

The design of the Work Programme in international context

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Summary

This report compares the design and procurement of the Work Programme (WP) with pertinent experience in Australia, the USA and the Netherlands. It considers the risks in the implementation of performance based contracts, their implications for the WP, and their address in the other countries.

The review finds that contract and procurement systems in the comparator countries have been in flux as policy makers have sought to secure the advantages of contracting out whilst minimising attendant risks and delivery problems. Critics view such change and re-regulation as indicative of the inherent instability of contracting systems whilst proponents prefer the term 'continuing improvement'.

There are a number of key risks with performance and outcome based contracting, notably the practices of 'creaming and parking' and 'gaming'.

'Cream-skimming' occurs when providers select the more job ready or more motivated participants to help meet targets or gain outcomes instead of selecting those with the potential to gain more in the longer term. 'Cream-skimming' may become a reality in the wake of the initial surge of mandated participants into WP. With its uncapped budget and volunteer eligibility groups, the WP design may inadvertently induce this practice.

'Parking' occurs after recruitment when providers may put less effort and investment into working with harder to place participants. Parking was a particular problem in the first two Australian Job Network contract periods. Evaluations found that although participants were allocated to providers for a year most contact occurred in the first few months and many users received minimal services and saw their provider infrequently. It is possible to envisage a similar outcome in the WP should providers concentrate intensive service provision in the initial stages and maintain different levels of contact with participants thereafter. DWP maintains that the design of the WP will militate against this but critics have warned that 'parking' may occur amongst the harder to assist participants *within* the WP's differential payment bands.

'Gaming' occurs when providers seek to exploit weaknesses in programme design by undertaking activities which allow better performance on contractual criteria but do not improve employment outcomes. At its most extreme 'gaming' may involve fraudulent activity. The occurrence of 'gaming' in each of the comparator countries reinforces the importance of balancing WP flexibilities with safeguards, and robust risk assurance and audit processes.

A further set of risks relate to 'market failure'. The most obvious is that a severe 'economic shock' might undermine provider viability. The Department suggests that WP contracts give providers scope to absorb most labour market fluctuations and there is a 'change control' mechanism that enables contractual variations in the event of unforeseen adverse developments.

Other, less dramatic, forms of market failure require that the DWP has sufficient safeguards to sanction large prime contractors for poor performance, remove contracts and/or replace an underperforming provider when contracts are due for renewal. It remains unclear how much risk the DWP has effectively transferred to prime providers and the Department's capacity to tackle under performance and to resist attempts to renegotiate contractual terms is, as yet, untested. A potential long term consequence of the concentration and duration of WP contracts, however, is the accrued advantages of the incumbent primes and the lessening of the risk of potential loss of contract. In future, the DWP also may find it harder to attract new entrants to the market. It is important, then, that the continuing interest and potential competitive threat posed by other providers who have qualified for the 'Framework' is sustained rather than assumed.

The explicit connection between up-front investment by WP providers, job outcome and long term sustainment payments, and funding from future benefit savings is distinctive to the British system. In Wisconsin welfare to work providers received some of the savings accrued from the reduced benefit expenditure they helped generate. The contract was poorly designed as providers gained income from simply reducing the benefit caseload. The outcome and evidence requirements for WP providers are more rigorous, but it remains important to monitor the number and destinations of WP referrals and participants who leave benefit but do not enter employment.

In the comparator countries, there have been challenges around the definition, measurement and authentication of job outcomes. Evidential requirements should be robust but proportionate, seeking to limit the administrative burden that has characterised paper-based audit systems. The definition of a WP job outcome will need to be revised over the period of the contract to better align provider incentives with the Universal Credit which will encourage claimants to take 'mini jobs'.

WP prime contractors have specified the minimum services they intend to provide. They also are obliged to inform service users about the services they will make available. There are, however, few safeguards to ensure the delivery of services and the DWP will have only limited insight into the 'black box' of front line delivery. It is important that the safeguards are robust if Ministers and DWP are to resist possible future pressures to introduce the type of prescribed service standards that re-bureaucratized the Australian Job Network.

Service user journeys across mixed public and private provision can be complicated, especially for the most disadvantaged. In Australia, the Netherlands and the US problems have arisen with 'failures to attend', incorrect assessments, and the imposition of sanctions. Such risks may be heightened with the WP because of its duration, subcontractor delivery chains, and the requirement for participants to maintain regular contact with a private provider whilst continuing to 'sign on'. Service users will need clear and timely information to avoid 'mixed messages' and it will be important to monitor trends in sanctions and the interactions on conditionality between Jobcentre Plus (JCP) and WP providers.

Other problems may arise from poor interactions between health assessments and job search and programme activity requirements. Lengthy waiting times and inaccurate assessments, with consequential appeals, have proved difficult to manage both in Australia and New York. The connections between JCP, Atos and WP providers should be tracked closely. Issues of concern may include the timeliness, reporting and accuracy of work capacity assessments, appeals processes, and the management of changing health status of individuals during WP participation.

Comparative evidence confirms the importance of ensuring that robust systems are in place to respond to complaints of unfair treatment and poor service delivery. In Australia the Department has committed to clear minimum 'Service Guarantees' that apply to *all* providers. In the USA providers and welfare agencies must have complaints procedures in place to respond should services be unfairly denied to clients or of poor quality. The WP approach seems opaque in this regard, with individual prime contractors having their own minimum service standards, which may vary, and freedom in how they communicate their disputes and resolution procedures to participants. Prime providers must produce a document outlining their minimum services and the 'first steps' of their complaints procedures but it is unclear how the full range of safeguards are communicated to service users referred to the WP. In addition, there does not seem to be any mechanism for collating complaints information between JCP, prime contractors and DWP.

Concerns have been expressed about prime providers' management of their subcontractors and the contractual terms and risks passed on to smaller organisations. In response the DWP's Commissioning Strategy established a 'code of conduct' and sponsored the 'Merlin' standard to ensure a role for voluntary sector and specialist organisations in WP delivery. The DWP, however, eschews any direct role in supply chain commercial relationships although these forces are most likely to drive change and possible consolidation. Over time it may be important to monitor the impact of WP contracting on the *composition* of the non-profit organisations involved as well as the quantity of referrals and terms and value of any contracts with primes.

The accountability of WP providers is more limited than that of public sector organisations and whilst prime provider contracts have been published, information that was considered 'commercially sensitive or confidential' has been redacted and there is little public information available on subcontractor contracts.

