and much of the impact was lost. **A central question is how we scale up successful innovation without losing impact.**

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<sup>68</sup> Almeida, R, Arbelaez, J, Maddalena, H, Kuddo, A, Lohmann, T, Ovadiya, M, Pop, L, Sanchez Puerta, ML, Weber, M (2012), *Improving access to Jobs and Earnings Opportunities: The Role of Activation and Graduation Policies in developing countries*, World Bank.

<sup>69</sup> Cambridge Policy Consultants (2002), *Qualitative Evaluation of Employment Zones: A Study of Local Delivery Agents and Area Case Studies* <https://mail.google.com/mail/u/0/#inbox/150fc17b8b6e8089?projector=1>

Some of the benefits of innovation in delivery has been improved engagement. This has been the experience of EOS (a Work Programme contractor), particularly with younger (18-24) clients. Attending a centre that looks like a place of work (be it gym, café, office, shop, warehouse or casino) has had a positive impact on their performance with this age group.

However, innovation is just as important in areas outside of programme content. While it is possible to improve performance through innovation, transforming performance will require more fundamental shifts. There have been innovative ideas suggested for:

- **commissioning** including open book accounting across providers;
- **funding models**, including a target accelerator to dis-incentivise creaming and parking;
- **measuring performance**, including collaboration with employers in Alabama.<sup>70</sup>

Some innovative approaches have abandoned the traditional structure of programmes and moved support into the community. In the UK, this can be seen in the work of Participle (delivering 'relational welfare'). In the US, the Family Independence Initiative works with families and their communities to improve employment, education and finance/savings outcomes through building and relying on existing networks rather than external organisations. Advisors are engaged to facilitate the process, but discouraged from "doing" too much for participants.

Doing things differently introduces further elements of risk into the system, and the balance between innovation and accountability can be difficult to achieve. This is sometimes mitigated by:

- **iterative contracting**, allowing for learning on the job
- **prototyping and guerrilla delivery**: Policy Lab (part of the Cabinet Office) is using this approach to test ideas before the piloting stage – these small scale, no extra cost innovations are designed to be developed and evaluated constantly through the short testing/delivery period in order to contribute to the design of more formally designed pilots
- **funding models** that provide for failure, either through innovation grants or frontloading some of the funding. In NYC a focus on increasing philanthropic funding has allowed the city more freedom to be innovative in delivery.

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<sup>70</sup> [http://www.workforcedqc.org/sites/default/files/files/WDQC\\_EmployerEngagement.pdf](http://www.workforcedqc.org/sites/default/files/files/WDQC_EmployerEngagement.pdf)

## Knowledge gaps

The key areas where our knowledge is weaker are:

- Measuring interventions as well as programme performance, and being able to disaggregate the impact of specific elements of programme design
- How to encourage better collaboration in a competitive environment so that performance is raised across the board when things work. See, for example, Silicon Valley or the London Challenge (schools) where the sharing of ideas and skills have led to better innovation and performance across the board
- How to successfully scale up effective innovations: from small providers to big, from one area of the country to another, from start up to mainstream
- How to harness technical advances to the benefit of the sector. The focus to date has been on doing the same things slightly more efficiently rather than challenging the accepted model

## Implications

- There is a key difference between encouraging innovation in delivery within an existing, understood framework (the approach that has been taken in most countries), and encouraging innovation that questions the established framework (for example, Personal Job Accounts and community based solutions)
- To what extent will welfare-to-work and employment services operate in isolation of other departments and budgets, particularly health, housing and education/skills? Some of the biggest opportunities for innovation lie in removing some of the structural, bureaucratic and funding barriers to better integration of services.<sup>71</sup> The creation of the Joint Health and Work Unit in Whitehall (sitting between DWP and DoH) is an example of how structural change at the centre can create new opportunities for innovation in delivery.
- There is a tendency when thinking of ways of encouraging innovation to focus on significant, visible changes that clearly identify a different way of operating. In the wider business world, small, practical changes have been just as important in improving service delivery for users. Whether this is true for employment services is open to question, but there should be processes and encouragement for identifying 'micro-innovations'.

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<sup>71</sup> See, for example:

<http://www.instituteforgovernment.org.uk/sites/default/files/publications/4564%20IFG%20-%20Joining%20up%20around%20local%20v11c.pdf>

- If innovation is important, then how will that be encouraged through the contracting process, for example through prototyping or iterative contracts? Can learning and sharing communities be built to codify failure as part of the learning process? How will risk be mitigated within the funding model? How will innovation and accountability be balanced?

## Useful sources

[Nesta's Global Innovation Library](#)

[Behavioural Insights Team](#)

[Using tech to deliver local government services differently](#)

## 9. PAYING FOR RESULTS

### Description

Paying for Results: approaches to paying or incentivising outcomes, advantages or limitations to payment by outcomes, value for money approaches and how to define this in terms of a best price/quality ratio, and how best to ensure appropriate reward structures?

### Background

Policy and evidence reviews identify different types of contracts used when procuring employment services. **Cost-reimbursement contracts** typically pay providers for the proven expenses they incur and **fixed-price contracts** pay fees agreed in the procurement process. These contracts may include performance standards but payment is not dependent on them. **Performance-based contracts** typically specify a wider range of performance measures which influence payments that will include job outcomes but also other factors that reflect quality of service, such as action plans agreed, assessments made, and so on. **Payment by results (PbR) contracts** pay providers primarily for placing people in jobs and securing sustained employment outcomes.

Each contract type has advantages and disadvantages. There are particular advantages in selecting a PbR model that gives providers flexibility in how they deliver services. Such a contracting model:

- Transfers risk to providers who make up-front investments in service delivery but are rewarded only if they secure employment outcomes.
- Ensures the focus of the provider is on securing sustained employment outcomes and directly linked to the policy objective.
- Is likely to drive improvements in service delivery and promote better job matching and employment retention.
- Reduces the amount of public money spent on processes and activity unlikely to produce an employment outcome.
- Makes it easier for the purchaser to quantify results and performance which makes under-performance and monitoring easier to manage. Contract management can become performance management, focusing on employment outcomes rather than process.

