Preparation for the Work Programme: what does recent research tell us about outcome based contracting?

Introduction

Details of the Work Programme are few and far between, but one thing that is very clear is that payments to providers will be largely dependent on the employment outcomes they deliver. This is variously known as ‘results based’, ‘end loaded’, or ‘outcome based’ contracting.

Funders, including the London Development Agency (LDA) and the Department for Work and Pensions (DWP), have been commissioning in this way already, so in a sense this aspect of the design of the Work Programme is not new. However, we can expect the balance of payments will shift even further towards outcome based contracting and away from up front service fees, as the government seeks to cut welfare spending and to transfer the risks (and potential rewards) of welfare to work to prime contractors.

Four reports published since the beginning of the year have looked at the way DWP’s approach to commissioning is working, and in particular at the impact that outcome based contracting has had on the level of support provided to the most disadvantaged welfare claimants:

1. DWP, The influence of outcome-based contracting on Provider-led Pathways to Work
2. House of Commons Work and Pensions Committee, Management and Administration of Contracted Employment Programmes
3. House of Lords EU Committee, Making it Work: the European Social Fund

This briefing draws out common threads from these reports, and suggests ways forward for London’s voluntary and community sector (VCS).

1. The influence of outcome-based contracting on Provider-led Pathways to Work

Now to be replaced by the Work Programme, Pathways to Work was a DWP back-to-work programme available to all customers claiming incapacity benefit (IB) and Employment and Support Allowance (ESA). It was mandatory for new ESA customers assessed as ready for work and was available on a voluntary basis for existing IB customers.

Published by the DWP in February 2010, this report considers the impact of outcome based contracting on the delivery of Pathways to Work, from the perspective
…this research reinforces the conclusions of other assessments: that OBC [outcome based contracting] can lead to perverse incentives.’
- DWP Research Report No. 638

The report finds that outcome-based contracting has had a considerable impact on the support delivered to Pathways customers. It finds that a division of services has emerged, with prime providers serving customers they considered most likely to enter work and partner agencies addressing the not directly work-related needs of customers who were not immediately ready for work.

‘The common prime provider strategy was, broadly speaking, to focus on job ready clients and encourage supply chain focus on clients requiring more intensive support and assistance to return to work.’
- DWP Research Report No. 638

There is little evidence that prime providers were developing in-house provision to enhance the quality of customer services. Instead, primes rely on partner agencies to address specialist service needs, and focus their own efforts on reducing operational costs and achieving performance efficiencies.

All primes set internal job outcome targets for advisers. These targets have been lowered because of the recession, but are still felt by frontline advisers to be unrealistic. Providers use a variety of systems to classify clients according to the level of support they might require to get into work. ‘Creaming’ (working intensively with some clients) is viewed as appropriate behaviour in a target-setting environment: advisers report management pressure to focus on job ready clients. This means that less time is spent with clients who are further away from work, which frustrates advisers. ‘Parking’ (giving other clients with complex barriers to work a bare minimum of service) is seen by management as appropriate practice for clients lacking in motivation and for clients who were seriously ill or awaiting treatment.

‘Because of the targets that we have, you can’t waste your time on customers that are not moving…’
- Prime Provider Adviser quoted in DWP Research Report No. 638

The report concludes that outcome-based Pathways contracts ‘do not reflect an expectation that providers will work with the harder to help’ and that the programme needs to be modified if it is to provide incentives to ‘support, in practice, the contractual expectation that providers should be working with the harder to help.’

The report’s recommendations include:
- stronger client feedback mechanisms must be developed, given the concerns about outcome-based contracts and parking,
- greater resources need to be made available for organisations working with clients with more complex needs, and
- DWP should consider paying providers on the basis of a wider range of outcomes and deploying differentiated outcomes for groups of clients, recognising the complexity of work orientations and job readiness. For example, outcomes achieved by clients who are some way off from getting a job might include completion of a training course, entering voluntary work or completing a work trial.

2. Management and Administration of Contracted Employment Programmes

In this report from March 2010, the House of Commons Work and Pensions Committee examines how DWP outsources its employment programmes, looking in particular at the fair treatment of

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vulnerable customers, and the treatment of subcontractors.\textsuperscript{2}

The committee notes that increasing numbers of people with health problems and disabilities are claiming Jobseeker’s Allowance (JSA). This means that many flexible New Deal (FND) providers will need to work with customers with more severe barriers than they had anticipated, because DWP expects that FND will meet the needs of all customers, including all those moving from IB to JSA.