Contracting out of employment services poses challenges to political accountability. Ministers remain politically responsible for service outcomes and the effective use of public funds even though in practice they will have less control over the actions of WP contractors. There is much scope for 'blame shifting' and the responsibility for poor performance is less obvious. In each of the comparator countries audit and oversight bodies have played a significant role in holding policy makers and providers to account, prompting improvements in service delivery, and exposing poor practices. In this context the role of such bodies in Britain will be of particular

importance, especially as Ministers, senior officials and providers will have a clear interest in promoting the success of the WP.

1. Introduction

The Department for Work and Pensions (DWP) contracts with an extensive network of providers for the delivery of employment programmes. Over the past ten years there has been significant change culminating in the Freud Report (2007) and the Department's Commissioning Strategy (2008). The new approach involves purchasing services from well-capitalised prime contractors capable of delivering multiple contracts across the country. Contracts are higher in value, last for up to seven years, and the payments to providers are to be funded from DWP programme allocations and the benefit savings generated by improvements in sustained employment. Smaller providers act mainly as subcontractors in more or less extensive supply chains. 35 potential prime contractors qualified as regional preferred suppliers on the 'Framework for the Provision of Employment Related Support Services' and 18 have been awarded 40 Work Programme (WP) prime contracts. They plan to work with just over 1,000 named subcontractors who will be delivering 'end to end' and/or specialist services.

There is a broad consensus among officials, Ministers and large providers that the new service delivery system will be characterised by innovation, improved accountability, better job outcomes, greater value for money, and better customer service. These assumptions are justified both by reference to past British experience (for example, in Employment Zones) and to 'international best practice'. Indeed DWP has commissioned reviews and drawn lessons from the experience of other countries, especially that of Australia and the Netherlands, which the Freud Report described as "world leaders" (2007, p. 57).

The National Audit Office commissioned this report to assess how the objectives, scope and design of the WP compare with international experience and to assess in what ways the British approach may be considered innovative. The review was also designed to consider insights, from overseas and British experience, on the risks that DWP should be seeking to manage through the lifetime of the WP contracts.

The report reviews the contracting out of employment services in OECD countries and briefly assesses how contract design and procurement practices have changed in three international comparator countries most cited in shaping WP design, namely Australia, the USA and the Netherlands. The final sections consider the primary risks involved in the implementation of performance based contracts and their implications over the period of the WP contracts.

2. Procuring employment services and payment by results contracting systems in the USA, Australia and the Netherlands

In many countries Government Departments and public agencies have a long tradition of delivering employment services through grants or contracts with other public and non-profit organisations. Such networks often include various types of training institutions, which may have links with the social partners; providers of specialist services and facilities, for example, in vocational rehabilitation or sheltered employment; and large non-profits that deliver a wide range of social and

employment-related services. More recently there has been an increase in the delivery of employment services by for-profit organisations.¹

In individual OECD countries the commissioning and contracting of employment services is typically complex and, in many countries, small scale, with a wide variety of procurement practices (OECD, 2007). Contracted out activities typically include the delivery of conventional labour market programmes and more intensive forms of support targeted at disadvantaged groups, including specialist programmes for those with disabilities. Australia is the only OECD country to wholly outsource the delivery of publicly funded employment services.

There are variations in the level of government and composition of the public agencies that procure employment services, with skills training often funded and purchased separately. Purchasers range from national Government Departments, as in GB and Australia, which apply a centralised contracting framework, through to decentralised and multi-purchaser systems, as in the Netherlands and Germany. In many countries, especially in Europe, local and regional offices of the public employment service procure services but they typically do so within a national framework of guidelines, contracts and predetermined services (OECD, 2007).

Whilst systematic information is not available it appears that in many OECD countries purchasers procure specific services, typically specifying the detailed design of the particular employment intervention or training course to be delivered. The public body also determines the price to be paid and the terms of the contract. Contracts often are short-term with durations often of one year or less. Payment systems also vary from recurrent public funding, to grants, to staged payments or fees paid for services delivered.

Payments for placing people into employment have been used less extensively. One reason is that in many countries subcontracted providers are not expected to, or may be prohibited from, assisting participants in their programmes with actual job placement. In several countries there is resistance to contracting out services with for-profit providers and regulatory barriers exist preventing such entities from competing for contracts.

The increased involvement of private for-profit organisations correlates to changes in contracting regimes. In a number of countries contracting systems now are characterised by competitive tendering, the selection of employment service providers on the basis of price and quality, and the payment of providers based on their performance in delivering services and securing employment outcomes.

Performance based contracting; including elements of payment for employment outcomes, was first developed in the USA and subsequently extended to the UK, Australia and the Netherlands. Other countries have more recently implemented or

¹ These for-profits include private employment agencies, such as Manpower, Randstad and Adecco, alongside a range of other companies that specialise in delivering employment services. This includes organisations now operating in several countries, such as A4e and Working Links from the UK, Calder from the Netherlands, Ingeus from Australia, and Maximus and Rescare from the USA.

are testing changes in their employment services contracts with several, such as Germany, France, Denmark, Sweden, and Israel, experimenting with job outcome performance contracts and delivery through for-profit providers (Kaps, 2010; Behaghely et al, 2011; Bredgaard, 2010; Benmarker et al, 2009; OECD, 2010).

The contracts in these countries are diverse but they variously combine commencement fees, specific service fees and milestone and outcome payments with prices either fixed in advance or agreed in the tender and contract negotiation period. Germany is also experimenting with financial penalties for providers who fail to meet performance expectations. Outcome measures vary but typically include job entry, sustained employment, indicators of employment quality and, in the USA, earnings gains.

The WP shares many of these characteristics but is exceptional in terms of the proportion of funding wholly dependent on job outcomes, the length of time over which sustainment payments will be made and the size and duration of the contracts. Other innovative features include the stress placed on working with subcontractors and the design and purpose of contractually specified minimum performance standards. Such minimum standards exist in other countries, such as the USA, but it is only in Britain that they have been calculated in relation to prior benefit off-flows and established to underpin programme funding from future benefit savings.

2.1 Performance Based Contracting and Prime Contractors in the USA

The transition to performance based contracting in US training and employment services became extensive after implementation of the 1982 Job Training Partnership Act (JTPA) (King and Barnow, 2011). This legislation devolved funding and purchasing power to states and through them to a national network of Private Industry Councils (PICs) and linked attainment in meeting explicit performance standards with financial incentives.² These incentive systems were reflected in the contracts and payment systems between PICs and their subcontractors and by the end of the 1980s 80% of PICs were making at least some element of payment dependent on outcomes (Felstead, 1998).