PbR contracts offer potential for innovation, flexibility and efficiency savings but it is a technically challenging form of contracting and poor design would pose risks to



service access, costs, quality and accountability (NAO, 2015; Sturges and Cumming, 2011).

There are risks common to different types of contract design but two particular risks are amplified by PbR contracts. The first is 'cream-skimming', where contractors who are paid by results are able to recruit more job ready clients from eligible participants. The other risk of 'creaming and parking' occurs where providers are mandated to work with referred participants. The provider is likely to segment their service delivery 'creaming' and working more intensively with the more easily placed whilst 'parking' more costly participants who may receive only minimal services and make little progress.

Other risks relate to the ability to regulate and ensure the quality of the services delivered by surplus or profit-seeking agencies; and the potential for market failure, where government has no choice but to intervene and either 'bail out' a failing provider or quickly find an alternative to continue the delivery of services.

### What works in Payment by Results

There are multiple studies of the development of PbR employment services contracting systems but there are few rigorous impact studies. The largest such studies have been undertaken in Australia and the UK, with European and US studies typically smaller-scale. The evaluations give mixed results, with the most positive findings from studies in Australia, the USA, the UK and Belgium and mixed or negative findings from pilot studies in Germany, France and Sweden.<sup>72</sup> Few of the evaluations give findings on the costs of procurement, contract management, or general cost-effectiveness.

The more negative impact findings were mainly given in evaluations undertaken in the early phases of contracting reforms which often identify faults in the design of contract incentives and procurement processes. In the respective countries studied the contracting systems have since been changed, with design reforms often made in response to the evidence emerging from the evaluations. Despite variation **the findings from the studies show that providers can, under the right PbR contractual arrangements, improve outcomes for disadvantaged jobseekers and bring innovation to service delivery.**

One weakness of the European studies is that they typically only compared Public Employment Service provision against contracted out provision, giving little

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<sup>72</sup> Finn (2011) gives a detailed summary of the then published European and Australian impact studies identified through an extensive literature review. A report on the contracting out of employment services in Flanders reviews several more recent small scale net impact studies from Sweden and Germany (Cockx and Baert, 2015, at <http://ftp.iza.org/dp9459.pdf>). There are no net impact studies of the WP or Work Choice.

information on the characteristics and performance variation between different private providers. **One of the principal advantages of contracting is, however, the ability over time to select better performing providers with less effective providers losing market share in live-running or losing contracts at the next stage of procurement.**

Such a developmental process has led to significant innovation and better practice in contract design in Australia where the federal government delivers all employment services through three year contracts with a significant element of PbR. Most impact evaluation evidence concerns the early contract periods where studies found that outcome payments and competition had created incentives for improved efficiency with job entry rates increasing. Contract design has developed further and the key design elements now associated with more effective delivery include (Finn, 2011):

- A combination of differential service and job outcomes fees calibrated with the client's probability of experiencing long term unemployment.
- Competitive tenders offering fixed service and outcome fees with bid selection determined by quality.
- A quarantined Job Seeker Account comprised of a restricted pool of funds earmarked for spending only on employment barrier reduction.
- A 'star rating' system that measures relative job placement and outcome performance of individual delivery sites and promotes intra-market competition through regular adjustments to increase caseload flows to better performing providers.

The PbR design of British Employment Zones was also associated with improved performance and was in part modelled on Australian experience. The zone payment model had a number of elements to reward both placement in sustained employment and the speed with which people were placed into work. There were variations for different participant groups but the core funding model for long term unemployed participants combined a commencement fee for completing an action plan with output related funding payments for placement in sustained employment for 13 weeks. Under the first round of contracts providers received an 'action plan' fee of £300 with about £400 payable on job entry and approximately £2,500 payable after 13 weeks retention in a job. The provider was advanced the equivalent of 21 weeks benefit payment, averaging around £1,300, out of which they paid the participants basic benefit entitlement for up to 26 weeks. If the claimant was placed in employment before 21 weeks the provider retained the balance, if the claimant remained unemployed after 21 weeks the provider had to pay up to five weeks benefit from its own resources (Griffiths and Durkin, 2007).

The cumulative evidence from the available studies shows that the impact of PbR is determined by the design of the contracts (particularly the funding model), the selection of the providers, and subsequent contract management. The evidence suggests that it is the first of these that is the most significant, since the behaviour of the providers is largely driven by the contracting and funding context within which they are operating. Contract management is important also in assuring contract compliance; quality of provision; and in driving continuous improvement and higher performance.

PbR contracting for employment services entails risks but lessons from impact studies and other evidence reviews suggest ways in which such a contracting system can be best designed and managed:

- **The public purchaser should design the commissioning process and contracts in ways which allow lessons to be learned rapidly and adjustments to be made.** The development of a contracting system will involve an evolutionary process of trial and error and is likely to require a period of monitoring, evaluation and modification. In the early stages of development, when little is known about how to price job placements, the public purchaser could make use of 'learning contracts' and 'open book accounting'.
- **Outcome-based funding provides the most effective driver of performance, but only if the pricing is right.** There are many choices to be made about contract design and how to organize procurement that will shape subsequent delivery and impacts. One of the key findings concerns the negative impact of contract selection processes that gave too much weight to the lowest priced bids which resulted in poor performance and unviable contracts. The challenge for the public purchaser is to balance bid selection criteria in ways that secure value for money but do not undermine provider capacity to deliver effective services.
- **The design of the payment system is critical in translating policy aims into effective incentives for providers.** Deciding what to pay for and the frequency of payment need to be calibrated within the contract in ways that encourage the provider to work with all their participants, invest in service delivery and to place and sustain participants in employment. Relevant employment outcomes may include job placements, wage gains, and employment retention, with other process performance measures that support the quality and timeliness of the support given.
- **The public purchaser must build an understanding of what can be delivered and at what cost.** A primary concern is that profit-making companies may make excessive profits. One approach with longer term contracts is to ensure that at least in the transitional phase there is agreement between the public purchaser and provider to share cost and performance information, facilitated by a commitment to a period of open book accounting, that allows for terms to be

reset to ensure value for money. An alternative approach is to have a formal 'profit cap' but such mechanisms may require disproportionate scrutiny of provider finances and can have perverse incentives, as in some US states, and may blunt performance incentives and may discourage providers from entering the market.