However, providers claim that FND funding is not appropriate for those with the greatest barriers to work. According to Papworth Trust, for example, there are over half a million people who are currently not served by DWP programmes. The committee recommends that DWP should work with providers to ensure that appropriate support is provided for these customers. It stresses that DWP must begin to collect information on outcomes for people with different impairments, so that it can assess whether its programmes are working.

The committee members say that they were ‘disappointed, but not surprised’ to hear of evidence of parking on Pathways to Work, and that it is crucial that DWP incentivise its providers to work with all customers.

The committee welcomes DWP’s stated policy of ‘active market stewardship’ over its welfare to work providers, but finds that this is not happening in practice. DWP does not have a clear idea of what constitutes fair treatment of subcontractors, it says, and shows no willingness to get involved with even the most serious cases of unfair treatment.

\textbf{‘We previously endorsed the black box approach. However the black box applies only to how customers are helped by providers, not to auditing or to the treatment of subcontractors.’}

\textsuperscript{2}\texttt{http://www.publications.parliament.uk/pa/cm200910/cmselect/cmworpen/101/101.pdf}

\textbf{- House of Commons Work and Pensions Committee}

The committee heard that providers who had run a service successfully for many years could lose work if they were too small to tender to be a prime contractor, and if the prime contractor that won the contract then took the work in-house. It says that such a loss of local expertise and a proven service is not in the interest of customers, and that tenders should be judged on their impact on existing services which are working well.

\textbf{‘Every help needs to be offered to ensure that small providers can participate in the market.’}

\textbf{- House of Commons Work and Pensions Committee}

\textbf{‘The Department cannot rely on market pressure alone to ensure that sub-contractors remain involved.’}

\textbf{- House of Commons Work and Pensions Committee}

\section*{3. Making it Work: the European Social Fund}

Also in March 2010, the House of Lords European Union Committee inquired into the effectiveness of the European Social Fund (ESF) to establish whether ESF policy priorities need to be amended and to make recommendations on the future role of the fund.\textsuperscript{3}

The committee stresses that the real value of the ESF programme is its ability to make the hardest to reach and the least skilled employable, and that this aspect of the fund must be safeguarded. However, competitive tendering of ESF contracts may have led to providers being incentivised to ‘cherry pick’ participants who are easiest to place into the labour market, at the expense of the hardest to reach. The committee considers that this risk must be explicitly addressed, for

\textsuperscript{3}\texttt{http://www.publications.parliament.uk/pa/ld200910/idselect/ideucom/92/9202.htm}
example by contractually requiring providers to show that they are still delivering to the hardest to reach. The committee recommends that in the 2014–20 period, the ESF programme should continue to focus on assisting the hardest to reach and least skilled into work.

The committee recognises that many of the providers best able to assist the hardest to reach are in the VCS. While no particular contractor or sector has a right to funding and all contracts must be based on merit, the committee believes it is important that small operators have a fair opportunity to innovate and to be involved because of the ‘special value’ that the VCS brings to the programme. It recommends that sector be encouraged to participate to its best ability in the programme.

The committee finds that the government’s insistence on measuring hard outcomes to the exclusion of soft outcomes in the ESF programme is ‘excessive’. It recommends that the government reconsider its ‘rigid’ focus on sustained employment outcomes. It reasons that intermediate work with the hard to reach is a necessary route towards the labour market, helping to improve people’s employability, and though it may not lead to employment outcomes during the lifetime of a programme, it is still ‘necessary’ and ‘valid’.

‘...we believe that the greatest value of the ESF lies in improving participants’ employability and helping them progress towards, and ultimately move into, employment. We therefore disagree with the Government’s rigid approach of increasingly withholding payment from providers unless they get people into work and keep them there.’ - House of Lords European Union Committee

The committee is concerned that the complete exclusion of soft outcomes from assessments of the effectiveness of ESF projects would encourage providers to focus on those closer to the labour market at the expense of the harder to reach. It recommends that the government and the European Commission explore ways to measure progress for those further from the labour market. Ultimately, programme providers should be required to collect data on soft and hard outcomes alike.