In time JTPA outcomes were amended to include placement in unsubsidised employment, retention for not less than six months in such employment, increased earnings, and skills acquisition - including basic skills and qualifications. These standards were consolidated in 1998 in the Workforce Investment Act (WIA) that replaced JTPA. The standards established under JTPA served also as the

² Training and Enterprise Councils (England and Wales) and Local Enterprise Companies (Scotland) were modelled on PICs. Between 1987 and 2001 these employer led entities were funded through performance based contracts with differential payments for special needs trainees and higher cost training. TECs were funded centrally but free to contract with local providers and to generate surpluses on their activities. The gradual introduction of greater payments for sustained job outcomes for adult unemployed trainees was associated initially with improved performance but when a full outcome based system was extended TEC providers were found to have been more selective in recruitment. TECs also became mired in controversies around 'gaming', duplicated and incorrect payments, inadequate supporting evidence for claims from some providers, and high level TEC reserves (Bennett et al, 1994).

'prototype' for their extension to other federal programmes, including the welfare to work programmes targeted at poor, usually lone parent families (Heinrich, 1999).

Local 'Workforce Investment Boards' replaced PICs and currently some 575 WIBs are responsible for administering the WIA programmes in their area and for contracting with local organisations to provide services (Eberts, 2009). Most WIBs subcontract training programmes and the 1,300 'one stop' centres or hubs through which services are delivered. The WIBs and their providers are held accountable for their performance against a combination of performance and process standards and failure to meet these standards may result in financial sanctions whilst high performance is rewarded.

In many states the involvement of for-profit providers, especially in operating one-stop centres, has been constrained by rules that limit spending on administrative costs and profits, with profits often 'capped' at between 6% and 8% of the overall budget. The aim has been to ensure that resources are targeted at service provision. Private providers argue, however, that the rules constrain innovation and investment with a reduction in the number of for-profit operators seeking to win contracts (Heaney, 2011). Most WIB provision and training programmes are delivered by public and non-profit entities.

Surveys of welfare to work provision, funded through 'Temporary Assistance for Needy Families', found that all states contracted out some services, equivalent to an average of about 15% of all their TANF expenditure (GAO, 2002). About a quarter of the market was allocated to for-profit providers, the rest to non-profits and public sector subcontractors. As with WIA, many states restrict the level of funds in contracts that may be allocated to administrative costs or taken as profits.

An evidence review of welfare to work contracting distinguished between 'fixed price', 'cost-reimbursement' and 'pure pay-for-performance' contracts. In practice states used 'hybrid contracts' seeking to establish a balance between performance incentives, provider viability, and the delivery of particular services and outcomes. Even in the locality with the highest proportion of 'pay-for-performance' contractor viability was underpinned by a fixed monthly payment of 15% to 25% of their budgets, irrespective of their performance (McConnell et al, 2003, p.xxii).

Studies of US welfare to work contracting found that there had been much 'learning by doing' and many administrative and delivery problems had to be managed in the early contract periods (McConnell et al, 2003; Bryna Sanger, 2003). In Wisconsin, for example, poor contract design created perverse incentives for providers and was further marred by malpractices amongst some of those employed by contractors (see Figure 1). There have since been improvements in contract design and implementation but there remains a wariness in many states about the involvement of for-profit organisations in the delivery of welfare to work services.

In most parts of the USA the proportion of provider income dependent on employment outcomes tends to be relatively low, ranging between 10% and 20%. The key incentives in the US system concern the requirement that service providers

meet a range of performance and outcome standards to remain eligible for funds or face the risk that a purchaser will choose not to renew a contract or put it out to competitive tender in an environment where annual contracts or renewals are the norm (SPR, 2006).

Figure 1: Poor Contract Design in Wisconsin

The first welfare to work contract used in Wisconsin (1998-99) was “an example of the potential for serious unintended incentives” (McConnell et al, 2003, p.48). The contracts were cost-reimbursement but included a bonus that depended on the difference between actual costs and a specified maximum. If costs exceeded the maximum, the difference was the responsibility of the provider. If the provider spent less than the cap, however, it received a portion of the savings. Critics of the contract argued that it gave contractors the incentive to not serve clients or serve them less intensely. The contract generated substantial controversy when large caseload reductions in Wisconsin resulted in significant windfall profits for the providers - in one case, more than US\$9 million. There was lax control also of the expenditure that did take place and of how contractors were operating (one was estimated to have spent US\$1.1 million on a marketing campaign) and several private agencies were also found to have been engaged in financial mismanagement and irregularities (LAB, 2005; DeParle, 2004).

The criticisms of the contract led the state to completely overhaul its bonus provisions. From 2000 contract incentive payments have been limited to the achievement of specified performance measures rather than unspent funds. Under these cost-reimbursement contracts 80% is paid during the programme with 20% retained for performance bonuses paid at the end of contract term. An agency is granted a ‘Right of First Selection’ if it meets minimum standards. It is paid restricted bonuses (which must be reinvested in purposes consistent with TANF) for reaching intermediate performance levels and unrestricted bonuses, that it can take as profit, are paid only when the highest performance levels are attained.

2.2 The prime contractor model and payment by results in New York City

New York City (NYC) has been of comparative interest to DWP because it has made use of a prime contracting delivery model and awards some of the highest value welfare to work contracts in the USA.

The city’s ‘Human Resource Administration’ (HRA) is responsible for delivering ‘public assistance’ cash payments and referring all eligible applicants to mandatory contracted out employment programmes via its network of local Job Centers.

After a period of testing the city rolled out a prime contractor delivery model in 2000 (Savas, 2005). The approach was chosen explicitly to reduce administrative costs and the high number of low value contracts that the city previously awarded to multiple small non-profit organisations. The system was introduced alongside ‘Vendorstat’, a performance management system that allowed HRA to verify job placements and other milestones recorded by providers and release payments. Monitoring was reduced to the verification of placements and job retention by quarterly audits of a sample of prime contractor cases, with follow up work only where discrepancies occurred. In effect HRA allowed prime contractors to play “the

role of monitor” (Bryna Sanger, 2003, p.40). The city auditor continues to monitor payment evidence trails and has, on several occasions, criticised HRA and prime contractors about a “lack of consistent documentation on employment, work hours and wages” (OC CNY, 2008; 2007).

In 2006, there was a major change in NYC provision with the creation of a single ‘Back to Work’ programme delivered by eight prime contractors. Each public Job Center works now with only one prime contractor who is expected to provide customised and flexible employment and work experience services and work with a service user ‘from start to finish’. The contractor must develop a ‘Job Retention and Career Plan’ for each participant to document their efforts to ‘advance’ the individual through skill development and financial planning. Much of the providers funding depends on job entry, retention and wage gain, with additional incentive payments targeted at participants who may have been sanctioned. Job outcome payments are paid after 90 days and 180 days of sustained employment.