- **Longer duration contracts and higher participant numbers give the opportunity for greater risk transfer and encourage provider investment.** This is because the provider has a longer period to manage the risks, cover their costs, improve performance and it can help attract well-capitalized market entrants. There are associated risks but these may be minimized and managed through careful contract design and performance monitoring.
- **High quality contracting requires effective IT-based information systems that enable government agencies to track participants, monitor provider performance and verify service delivery and outcomes.** Such tools include tracking provider performance through a pre-defined set of indicators, relative performance benchmarking (as in Australia's 'star rating' system), and monitoring the providers behaviour directly through audits and site visits. The availability of reliable data will play a vital role in the growth of a new system such as that in Scotland. It will inform: service design; provider selection and management; pricing; transparent performance reporting; and it can contribute to continuous improvement and quality assurance.
- **Common contractual minimum service standards are necessary to avoid negative provider behaviour or perverse service impacts.** The evidence illustrates the importance of government agencies independently monitoring participant experience and ensuring that robust systems can respond to complaints of poor service delivery. This could involve 'customer satisfaction surveys' of both participants and of employers. These instruments are important because they provide additional information on the quality of service delivery and job outcomes and because they militate against 'parking'. WP prime providers undertake such surveys for their own purposes but the DWP has no common requirements and ceased its own participant follow-up surveys in the early 1990s. The consequence is that the Department has little systematic insight into the experiences of participants.<sup>73</sup>

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<sup>73</sup> This lack of insight was compounded in England in 2010 when the DWP announced that 'Ofsted', the independent regulator for most education and training provision, would no longer undertake inspections of the Department's welfare to work programmes. Instead the remit of DWP's own provider assurance teams was extended to cover, "in a light touch way", some of the quality issues that previously formed part of external inspections.

## Knowledge gaps

Three key areas where knowledge is weaker are:

- The balance between employment outcome payments and immediate service fees or other payments that may ensure provider viability and consistent service delivery but maintain incentives.
- How best to attract providers to compete for contracts whilst involving smaller non-profit and specialist providers in a PbR contracting system.
- How to calculate and differentiate outcome payments so that they give providers the right incentive to invest in more disadvantaged clients.

## Implications

- Need to agree on outcomes to be rewarded and how they would be proven. Costs will be lower if there is real time access to DWP benefit data and HMRC tax records.
- Need to decide on minimum service standards and on how their delivery would be reflected in the provider payment system (balance between service fees and outcome payments).
- The viability of a PbR system in Scotland will be shaped by other design decisions, especially delivery areas, length of contracts and future caseloads.

## Useful sources

NAO (2015) Outcome-based payment schemes: government's use of payment by results, national Audit Office, <http://www.nao.org.uk/wp-content/uploads/2015/06/Outcome-based-payment-schemes-governments-use-of-payment-by-results.pdf>

## 10. CONTRACT SIZE, LENGTH AND SHAPE

### Description

Impact of contract size, length, and the pros and cons of the prime contractor model.

### Background

Contract size, length and structure are key drivers in achieving better value for money, improved outcomes, developing the right market and building resilience for the future. There is a trade-off between maximising the advantages of fewer, larger contracts (in reducing transactional costs, realising economies of scale, encouraging long-term investment) while at the same time maintaining sufficient competition so that performance is increased.

The contract parameters have a considerable impact on the delivery of the programme; they determine which providers decide to bid to deliver as well as the type of service that is put in place. These tend to change over time, with significant differences between start up and steady state markets. There has been no 'grand design' in the development of the employment services markets in the UK, Australia or the Netherlands. Progress in all three has been uneven and contradictory at times.<sup>74</sup>

Contract size is often discussed in terms of economies of scale. Contract viability requires both a **critical mass of clients** and **sufficient length** to encourage investment. For providers to invest in a high quality infrastructure – in terms of staff, processes and premises – they need to have confidence in the longevity of the market and time to generate a return on initial investment. This also provides a realistic platform for new providers to consider market entry.

Prior to interventions on a national scale, through programmes such as New Deal, Employment Zones and the Work Programme, it was not unusual to find multiple organisations set up to deliver multiple services in a single area, all targeting similar funding streams, clients and employers and therefore creating confusion, duplication and fragmentation. The **prime contractor model** was developed as a way of delivering accountability within a national programme and reducing the commissioning and management costs of DWP. The focus is on finding the balance between exploiting economies of scale in service delivery without losing the value of local knowledge or specialist skills (often through sub-contractors).

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<sup>74</sup> Finn, D (2010), *Activating Benefit Systems for Workless People: Design and implementation lessons from Australia, the Netherlands and the United Kingdom*, World Bank



## What works

Creating economies of scale through **larger contracts** can improve value for money for stakeholders through increasing efficiency and reducing costs associated with the procurement and contract management process. They also help reduce duplication and fragmentation. This benefit can be maximised by integrating a number of funding streams, both within and across departments. The Chicago Workforce Partnership, the body responsible for managing employment and skills funding in that city, faced these issues in 2013 and cut the number of skills providers by 40% in order to ensure clarity of focus on employer needs.<sup>75</sup>

However, there are size-specific risks that larger contracts have associated with them. One of these is parking by place. Parking happens when a prime contractor is able to meet their performance targets without fully engaging all communities – they slow-track or ‘park’ those they deem least likely to move into work. Parking by place occurs when a provider effectively limits service provision to an area within their wider district by placing minimal or no resource there. However, this is complicated by whether it is the neighbourhood (local economy) or the characteristics of the claimants in the neighbourhood that is the main determinant of performance.

Work Programme statistics mainly show a clear relationship between performance and local unemployment rates, but performance will also be affected by the proportion of ESA claimants in an area given their lower job outcome rates. The large Work Programme CPAs, and the WP payment mechanism, means there is no clear incentive for contractors to close employment rate gaps between local areas in their CPA. Neither has this been the subject of any performance management metrics. The risk of parking by place could be mitigated through contract design, funding model and performance measurement. However, there is no precedent, which we know of, for this being done for contracted provision in employment services.

Concern has been raised that in trying to achieve the benefits of economies of scale, size of provider has become a criterion used in commissioning and procurement.<sup>76</sup> The prime contractor model should enable these benefits to be realised while ensuring employment services stay locally appropriate, locally determined and democratically accountable. There have, however, been concerns that in reality sub-contractors have suffered from poor supply chain stewardship, in particular unpredictable flows (sometimes no flow at all), and poor treatment from primes.<sup>77</sup>

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<sup>75</sup> <http://www.workforceboard.org/about-us/>

<sup>76</sup> [Tony Bovaird \(2015\): The ins and outs of outsourcing and insourcing: what have we learnt from the past 30 years?, Public Money & Management](#)

<sup>77</sup> [http://www.shaw-](http://www.shaw-trust.org.uk/media/294741/refinement_or_reinvention_the_future_of_the_work_programme_and_the_role_of_the_voluntary_sector.pdf)

[trust.org.uk/media/294741/refinement\\_or\\_reinvention\\_the\\_future\\_of\\_the\\_work\\_programme\\_and\\_the\\_role\\_of\\_the\\_voluntary\\_sector.pdf](http://www.shaw-trust.org.uk/media/294741/refinement_or_reinvention_the_future_of_the_work_programme_and_the_role_of_the_voluntary_sector.pdf)



Whilst some will claim that this will undermine performance, there is no published evidence to show that weak supply chain management leads to worse outcomes for unemployed people, however supply chain theory would suggest that this would be the case.

Those people with the highest levels of disadvantage have found least success with the Work Programme. The structure of the programme has been criticised for facilitating ‘cream-skimming’. There is a need for accurate information to be made available pre-tender in order that providers can decide whether contracting opportunities are viable. There have been many examples where predicted flows have been at odds with what either previous experience or local knowledge would suggest. Programmes that combine mandatory and voluntary referrals introduce a level of control over numbers as providers have the opportunity to build up programme numbers from a variety of claimant groups.

Size can also be adjusted mid-contract based on performance. The Work Programme reallocates market share in multiple prime contractor areas at set points, based on performance. However, the cost to government of managing this market share shift may be disproportionate to the impact that it has on performance.

Contract length needs to be sufficient to encourage investment – in the programme, in infrastructure and in sustainable outcomes. There are clear, broader benefits too, in terms of encouraging stability, investment and security in the market, and reducing transaction costs for government. However this may come at the expense of increased competition, and it reduces the flexibility to change design or provider (at least at low cost).

Contracts in the US tend to be between two and three years of referrals with an option to extend for a further one to three years, before they are re-bid. In Australia contracts deliver three years of referrals with an option to extend, based on performance. Australia developed the concept of ‘rollover’ contracts where sustained performance above a certain level would mean providers maintained the contract without an expensive re-tendering exercise. The Work Programme by comparison has a contract length of five years of referrals. Evidence from ESF funded projects (mostly not PbR contracts) in London shows that three years was an optimal length of contract<sup>78</sup>.

The **prime contractor** model has had a bumpy existence in the UK, with issues with referrals and the level of financial risk passed down to sub-contractors by primes. There are some simple tweaks that could make the system function better. For example, a common Expression of Interest application is in place for primes,

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<sup>78</sup> <https://www.london.gov.uk/file/22031/download?token=sAGNoPIK>

allowing them to apply for multiple areas with less time investment. This process could be replicated for subs.

Delivering to all clients, with their diverse range of needs, requires 'economies of scope' as well as size.<sup>79</sup> This means providers and their networks offering a wide range of appropriate services. Large contracts need to be correctly incentivised (both financially and contractually) to mitigate against creaming and parking. An accelerator model of funding can support this process.<sup>80</sup>

## Knowledge gaps

Key areas where our knowledge is weaker are:

- Comparison of the effectiveness of multiple providers versus a single provider
- The extent to which parking by place, and difficulty in getting to first appointments (which has a disproportionate impact on continuing commitment to the programme), has enabled creaming by providers.
- The prime contractor approach was not piloted, so evaluation of the approach as distinct from the Work Programme is difficult.

## Implications

- The Work Programme is currently delivered in Scotland under a prime contractor structure. There has been some innovation in delivery (see EOS for example, discussed in 9. Encouraging Innovation in Service Delivery) but for the most part the user experiences a personal adviser service with access to additional group support and training as required. The content of the user experience is less different than the structure that sits behind it. The Work Programme has delivered a cheaper service, with better performance for some groups. Remodelling the delivery mechanism has had an impact on efficiency, although the cost may well have been in the experience of the most vulnerable.
- In the US there is a considerable shift in the focus of employment services, away from job starts and towards career ladders and workforce development. This is underpinned by the ability of States and Cities to joint commission employment and skills interventions. The prime contractor model offers opportunity for devolution of other government interventions (skills, health, and housing).