There is a separate stream of provision for those with multiple employment barriers which was remodelled as ‘WeCARE’ in 2005. WeCARE is delivered through two prime providers and their subcontractors. Two-thirds of the prime contractors’ potential income is performance-based and milestone-driven; a third is paid for services claimed on a monthly basis. This payment system reflects the greater barriers faced by the client group, but remains performance-driven with significant payments for sustained employment outcomes (Kasdan and Youdelman, 2007).

The NYC prime contracting model has experienced political criticism, been challenged through the courts, and subcontractors have complained about their treatment. Much of the criticism was experienced in the period of transition when providers lost contracts or were relegated to subcontractor status (Biberman, 2001). The criticisms of prime contractors echo some of the points made by non-profit providers in Britain. For example, there were complaints from non-profit subcontractors about delayed payments and overly complex requirements that were “as excessive and costly as when they reported directly to the city” (Bryna Sanger, 2003, p.69). Other subcontractors complained that prime contractors ‘skimmed off’ the most work ready clients, had ‘top sliced’ an overhead charge, and had passed most risk to them (Youdelman and Getsos, 2005). In contrast, other subcontractors have stressed that they had been able to access large contracts they could not bid for on their own. They had also benefited from the economies of scale, performance management systems and additional supports that prime contractors could deploy (Armstrong et al, 2009).

2.3 The Australian Job Network and Job Services Australia

In 1998 the Australian Government created the ‘Job Network’ (JN), a fully subcontracted employment placement market. Conventional programmes were replaced by ‘employment assistance’, where less prescriptive contracts gave providers flexibility to decide individual service provision within a system made up of commencement fees and job outcome payments (Considine, 2001).

The federal Department of Education, Employment and Workplace Relations (DEEWR) has been responsible for designing contracts, selecting successful providers, and subsequently managing contract performance and service delivery. Before finalising the design of each contract the Department would typically consult with providers and other stakeholders on the proposed terms and significant policy changes. It would then issue a tender document inviting providers to submit bids. Submissions were assessed by federal civil servants with contracts awarded for three year periods.

Unemployed jobseekers enter the employment services system via 'Centrelink'. This is a public sector agency that remains responsible for paying benefits, assessing eligibility and imposing sanctions. At the initial claim stage Centrelink officials administer a 'Job Seeker Classification Instrument' (JSCI) that assesses barriers and likelihood of long term unemployment. The results are used to allocate job seekers to various services with the most expensive targeted at those assessed as hardest to place.

JN contractors secured tenders to deliver services in designated areas where they would typically compete with two to five other providers, giving unemployed people (and employers) a choice of provider. One consequence is that JN 'sites' are typically small with most having between 1 and 12 staff and very few with more than 20 (DEWR, 2006).

JN contractors were allocated a market share but were not guaranteed a particular number of referrals or clients. Market share allocation could be varied during the course of a contract depending on how well the provider performed, reflected in their 'star rating'. The ratings assess relative performance in job placements and are released on a six monthly basis. Star ratings are intended also to enable jobseekers and employers to make an informed choice about which provider to be referred to or place vacancies with.³

The design of the early JN payment system was criticised when it was found that it had encouraged 'parking' and that high level initial 'commencement' fees enabled providers to make profits with low levels of job entry. There was a radical change in the third contract where price competition was dropped and 'one-off' commencement fees were replaced by specific service fees and a 'Job Seeker Account'. The account comprised a restricted pool of funds earmarked for spending only on employment barrier reduction.

The JN payment system now comprised specific service and job placement fees, the Job Seeker Account, and outcome payments for employment sustained for 13 and 26 weeks. A breakdown of JN expenditure for 2006-07 showed that more provider income now depended on job outcomes. Of just over A\$1 billion paid to providers about 38% was for service fees, 15% for Job Seeker Accounts, 10% for job placement fees and 36% for job outcome payments (ANAO, 2008, Tables 1.1, 1.2).

³ DWP experimented with a star rating system and jobseeker choice in Employment Zones and both innovations were planned to be integral to the Flexible New Deal. Both these design features appear to have been dropped in the WP.

In 1997 over 1,000 organisations had submitted tenders from which 306 core JN Members were selected. By 2007 the number of core providers had fallen to 99 delivering services from over 1000 sites in 137 'Employment Service Areas'. The reduction in the number of providers at successive tendering rounds was associated with an increase in performance, with a smaller number of better managed agencies delivering improved service strategies (Grubb, 2006). Improvements were attributed also to the pressure generated by star ratings and the reinforcement of the pay-for-performance contracting regime following the reduction in commencement fee income.

By 2009 the network of JN providers was comprised of generalist and specialist organisations, with about 60% of market share controlled by 13 larger generalist providers, with five of those responsible for nearly 40% of delivery. The market has been shared almost equally between for-profit and non-profit agencies. There were other separately procured specialist employment programmes for the disabled and for job seekers with multiple employment barriers. These were mostly delivered by non-profits.

In 2009, the JN was reformed into 'Job Services Australia' (JSA). The new system integrated core JN employment assistance services with previously separate specialist provision for the hardest to help and for those seeking to start small enterprises. There remains a separate 'Disability Employment Network' (DEN). One important change was that in the new system the earlier recruitment caps on the specialist and disability programmes were removed. Unlike Britain, however, this change has not been funded from, or linked explicitly to, future savings in benefit payments.

In the JSA system job seekers are categorised into one of four 'streams', with the most job ready referred to stream 1 and those with 'severe barriers' referred to stream 4. On commencement a JSA provider is required to develop an individually tailored 'Employment Pathway Plan' (EPP) for each service user which maps out any training, work experience or additional assistance the individual might need to find sustainable employment. The payment system comprises service fees paid during participation, access to an 'Employment Pathway Fund' to purchase services for the jobseeker, and job placement and outcome payments paid after evidence of 13 weeks or 26 weeks employment retention. The level of resource per participant, and outcome incentive for the provider, increases in relation to duration of unemployment and the severity of the barriers faced, as indicated by the service stream to which the participant is referred.

Relationships between DEEWR and providers had become more fractious over the period of the JN with the new contracting approach including a 'Charter of Contract Management'. The Charter sits alongside the formal legal contract and sets out minimum standards of performance and conduct that providers can expect of DEEWR with a procedure for how any disputes should be resolved. There is also a provider Code of Practice that sets the ethical framework and principles which guide

how providers deliver quality services and which underpins the 'service guarantees' given to jobseekers setting out the minimum service standards they can expect.