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<sup>79</sup> [Tony Bovaird \(2015\): The ins and outs of outsourcing and insourcing: what have we learnt from the past 30 years?, Public Money & Management](#)

<sup>80</sup> The Target Accelerator: [https://buyingqp.files.wordpress.com/2012/03/buying-quality-performance-\\_july-2006\\_.pdf](https://buyingqp.files.wordpress.com/2012/03/buying-quality-performance-_july-2006_.pdf)

## Useful sources

[Evaluation of the Work Programme](#)

[New York's experience of the Prime Provider model](#)

[Open Public Services](#)

[Designing systems differently: relational welfare](#)

# 11. BEST PRACTICE IN COMMISSIONING AND MANAGEMENT

## Description

Good practice and guidelines on the effective commissioning and management of contracts to deliver employability services.

## Background

The commissioning and management of employment services dictate providers' ability to deliver programmes that are high quality, sustainable, characterised by innovation, accountability (to government, jobseeker and taxpayer) and a user-focus. The experience of well over a decade of contracting out services in the UK, Australia and the USA has seen a move towards systems that:

- Have competitive tendering
- Select providers on the basis of a mix of price and quality
- Have a funding structure that rewards outcomes
- Attempt to segment jobseekers in order to target resources by need
- Contract management delivered by a public agency with much delivery outsourced
- Have seen increasing professionalization of services

There has been considerable investment in identifying best practice in commissioning. This falls into five key categories:

- Contract design
- Commissioning process
- Performance Measurement
- Funding model
- Contract and performance management

## What works

### Contract Design

Good contract design sits within a broader government strategy. There needs to be synergy between departments with regards to priorities, legislation and delivery. This approach needs to be reflected beyond central government and involve local government and city regions.

New contracts provide an opportunity to innovate, and this can be maximised through harnessing ideas from providers, employers and users about better service models.<sup>81</sup> However, innovation needs to be appropriately paced, avoiding sudden and dramatic change where possible.

Experience in the US, UK and Australia have shown that creating effective competition within markets can enhance efficiencies. Longer duration contracts and higher participant numbers give the opportunity for greater risk transfer and encourage provider investment, however they also raise concerns (such as providers being able to cream-skim, and park) that need to be mitigated.

Effective contract design will also consider how market failure will be dealt with. This may occur as a result of external factors, for example an economic shock or recession; or in reaction to the tendering opportunity, for example insufficient interest from providers to create a competition. Mechanisms for market-testing can be used to mitigate the latter, such as provider consultations, incentives for new entrants and releasing a notification to tender which sets out the draft terms prior to the formal release of ITTs.

One of the key elements of the Work Programme model was the level of flexibility given to providers to design their own service. This has been termed the 'black box approach'. As part of their bids, providers were asked to specify minimum service standards. These were later renamed customer service standards. Prime providers were allowed to decide how much flexibility they would give to their own subcontractors, and this varied considerably. Subcontractors were positive about being given flexibility.

The evidence shows that although there is diversity in supply chains, the contracting model in place in the Work Programme appears to favour larger and mid-sized generalist providers rather than small specialists.<sup>82</sup>

## **Commissioning process**

Government contractors need a clear understanding of what can be delivered and at what cost. This then needs to be shared with potential providers. Transparency over

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<sup>81</sup> In his blog, <http://www.instituteforgovernment.org.uk/blog/12190/eight-ways-to-improve-the-work-programme/>, Gash identifies the benefits that come from harnessing provider expertise. Involving other stakeholders, particularly users and employers, could further enhance this.

<sup>82</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

costs, performance and subcontracting is vital.<sup>83</sup> In the run up to the Work Programme, DWP did not share its data and calculations about non-intervention levels (deadweight) with providers, so providers could not help to make sure the level was set as accurately as possible.<sup>84</sup> The whole process requires iteration, and should be designed to allow lessons to be learned rapidly and adjustment made. More transparency, from both sides of the commissioning process, would facilitate this.

Commissioning for the Work Programme achieved a sufficiently competitive market but with the top four prime providers delivering around 54% of the programme.<sup>85</sup> The overall number of providers has fallen from 831 in 2013 to 806 in 2014. As some subcontractors have identified that they have received no referrals the actual operational number is likely to be lower. There has been little market exit and entry since the start of the Work Programme – and the little there is has been through merger and acquisition.

## Performance Measurement

This is a vitally important area that needs significant improvement. Existing measures need to be improved, and they need to sit within a robust performance framework.<sup>86</sup> The consequences for failing to get this correct are significant.<sup>87</sup> This needs to be complemented by a good IT system that can track participants, monitor provider performance and verify service delivery and outcomes.

There is little direct research comparing international systems in this way. The Australian system has been held up by UK providers as a model to learn from for some time. This has been both for the single data system which the government requires providers to use. The data system was designed so that key metrics on individuals and performance are captured in a standardised way. This avoids the inefficiency of the UK system which sees the design of multiple, similar systems by providers for each new programme - with varying levels of success; and the star ratings performance measurement tool. These contextualise performance (in client and local area characteristics), and provide **relative** performance reporting. Star ratings are derived from a provider's outcomes in comparison to the performance achievements of other providers in the job Network. A multiple regression treatment

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<sup>83</sup> See, for example, the Institute for Government's standardised transparency provisions:  
<http://www.instituteforgovernment.org.uk/blog/9445/taking-transparency-to-taskforce/>

<sup>84</sup> <http://www.nao.org.uk/wp-content/uploads/2012/01/10121701.pdf>

<sup>85</sup> Figure from attachment data June 2011-March 2014:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

<sup>86</sup> Concerns with existing measures are considered in more detail by the National Audit Office:

<http://www.nao.org.uk/wp-content/uploads/2012/01/10121701.pdf>

<sup>87</sup> Flawed contractual performance measures in the Work Programme led to DWP making incentive payments to even the worst performers.

accounts for labour market differences and client characteristics in order to generate expected performance outcomes for each site.<sup>88</sup>

Other, smaller, programmes have embraced the flexibility afforded by digital advances to involve users in recording their own data. The experience of the Family Independence Initiative in the US (which pay participants for their time in completing very detailed data sheets) is that in addition to increasing the organisation's understanding of its (voluntary) user base, it has also improved outcomes as the act of recording activity acts as a motivating force and changes behaviour.<sup>89</sup>

The increase in market concentration over time, along with previous experience from Britain and Australia, suggests that market concentration, the number and composition of providers, and market share need to continue to be monitored.