A renewed 'Performance Management Framework' continues to comprise of three Key Performance Indicators. KPI1 measures efficiency, defined as the time taken to achieve an employment outcome for a job seeker and KPI2 measures effectiveness in achieving outcomes in a certain stream compared with the results of other providers. The third KPI measures quality and is assessed separately by DEEWR contract managers. The quality KPI3 includes regular assessment of 'organisational health' and 'stakeholder engagement', but the primary emphasis is on service delivery, seeking 'to maximise the delivery of high quality, individualised employment services'. The assessment includes also a review of complaints from jobseekers and of provider responsiveness to them.

The performance system is underpinned by a centralised DEEWR computer system which has evolved from the inception of the JN. The 'Employment Services System' is used for recording all provider interactions with job seekers; for claiming service fees, EPF and job outcome payments; and for monitoring and regulating job seeker flows to providers. The system exchanges and updates job seeker information between providers and Centrelink including notifications of when any sanctions action should be taken. Providers complain that the reporting and information system is too prescriptive but the level of data that is generated gives officials detailed insight into the delivery system.

2.4 The Netherlands Reintegration market

Until recently the Netherlands had gone furthest among European countries in developing the role of private providers. The Dutch system is now comprised of a variety of 'purchasers', including private employers, with a multiplicity of providers, including many 'micro' organisations that deliver voucher-type services to a small number of participants. The two significant public purchasers are the Institute for Employee Benefit Schemes (UWV), which is responsible for the social insurance system, and the network of over 400 municipalities who can choose to subcontract the delivery of employment services for people receiving social assistance.

Over a ten year period the UWV, the largest sole purchaser, successively adapted its tender system as it sought to improve the efficiency of its contracted provision, personalise support and target intensive services at harder to help participants.

Between 2002 and 2008 the UWV organised some sixteen 'tender rounds'. Tender selection was undertaken by regional officials and the criteria varied according to the needs of particular groups with greater stress on the professional competence of contractors, rather than price, for those selected to work with more disadvantaged groups. Once the contract commenced the provider could recruit a participant for up to a year and delivery of a complete 'reintegration trajectory' could take up to two years. The number of newly assigned participants in subcontracted programmes fell from about 105,000 in 2002 to about 67,000 in 2003, falling further to 23,000 in 2005 (Koning and Heinrich, 2010, p. 12).

The initial tendering system involved relatively small contracts designed to tackle the barriers of particular groups of unemployed and disabled people with prices and outcome payment terms differentiated according to distance from the labour market. The contracts were typically 'no cure, less pay', allocating between 10% and 20% of the price on completion of an agreed action plan, a fixed payment of about 40% six months after commencement and another 40% or 50% after placement in a job for two months, with a minimum six month contract (Sol, 2008, p. 77). Subsequently the UWV placed greater emphasis on cost reduction and the share of pure payment by results 'no cure, no pay' contracts increased from close to zero in 2002 to more than half of the contracts let in 2005 (Koning and Heinrich, 2010, p.13).

The UWV emphasis on price competition ensured a reduction in the average cost per contracted trajectory that had fallen to between €2,800 and €3,500 by 2007 (Finn, 2008, p.33). Providers and others argued that the fall in prices and focus on short term results to secure outcome payments had a negative impact on the quality of trajectories as providers removed costly service elements, especially longer term training (de Koning, 2007).

In response to criticism about the standardisation of reintegration services and the lack of choice available the UWV introduced 'IROs' (Individual Re-integration Agreements) from January 2004 (see Figure 2). These individual vouchers were popular and, within months, more users were opting for IROs than were participating in tendered provision. The IRO led to an influx of 'micro' providers, and the number of companies with whom the UWV contracted increased rapidly from less than 100 in 2003 to 1,960 by late 2007. The provider registration requirements were minimal and there was concern about the quality of provision.

Figure 2: Individual Reintegration Agreements (IROs)

IROs allow eligible service users to negotiate an individual plan with a provider of their choice, subject to agreement with the UWV who subsequently enter into a contract with the provider. An IRO trajectory may last for up to two years and the normal maximum price was €5,000 (now reduced to €4,000). For users with more significant barriers the price could be up to €7,500 (now reduced to €5,000). The contract had a 'no cure, less pay' funding formula with the provider paid 20% at the start of an agreed plan, 30% after six months participation with 50% of the agreed fee payable for sustained employment.

These developments led to a major overhaul of the UWV contracting system with the introduction in April 2008 of a 'purchase framework' (Sol, 2008). Under the framework agreement providers had to meet specified process and performance requirements to be placed on a UWV 'approved list'. The framework comprised a smaller number of providers who committed to deliver a range of 'call off' services most of which were fixed price, with only job search and placement being dependent on outcomes. The new system gave public sector case managers greater control and the 'modular buying strategy' facilitated shorter duration interventions whose results were easier to monitor and measure.

The Netherlands will undergo radical change from 2012 prompted by major reductions in the budgets of the UWV and municipalities. From January some 90% of unemployed jobseekers will only have access to e-services, with face-to-face services restricted to the hardest to place and long term unemployed. The UWV will have no budget for purchasing reintegration services for the unemployed, although it retains a budget to commission some IROs for those on disability benefits. The impact of these changes on providers is not yet clear but the Dutch reintegration market is shrinking rapidly.

3. Contracting out employment services: risks and lessons for the WP

The reviews of comparator countries show significant differences in contract design and procurement and that in each country contracting systems have been in flux. In each country policy makers have been, as in Britain, seeking to develop procurement and contracting systems that best secure the advantages of contracting out whilst minimising the risks and disadvantages associated with it. Critics see such change and re-regulation as an indication of the inherent instability of contracting systems; proponents regard it as part of a process of 'continuing improvement'.

The following sections consider what has been learned from these experiences and their implications for the delivery of the WP.

3.1 'Creaming and Parking' in outsourced employment services

There are a number of important risks associated with performance and outcome based contracting. The most frequently cited concern 'creaming and parking'.

The first factor is 'cream-skimming' or 'cherry picking', where providers select more job ready or more easily trained participants to enable the meeting of targets rather than selecting those who might gain more in the longer term (Struyven and Steurs, 2005). This is a particular risk in voluntary programmes or when the group eligible for a service exceeds the number of available places and/or when providers can choose whom to admit to a service. 'Cream-skimming' has been encountered in the delivery of British training programmes and DWP employment programmes, and an early study of subcontractors delivering European Social Fund provision reports complaints of such practices (Crisp et al, 2010).

After the initial surge of mandated participants has entered the WP 'cream-skimming' may become a factor. The WP design combines an uncapped budget with eligibility groups who may volunteer to participate and whom private providers may choose to target. US evaluations indicate the importance of monitoring for such developments. The extensive 'cherry picking' associated with JTPA provision was only reduced over time as policy makers and programme administrators were able to refine performance standards and measurement (Heinrich and Marscke, 2008).

The second factor concerns creaming and parking that occurs after commencement. The evidence suggests that providers may, deliberately, or unintentionally through segmentation, concentrate efforts on those participants perceived as more likely to

be placed in employment. Participants with greater barriers may receive less effective or costly services and make little progress in a programme.

'Parking' was a particular problem in the delivery of the Australian JN in the first two contract periods. The most expensive provision was 'Intensive Assistance' (IA), targeted at the long term unemployed, and after agreeing an individual action plan the contract gave considerable freedom to providers to deliver services as they saw fit. A Departmental evaluation found that although IA participants were allocated to providers for a year most contact with case managers took place in the first two months. An OECD evaluation reported that less than half of IA participants "had been sent to a job interview or to speak with an employer about a job"; nearly a quarter of those surveyed had "visited their provider only once or twice"; and "few providers appeared to be offering effective services to address the underlying barriers to employment" of the hardest to place (OECD 2001, p.193 and p. 59). One of the factors was that providers were deriving 70% of their income from the "high level of commencement fees" and had little incentive "to achieve additional outcomes" (PC, 2002, p. xxxiv). In the subsequent 2003 contract the ring fenced Jobseeker Account was introduced, the duration of IA was reduced to six months and the contract specified the sequence and duration of interviews that had to take place between case managers and service users.

The Australian findings have relevance for the WP, where individual participation may last for up to two years and 'black box' contracting gives providers enhanced flexibility. It is possible to envisage an outcome similar to that in Australia where providers may concentrate intensive service provision during the initial stages and towards the end of the process, with little contact in between. DWP maintains that the design of the WP will militate against this because of differential pricing, geared to the more difficult to place groups, and because providers will get little income unless they place participants in sustained employment. The Work and Pensions Select Committee has, however, warned that 'parking' may occur amongst the clients who are harder to assist within broad WP payment bands (WPSC, 2011).⁴

3.2 'Gaming'

Another risk attached to the WP concerns 'gaming' where providers may seek to exploit weaknesses in programme design by undertaking activities which allow better performance on contractual criteria but which do not improve employment outcomes (Cumming, 2011; Koning and Heinrich, 2010). Such practices were found in US programmes. JTPA providers, for example, could influence performance results by managing when they recorded individual enrolments and/or programme completions (King and Barnow, 2011). In Australia some providers were said to be able to

⁴ The WP differential price banding system will be affected by the introduction of Universal Credit. Future entrants to the WP will be on the same benefit but they are likely to be a more diverse population. It may be necessary for DWP to develop a classification instrument that will identify the hardest to place and to whom differential prices can be attached. Such classification systems can provide a relatively robust way of targeting resources but may be poorly designed, as in the Netherlands, and/or take a long time to develop, as occurred in Australia.

influence star ratings by using their funds to purchase uneconomic job outcomes at specific points in reporting periods (Murray, 2006).

At its most extreme 'gaming' may involve fraudulent activity where providers, or their employees, may seek, for example, to falsify evidence of job outcomes and/or training qualifications. Such episodes have occurred in each of the comparator countries although there are now stronger audit requirements in each and no strong evidence to suggest that such practices have been endemic.

DWP risk assurance safeguards and processes were reviewed by the Work and Pensions Select Committee in 2010. The Committee accepted that detected and undetected fraud in British contracted employment programmes was low but called for DWP vigilance, especially in the context of the transition to prime contractors and the increased emphasis on 'off benefit' checks to validate job outcome payments. The Committee recommended that where providers risk assurance systems failed and their staff or subcontractors engaged in fraudulent practices there should be greater financial penalties. They proposed also that the reports of the 'Risk Assurance Division', which investigate such cases, should be made public, and there should be greater sharing of information between Government Departments that might contract with providers involved in such cases.

3.3 Market failure

A further set of risks concern 'market failure'. The most obvious risk is that a severe 'economic shock' either nationally or regionally might undermine provider viability, especially with funding so dependent on job placement and retention. The Department suggests that the geographical coverage and length of WP contracts gives providers scope to absorb most labour market fluctuations. There exists also a contractual 'change control' mechanism that enables DWP to have discussions and negotiate contract variations with providers in the event of significant unforeseeable developments.

There are other, less dramatic, forms of market failure. Market forces may fail if the public purchaser is unable to entice a suitable pool of potential providers who will genuinely compete with each other on the basis of quality and/or price. Market forces would be weakened also if one or several providers dominated provision and the public purchaser was not in a position to sanction them for poor performance, remove contracts or replace the provider when contracts came up for renewal. Such concerns have been expressed about the powerful position over purchasers enjoyed by some large providers in the USA, whilst in other countries, such as Germany, the poor value and design of some contracts meant that 60% of tenders in one year received a solitary bid from all potential providers (Bryna-Sanger, 2003; Schneider, 2008).

The issue of a provider being 'too big to fail' may be significant in the WP where four out of eighteen prime contractors have been awarded over half of provision, and two of these account for more than a third of the total. DWP attributes this outcome to the relative strength of the bids submitted and emphasises that the providers have

been assessed as having the capacity to deliver their commitments. The Department stresses that in each delivery area these providers face competition from at least one other prime contractor and where a provider clearly performs below their competitor(s) then they will lose referrals and market share (from mid-2013). DWP stresses also that if a provider fails to meet their agreed minimum performance levels they face losing the contract.

It is not yet clear how much risk DWP has effectively transferred to prime providers and the Department's capacity to tackle under performance and to resist attempts to renegotiate contractual terms will only be tested over time. However, one possible long term consequence of the concentration and duration of WP contracts is the acquired advantages enjoyed by incumbent primes and the lessening of the risk of potential loss of contract. In future, DWP may also find it more difficult to attract new entrants to the market and will face a difficult trade-off between the potential improvements that might be gained from a new prime contractor and the transaction costs and service delivery disruption that could arise in making such a transition.

DWP cites the competitive threat posed by the other potential prime providers who have qualified for the 'Framework' and who in the case of contractual non-compliance could be invited to replace an incumbent provider. The continuing interest of these providers should be sustained not assumed as it is not immediately apparent that these potential alternative providers will stay in the market and 'merger and acquisition' activity may diminish their number. One 'unsuccessful' Framework provider has already acquired a successful prime provider and another Framework provider has publicly indicated its withdrawal and lack of interest in future contracts.