### **Funding model**

The design of the payment system is critical in translating policy aims into effective incentives for providers. There are considerable benefits to outcome based funding, but these can only be realised if the pricing is set correctly.

It is essential that perverse incentives inherent in the programme are considered. An effective funding model should discourage creaming, parking and gaming in general. 'Gaming' occurs when providers sometimes respond in undesirable ways to the reward structures created by commissioners and regulators. For example, the differential prices for the Work Programme payment groups was intended to incentivise providers to invest more in the more disadvantaged groups but there is little evidence that it has done this. There are numerous examples across OECD countries where the funding model has failed to do this. Work Programme providers are currently spending least on the most disadvantaged clients accessing their services.<sup>90</sup>

Work Programme prime providers were generally positive about the commercial attractiveness of the contracts, and intended to remain involved with the programme. Many of the concerns expressed are related to the impact of falling referral volumes. Subcontractors were far less positive about the commercial attractiveness of their contracts, but over two-thirds intended to remain engaged with the programme, in most cases as the delivery of employment support is core to their businesses.<sup>91</sup>

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<sup>88</sup> A detailed analysis of how the Star Rating System works can be found in this paper:  
<http://www.employabilityinscotland.com/media/106171/Performance%20Measures%20for%20Welfare%20to%20Work%20Programmes.pdf>

<sup>89</sup> <http://www.fii.org/studies-and-papers/>

<sup>90</sup> <http://www.nao.org.uk/wp-content/uploads/2012/01/10121701.pdf>

<sup>91</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)



Interestingly, there is evidence that primes have needed to **modify the funding model** for certain subcontractors – **in particular to attract and engage specialists, and to support improved performance with the ESA group**. Perhaps this is indicative of the fact that primes perceive a need to review the financial model – specifically differential pricing, the complexity of the payment structure, and the administrative processes for claiming/verifying outcome payments.<sup>92</sup> The research undertaken for DWP suggests that differential pricing has had little impact in driving provider behaviour in prioritising support. Three main reasons were identified for this:

- Benefit type is a poor proxy for support required
- Financial differentials between the groups are insufficient
- The model is unnecessarily complicated<sup>93</sup>

The Department are considering introducing an accelerator model, which is cohort based – increasing fees as more participants within a group are supported into work, irrespective of their benefit type, length of unemployment etc. The target accelerator was introduced as an idea in 2006. There are difficulties surrounding designing and costing a model, and it is very hard to see how it would work within a price competition where the emphasis is on cost reduction rather than increased performance for more disadvantaged groups.<sup>94</sup>

### **Contract and performance management**

Government needs to take responsibility to improve its commercial capabilities. Commissioning and managing contracts on this scale requires skilled contract and performance managers. These need to be recruited if the capacity does not currently exist. Investment in their ongoing development is critical. It takes time to accumulate knowledge about, for example, commissioning, costs and effectiveness of services, targeting diverse client groups. Quality managers need to be supported by effective administration and payment systems.

Minimum service standards should be set and monitored.<sup>95</sup> In a prime contractor model ongoing proactive market stewardship is required. Communication with providers needs to be clear, including evaluation processes and results, and termination decisions. User feedback needs to have a clear process and be taken seriously.

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<sup>92</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

<sup>93</sup> <http://www.publications.parliament.uk/pa/cm201516/cmselect/cmworpen/363/36302.html>

<sup>94</sup> This paper introduces and describes the concept of the target accelerator:

[https://buyingqp.files.wordpress.com/2012/03/buying-quality-performance-\\_july-2006\\_.pdf](https://buyingqp.files.wordpress.com/2012/03/buying-quality-performance-_july-2006_.pdf)

<sup>95</sup><http://www.nao.org.uk/wp-content/uploads/2012/01/10121701.pdf>

The Work Programme has seen DWP's role in contract and performance management focused at prime provider level. A restructure occurred in 2013, and as a result there were changes made to some contract and performance roles. This has meant that Performance Managers are now able to concentrate exclusively on the Work Programme. A new performance management regime was also introduced in summer 2013; this included more intensive processes for lower performing providers. These changes have had a mixed response from DWP Performance Managers, with some feeling they provide a clearer focus on improvement and others concerned about increasing prescription and intensity.<sup>96</sup> The importance of the balance between flexibility and prescription is also discussed in Section 9.

'Market share shift' (MSS) is an important performance management mechanism used by DWP in the Work Programme. It gives DWP the ability to move 5% of new referrals within each CPA from lower to higher performing providers. However, the first MSS occurred in summer 2013, and DWP staff interviewed in 2014 had not seen any impact on performance by that date.<sup>97</sup> Some providers have argued that falling referrals generally have undermined the potential impact of MSS.

Providers of the bottom 25% of Work Programme contracts were put under an enhanced performance management regime in early 2014, and one prime was given a notice of termination as a result of continued poor performance. Reactions to this termination from other providers was mixed with some regarding it as a strong signal to the market to maintain performance and others regarding it as poor market management by increasing insecurity. Indeed, the perception of DWP's approach to contract and performance management is varied. One of the biggest issues is a perceived lack of consistency and clarity in DWP's approach. However, there was a sense that this was an area of improvement and DWP themselves have been taking steps to build capacity within the performance manager role.<sup>98</sup>

## Knowledge gaps

The areas where our knowledge is weaker are:

- The lack of a counterfactual for the Work Programme has made assessment of its performance problematic. Comparative analysis of earlier, smaller, programmes was also difficult as often context, objectives and even definitions differed between areas.
- Much of the best practice in this area is derived from negative experience – for example, a lack of transparency or experience of creaming and parking.