3.4 Financing employment programmes from benefit savings and the design of outcome payments

The explicit connection between up-front investment by WP providers, job outcome and long term sustainment payments, and funding from future benefit savings is a distinctive feature of the British system. There are some comparators, such as, the Netherlands 'Work and Income Fund'.⁵ In some US states and in Israel welfare to work providers have been paid a proportion of the savings accrued from any reductions in benefit expenditure they help generate. These particular contracts were undermined by poor design as providers were initially able to gain income from simply reducing the benefit caseload and preventing new applications rather than from showing that participants were placed in employment. The outcome and evidence requirements for WP providers to gain payment are better designed, but it

⁵ In the Netherlands the Dutch Government funds municipalities through a 'Fund for Work and Income'. It has two components. The 'income fund' pays for means tested social assistance and is determined on the basis of economic and social indicators. A separate flexible 'work fund' is designed to pay for employment or reintegration services and can be used only to pay for such services. Any surplus in the 'work fund' is returned to the Ministry. By contrast if the municipality pays less than it is allocated in the 'income fund' it can use the surplus as it sees fit. The risk is that if it overspends on benefits it has to subsidise these payments from its own resources. The municipality thus has a powerful incentive to reduce the number of people claiming social assistance and many have done so through the introduction of what are called 'Work First' programmes.

will still be important to monitor the number and destinations of WP referrals and participants who leave benefit but who do not enter employment.

In comparative systems there have been challenges around how job outcomes are defined, measured and authenticated. Evidential requirements should be robust but proportionate, seeking to limit the administrative burden that has characterised paper-based audit requirements.

The definition of a WP job outcome will also need to be revised over the period of the contract. Currently a job outcome payment will be made when a participant is in employment and wholly 'off' an out of work benefit for the required period, which will normally mean at least a weekly minimum of 16 hours employment. The WP contract has already signalled to providers that revision will be needed to better align provider incentives with the Universal Credit that is designed to incentivise the progression from dependency to 'mini jobs'. Such outcomes are rewarded in other systems, as in Australia, where providers are paid partial outcome payments if they place participants in 'mini jobs' or if they enable young people to enter full time education or training, so long as the individual's benefit entitlement is significantly reduced.

3.5 Monitoring the quality of service user experience

WP prime contractors have specified the minimum services they intend to provide and have published them. They are also under an obligation to inform service users about the services they will make available. There are, however, only limited safeguards to ensure that the services are delivered and DWP will have only limited insight into the 'black box' of front line delivery. It is important that the safeguards are robust if Ministers and DWP are to be in a position to resist possible future pressures to introduce the type of prescribed service standards that re-bureaucratized the Australian JN.

One important safeguard concerns the role of DWP contract managers but there is little public clarity about how they will discharge their roles or hold providers *and* subcontractors to account. There are virtues in diversity but there are service standards that should be common across all WP provision. Factors that could be assessed might include caseload size, frequency of job seeker contact, location and coverage of service delivery sites, and so on. Particular consideration could be given to the delivery of plans with a common performance indicator monitoring the plans' quality, how detailed they are, how long they take to complete, and the extent to which they are personalised to the individual. Contract managers could monitor also how well providers meet the frequency of attendances they agree with participants.

Another safeguard cited by DWP concerns the role of JCP which will be in a position to get feedback from participants about the quality of service they are receiving. Although unemployed JSA claimants will continue to sign on fortnightly whilst participating in the WP it is not clear that JCP assistant advisors, who take fortnightly reports, will have the time, or inclination, to monitor the quality of WP provision. This safeguard will also not apply to ESA claimants who are not required to 'sign on' fortnightly and who, arguably, may be more at risk of being 'parked'.

Another way in which DWP might consider generating consistent insight into WP service user experience over the life of the contract is through 'customer satisfaction surveys', as used in public agencies, like JCP, and in contracted out provision in comparator countries. In Australia DEEWR commissions independent surveys of jobseeker and employer experience on a regular basis and the results are used in performance management. In the USA many welfare agencies supplement their limited on-site monitoring with customer satisfaction surveys. Some states carry out surveys of individuals who declined services or were sanctioned. The findings from such regular surveys provide important information on service delivery and the feedback they generate may discourage 'parking'.

3.6 Service user journeys and the interaction between JCP and WP providers

Service user journeys across mixed public and private provision can be complicated, especially for the most disadvantaged. In Australia, the Netherlands and US systems clients can be required to make various transitions between different service providers and to satisfy their various requirements. Many may find these transitions smooth but in comparator countries there have been problems with 'failures to attend', incorrect assessments, and the imposition of sanctions, including variations in how different types of providers handle and report non-compliance with job search requirements. There have been problems also with the flow and sometimes accuracy of information and data exchanged between the respective agencies. These transactional problems were exacerbated in NYC and Australia by complex benefit regulations and activation requirements and the limited knowledge that provider staff have of such rules.

Transitions between JCP and private providers are well established in British provision, although they may not always work smoothly. There may be increased risks associated with the WP because of its duration, subcontractor delivery chains, and the requirement for regular contact with a private provider whilst continuing to 'sign on' fortnightly with JCP. This might be exacerbated further by the overlapping responsibilities of JCP and providers both of whom may seek to pursue different approaches to employment assistance and relevant activities. For example, JCP performance targets, which have no measure of sustainability, promote a 'work first' approach whereas a WP provider may take a longer view with less emphasis on the speed of an initial job placement. It might be useful for DWP to anticipate any problem and clarify the status of the job search and work activity requirements included in a WP Action Plan, agreed with a provider, and how this relates to immediate job search and availability requirements contained in the Jobseekers Agreement.

Service users will need clear and timely information to avoid 'mixed messages' and it will be important to monitor trends in sanctions and the interactions on conditionality between JCP and WP providers. Poor sanction design and implementation has led to delivery problems in both NYC and Australia where, at particular points, a high proportion of claimants have been sanctioned and/or been embroiled in formal fair

hearing and appeal proceedings during which time they were less connected with provider services.

Evaluations suggest that contracted providers and front line staff may exercise more discretion about who and when to report infractions to benefit authorities than public agencies. This may be because a case manager does not want to damage their relationship with a client. It may also be because of the administrative time consumed in reporting a breach and preparing the necessary documentation and the uncertain nature of any outcome. Such variation may blunt conditionality. The Australian experience suggests it may be worth considering specialist teams of JCP staff and decision makers who could ensure speedy communication with providers on compliance and sanction referrals, with feedback on the reasons for revoking referrals.⁶

Other problems may arise from poor interactions between health assessments and job search and programme activity requirements. Lengthy waiting times and inaccurate assessments, with consequential appeals, have at times proved difficult to manage both in Australia and NYC, and the problems grew in significance as participation requirements were extended to clients with more significant health problems. The problems encountered in the interactions between the Pathways Programme and ESA assessments suggest that connections between JCP, Atos and WP providers should be tracked closely. Issues of concern may include the timeliness and accuracy of work capacity assessments, appeals processes, the communication of results and how changes in the health circumstances of individuals during WP participation are managed.