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<sup>96</sup> For more detail on this research see:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

<sup>97</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

<sup>98</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

- Methods of effectively scaling up local excellent practice to a national level.
- How to really engage users in the design and ongoing evaluation of a national service.

## Implications for Scotland

- Commissioning on this scale would require capacity building in whoever does the commissioning.
- An IT system would be required to support the performance management of the contracts. The availability of reliable data is vital. It will inform decisions from service design to pricing to performance reporting. Providers and commissioners will need to have confidence in it.
- A number of frameworks are required – minimum standards, performance, supply change management. These are likely to be more robust if they are drawn up with the involvement of stakeholders; providers at the very least, but also users, employers, local government.

## Useful sources

[Work Programme evaluation](#)

[National Audit Office report on Work Programme design](#)

[Institute for Government: Making Public Service Markets Work](#)

[Principles for successful commissioning](#)

[Buying Quality Performance](#)

## 12. MANDATORY AND VOLUNTARY PROGRAMMES

### Description

The rationale and implications of making programme attendance and/or participation voluntary or mandatory.

### Background

There has been a global trend to match increasing numbers of benefit conditions to, at times intensive, support programmes as governments seek to 'activate those disconnected from the labour market and re-engage them in the world of work. This approach has, for the most part, remained popular despite the global economic crisis. Within the UK, lone parents and those on Incapacity Benefit/ESA have increasingly been mandated to attend programmes that were previously voluntary.

There have been a number of reasons for this: a focus on work as part of a wider solution for people with multiple needs; global evidence that activation has a positive impact; an aspiration to reach full employment within the economy which required moving beyond people who were unemployed to those who were 'inactive'. This approach also meets wider political economy concerns, including continued public support for social assistance programmes – programmes built on a sense of mutual obligation help to meet this.

Analysis of employment programmes across twelve OCED countries identified two drivers that disproportionately impact performance<sup>99</sup>:

- **Regular contact:** see people often, ensure their programme experience is active, tailor interactions and maintain work focus: the case worker approach has experientially been the best way to deliver this but their ability to succeed is reliant on the system design
- **Work must pay:** this encompasses work incentives, skills development, wage levels and the tax and benefits regime

The former can be delivered through a voluntary or mandatory intervention.

### What works

Engaging voluntary groups in active labour market programmes has been challenging. The New Deal for Disabled People (launched in 1998) had relatively low

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<sup>99</sup> Almeida, R, Arbelaez, J, Maddalena, H, Kuddo, A, Lohmann, T, Ovadiya, M, Pop, L, Sanchez Puerta, ML, Weber, M (2012), *Improving access to Jobs and Earnings Opportunities: The Role of Activation and Graduation Policies in developing countries*, World Bank

take-up, and although almost a quarter of those registered found work, retention was poor. The shift to Pathways to Work saw the introduction of a mandatory element for new claimants (meeting with a Personal Advisor), outflow from the benefit increased by 8% on the national average. It was, however, still difficult to attract the 'stock' who were voluntary.<sup>100</sup> The move to ESA and the Work Programme saw increasing levels of mandation, but performance for those furthest from the labour market has been limited, and providers have not invested in sufficient support for these clients. Smaller voluntary programmes have high self-reported rates of job entry but the outcomes are not validated, meaning evidence for the impact of locally designed welfare-to-work programmes in the UK is limited.<sup>101</sup>

The evidence on what works falls into three essential elements:

- Initial engagement
- Quality of provision
- Advice and Support

### **Initial engagement**

One of the key issues for voluntary programmes is initial engagement. Eligible client groups may be unaware that provision exists, or not sure of surrounding processes. One of the reasons for this may be that they have little contact with public employment services.

Conditionality can be used to increase contact and inform people about existing opportunities, mandating an initial interview for a programme or regular 'catch ups'. This was the case for new claimants under the Pathways to Work programme, and the introduction of in-work conditionality under Universal Credit will mean that discussion of progression opportunities has a more formal framework. When changes were made to the requirements expected of Lone Parents, 41% of those moved onto JSA noted that they were more aware of job opportunities as a result.<sup>102</sup>

However, this process falls down if the referring organisation, often Jobcentre Plus, does not have sufficient information about additional provision. Indeed, this was one of the findings from the evaluation of the Skills Conditionality Pilots, and has been compounded by the move to a prime contractor model. One of this ways this has

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<sup>100</sup> <http://cep.lse.ac.uk/pubs/download/pa005.pdf>

<sup>101</sup> <https://www.jrf.org.uk/report/welfare-work-devolution-england>

<sup>102</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214373/rrep818.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214373/rrep818.pdf)

been overcome is the co-location of services for initial interview. This had a significant impact (up to 50%) on attendance.<sup>103</sup>

## Quality of Provision

Quality of provision has a significant impact on how people feel about conditionality. A quantitative survey commissioned by DWP showed a significant number of Lone Parents moved onto JSA and ESA felt pushed into activities and jobs they didn't want to do.<sup>104</sup> In contrast, participants in the Skills Conditionality Pilot who had good experiences said that they did not need to be mandated, they would have attended voluntarily.<sup>105</sup>

When training provision was poor, repetitive or at the wrong level there was resentment. A particular issue was that training was not linked to jobs. A similar issue arose in the Employment Retention and Advancement project a decade earlier. In contrast, in Chicago, training providers need to demonstrate that they are actively using labour market information in their action plans in order to ensure contract compliance.

## Advice and Support

As conditionality increases so does the level of advice and support required by households in poverty. The evidence shows that local initiatives are most effective at increasing the level of knowledge about entitlements and the eligibility rules and by reducing stigma and the complexity of claiming.<sup>106</sup> The findings of research carried out for the Joseph Rowntree Foundation point to the value of welfare benefits advice being made available through local, trusted, and more accessible settings, including Children's Centres, community and voluntary centres, health care locations and, to some extent, through welfare to work providers.<sup>107</sup>

## Conditionality and Sanctions

There has been considerable coverage of the impact of sanctions, both on individuals and on the rise of additional support services such as food banks. In early 2015 the Work and Pensions Select Committee held an inquiry into benefit sanctions, amongst concern that the regime was pushing people away from employability. The Government have now responded to the recommendations, not

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<sup>103</sup> [http://cesi.org.uk/sites/default/files/publications/150716-skills-conditionality-pilot-evaluation-initial-en\\_0.pdf](http://cesi.org.uk/sites/default/files/publications/150716-skills-conditionality-pilot-evaluation-initial-en_0.pdf)

<sup>104</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/214373/rrep818.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214373/rrep818.pdf)

<sup>105</sup> [http://cesi.org.uk/sites/default/files/publications/150716-skills-conditionality-pilot-evaluation-initial-en\\_0.pdf](http://cesi.org.uk/sites/default/files/publications/150716-skills-conditionality-pilot-evaluation-initial-en_0.pdf)

<sup>106</sup> [http://cesi.org.uk/sites/default/files/publications/Advice%20support%20and%20poverty%20report%20DG%20final%20July%202014%20%282%29\\_0.pdf](http://cesi.org.uk/sites/default/files/publications/Advice%20support%20and%20poverty%20report%20DG%20final%20July%202014%20%282%29_0.pdf)

<sup>107</sup> <http://cesi.org.uk/sites/default/files/publications/Benefit%20Take%20Up%20Final%20Report%20Inclusion%20proofed%20June%202014%20pdf.pdf>

accepting the need for a ‘broad independent review’ of conditionality and sanctions. However, they have accepted in principle, the need to move towards allowing Work Programme providers a more ‘**common sense**’ approach to deciding whether or not to apply a sanction, and the recommendation of testing a **more targeted approach to conditionality and sanctioning**.

The necessity of **local flexibility** is clear in much of the research. This can be at the level of the individual (sanctions); engagement with providers who may be wary of working with mandatory groups; and with support services.<sup>108</sup> Within the Work Programme, the use of mandation varies substantially across providers. Indeed, providers’ perception of the value of mandation, and the effectiveness of sanctions is divided between those who see it as improving and those that see it as reducing commitment.<sup>109</sup>

## Transferability

Benefits systems differ substantially and this has a significant impact on the way in which conditionality is structured. For example, Norway has high conditionality levels (around a fifth of Unemployment Insurance claimants receive a sanction). This may be a contributing factor to low rate of benefit take up. However, there is a ‘safety-net’ benefit – Social Assistance – on Norway and this is rarely sanctioned. This distinction is important, and very different to the UK where a sanction affects the ‘safety net’.

## Knowledge gaps

There are a number of areas where we have outstanding questions:

- More research is required to understand what prompts effective engagement with voluntary programmes, and what works in promoting take up
- Evidence for the impact of locally designed voluntary programmes in the UK is limited. For example, there may be high self-reported rates of job entry from voluntary small-scale employment or skills programmes but these are difficult to compare with national programmes.<sup>110</sup>
- Research on conditionality is not always able to test conditionality. The Welsh Skills Pilot was developed in part because the Welsh Government was concerned that earlier analysis did not identify the actual impact of mandation as

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<sup>108</sup> Use of drugs support services is a good example of this. This article by Tony Wilson outlines the issues with mandating attendance at rehab: <http://cesi.org.uk/blog/2015/feb/government-got-it-right-drugs-and-welfare-2010-%E2%80%93-where-was-%E2%80%98radical-rethink%E2%80%99>

<sup>109</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/425301/rr893-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/425301/rr893-report.pdf)

<sup>110</sup> <https://www.jrf.org.uk/report/welfare-work-devolution-england>



opposed to voluntary participation in skills training by unemployed people.<sup>111</sup> However, in line with the Scottish Government, the Welsh Government informed skills providers that they should not report non-attendance to JCP. This makes it difficult to analyse the full impact of mandatory skills programmes.

- It is not clear how many organisations (employers and providers) remove themselves from programme participation when attendance becomes mandatory. There has been some discussion of this with regards to work experience and the Work Programme.
- Further consideration could be given to the impact of ‘carrot’ versus ‘sticks’ policies. For example, a recent international comparison reviewed the impact of leave, childcare subsidies and pre-school on the rate of mothers in work, but did not consider the wider context of availability of in and out of work benefits, and employment support programmes.<sup>112</sup>

### Implications for Scotland

- Changes to welfare and programme eligibility need to be accompanied by an increase in advice and support
- Will attendance be binary (mandatory/voluntary) or will a continuum be developed? For example, this could require a minimum number of interviews per year, or trying an initial session.
- Quality is vital, especially when participation is mandatory for benefit claimants. A national framework is required to ensure common or minimum service standards.<sup>113</sup>

### Useful sources

[Academic group studying impacts of conditionality on welfare](#)

[Impact of conditionality on lone parents](#)

[NDDP engagement – lessons to learn](#)

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<sup>111</sup> [http://cesi.org.uk/sites/default/files/publications/150716-skills-conditionality-pilot-evaluation-initial-en\\_0.pdf](http://cesi.org.uk/sites/default/files/publications/150716-skills-conditionality-pilot-evaluation-initial-en_0.pdf)

<sup>112</sup> <http://ftp.iza.org/dp9297.pdf>

<sup>113</sup> <https://www.jrf.org.uk/report/welfare-work-devolution-england>