3.7 Complaints and fair treatment for service users

Comparative evidence confirms the importance of ensuring that robust systems are in place to respond to complaints of unfair treatment and poor service delivery. In Australia the Department has committed to clear minimum 'Service Guarantees' that apply to all providers. The 'guaranteed' service standards must be displayed in each delivery site, with information on how participants may make complaints, with providers also required to keep a complaints register. Disputes and complaints should be resolved first with the provider but the system includes final recourse to an independent complaints telephone line operated by DEEWR. Contract managers monitor the delivery of the guarantees and how speedily and well providers respond to complaints.

In the USA providers and welfare agencies themselves are generally required to have complaints procedures in place to respond if services are unfairly denied to clients or those received are of poor quality. As problems have emerged new client-focused requirements and procedures have been introduced. In Wisconsin, for

⁶ The future significance of compliance interactions between JCP and WP providers may be gauged by staffing numbers in Australia. The public agency Centrelink has 500 staff organised in 'Participation Support Teams' to manage the compliance system and facilitate the speedy resolution of 'participation reports' and communication with providers. In contrast DEEWR employs some 200 account and contract managers to manage and monitor all the providers it contracts with.

example, clients must now be informed at the point of entry of the services available so that they are able to make an 'informed choice', and contractors can be fined US\$5,000 per incident for 'failing to serve' a recipient or welfare applicant. The state Department also introduced an independent Ombudsperson to more 'rapidly address' complaints from individuals who have problems in accessing welfare to work services. Other states introduced 'hotlines' to more speedily respond to complaints and inquiries (McConnell, 2003).

The WP approach seems more opaque, with individual prime contractors having their own minimum service standards, which may vary, and freedom in how they communicate their own disputes and resolution procedures to participants. The process is further complicated by the dual roles of JCP and WP providers. If a service user complains to JCP about their experience they will be referred to the provider. If the complaint is about JCP and the provider JCP will lead the response to the complaint. If the complaint is about WP policy then the provider should refer the complaint to JCP.

DWP guidance for providers further indicates that if a dispute between an individual and a prime or subcontractor cannot be resolved then the case should be referred to DWP's 'Independent Complaints Examiner' (ICE). If the dispute cannot be resolved through mediation ICE will conduct a formal investigation which may incur a £5,000 fee for the prime or subcontractor. The ICE decision will be 'final' and a provider may also have to pay any financial redress recommended. If dissatisfied an individual service user can, in the case of maladministration, take their case further to the Parliamentary Ombudsman.

Prime providers must produce a document outlining their minimum services and the 'first steps' of their complaints procedures but it is unclear how the full range of safeguards are being communicated to service users. Moreover there does not seem to be any mechanism for collating complaints information between JCP, prime contractors and DWP.

There appears to be a lack of clarity and clear lines of responsibility in handling and resolving complaints about WP service delivery have yet to be established. There also appears to be no mechanism for collating complaints information between JCP, prime providers and DWP.

3.8 WP providers and non-profit organisations

Concerns have been expressed about how prime providers may manage their subcontractors and the contractual terms and risks that are being passed on to smaller organisations. In response DWP's Commissioning Strategy established a 'code of conduct' to guide the management of such relationships and Government Ministers have placed particular emphasis on the role to be played by third sector, voluntary and specialist non-profit organisations in delivering the WP. The Department stresses prime contractor responsibility to develop 'healthy' supply chains, but eschews any direct involvement in supply chain practices indicating that these are commercial relationships between the prime and their subcontractors.

There has been a significant, and unique, response in DWP's sponsorship of the 'Merlin Standard' with prime providers expected to be compliant with this 'standard of excellence in subcontractor management' within a year of being awarded a contract. 'Merlin' is an independent, industry-led accreditation process that, it is anticipated, will shape and share best practices in relationships between primes and subcontractors. In the event of non-compliance DWP may deploy various sanctions and if disputes arise between a prime and a subcontractor the process provides for a mediation process (also to be delivered by DWP's Independent Case Examiner). The efficacy of such self regulation has yet to be tested and it is not yet clear how much of a contribution this process will make to generating insight into and knowledge of WP supply chain dynamics.

Over time it may be important to monitor the impact that WP contracting has on the *composition* of the non-profit organisations involved as well as on the number, terms and value of any contracts with primes. Concerns have been expressed that larger non-profits are more likely to benefit under the new contractual arrangements and there is some evidence for this from Australia and the USA. In both countries large non-profit providers, such as Goodwill Industries, and the employment service organisations established by large religious denominations, such as the Salvation Army, have acquired a leading role in delivering contracted out employment services. Smaller secular voluntary and community organisations have fared far less well, albeit innovative collaborative structures, including a social franchise in Australia, have enabled specialist and community organisations to win and deliver contracts in both countries.

Another development in the countries reviewed, has been the emergence of providers as a distinct interest group and a more powerful lobbying force. In GB many providers now are organised in the 'Employment Related Services Association' and 'Association of Employment and Learning Providers' but it is WP prime contractors that are likely to have easier direct access to senior civil servants and Ministers. The interactions between primes and officials will take place now within the wider context of the influence and lobbying power of the larger for-profit organisations that hold WP contracts.

3.9 Accountability and oversight

The accountability of WP providers is more limited than that of public sector organisations. They are subject to the normal legal requirements that apply to all private companies and charities but there are differences concerning the accountability of private contractors to Parliamentary Committees, audit authorities, the Human Rights Act (1998), and they may be beyond the scope of the Ombudsman. WP contracts have been published but information that was considered 'commercially sensitive or confidential' has been redacted. There is little public information available on the design and content of subcontractor contracts.

Contracting out of employment services poses challenges for political accountability. Ministers remain politically responsible for service outcomes and the effective use of

public funds even though in practice they will have less control over the actions of WP contractors and more limited means of intervening in their activities. There is considerable scope for 'blame shifting' and the responsibility for poor performance is less obvious. In each of the comparator countries audit and oversight bodies have played a significant role in holding policy makers and providers to account, prompting improvements in service delivery, and exposing poor practices. In this context the role of such bodies in Britain will be of particular importance, especially as Ministers, senior officials and providers have a clear interest in promoting the success of the WP.

4. Conclusion

Experience from other countries, and from Britain, suggests that the advantages to be gained from the WP come with risks and that these need to be monitored and managed over the contract period. The Public Accounts Committee and other oversight bodies will have a key role to play in assessing market formation, service delivery, impacts and cost effectiveness, and in giving DWP and WP providers critical feedback that will allow future lessons to be learned and necessary programme or contractual adjustments made.

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