4. The Impact of Commissioning Models in London

The London Skills and Employment Board commissioned this report to assess the impact of changes to ways that funders such as DWP and LDA are commissioning employment services, in particular the move to larger, outcome based contracts, running for three years or more. It was completed in May 2010 but has not yet been released.4

The research finds that when operating within outcome-based reward structures, the incentive for prime contractors currently is to help those closest to employment. Further, the action of ‘creaming’ the best clients and the best areas has the potential to push subcontractors out of the market. Many providers believe that to avoid such creaming, funders need to move to a differential system of higher payments for getting clients who are further from the labour market into work.

The majority of providers who participated in the research believe that the new approach to commissioning will reduce the involvement of smaller and specialist providers. The researchers argue that funders and strategic bodies must keep a watch on the potential fall-out from this ‘weeding out’ of providers, as it could leave clients with specialist needs bereft of support.

The research found a clear view among both primes and subcontractors that many of the current programmes do not

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4This summary is based on a presentation made by the authors of the report, Rocket Science, at LVSC’s post-election event on 24 May 2010.
incorporate sufficient incentives for providers to offer the intensive support necessary to support those with multiple barriers. The majority of all providers felt that the new commissioning models have had the effect of reducing focus on the hardest to help. There was concern that current programmes have unit costs which are unrealistic in terms of the barriers clients face, and additional funding needed to be devoted to supporting harder to help clients. Setting a sustained job outcome target of 52 weeks is a worthy objective, say the researchers, but the level of service required to keep someone in work for that long requires additional funding.

The researchers suggest that further London-specific capacity building support for subcontractors and specialist providers may be required in order to support VCS groups to make a full contribution to public service delivery. At the same time, funders need to be more receptive to bids from delivery consortia, Special Purpose Vehicles and partnerships, especially those from the VCS.

What does outcome based contracting mean for the harder to help and the VCS?

All of these reports find that outcome based contracting can lead to providers classifying and ‘parking’ certain customers, so that often the most vulnerable claimants, who are most in need of help, will get a bare minimum of support. This is the result of providers responding to a competitive market and doing their best to maximise revenues from successful employment outcomes.

Compounding this problem is the fact that specialist providers may be forced out of the market, making it even more difficult for vulnerable clients to access the advice and support they need to enter the labour market.

Outcome based contracting presents many challenges for frontline groups. Groups working with disadvantaged people requiring intensive support over a long period – a year or more, for example - will need to find new ways to finance the costs of this work in the absence of upfront service fees.

Many VCS groups specialise in working with clients who are a long way from the labour market and are inherently ‘high risk’ in a outcome based environment. So even if the resources can be found to support this work, there is still the risk that no payment will be received at all – and this risk in itself makes accessing commercial finance even more difficult.

Other factors make the environment even more challenging for small providers. It is likely that the Work Programme will set ambitious sustained employment targets for providers - where, for example, they will only receive their full payment after a client has been in more or less continuous employment for six or twelve months. Lastly, of course, the recession, public spending cuts, and high unemployment mean that the job market is very competitive and it is more difficult than ever for multiply disadvantaged people to find jobs.

Conclusions: what can the VCS do?

Support VCS consortia bids. The DWP is sending out messages that it is open to consortium bids for the Work Programme, and there is VCS consortia-building activity in London. Get in touch with LESPN for more information.

Prepare to subcontract with primes. Some potential primes are already looking to build or expand their contacts with VCS employment and skills groups to build a ‘diverse delivery chain’ for the Work Programme. LESPN and other London networks will continue to provide support and advice to groups who are considering negotiating with primes.

Support VCS campaigning to influence the shape of the Work Programme. In particular, we would like to see commissioning which:
ensures that the most vulnerable clients are not parked but get the support they need to get into work;
- does not exclude frontline VCS organisations from delivery on financial grounds;
- recognises a wider range of outcomes than just sustained employment, for example milestones or ‘soft outcomes’ on the journey to employment for those furthest from the labour market;
- recognises not directly work related support, such as housing and debt advice, is essential for those who are furthest from the labour market; and
- provides fair rewards for groups who get people with multiple disadvantages into work.

Get in touch if you’d like to know more about what LESPN is doing in this area.

Support VCS campaigning for benefit reform. Benefit reform is a priority for the government, and is critical to making the transition off benefits and into work smoother and more durable. Plans to raise personal allowance and child tax credits for those on low incomes are positive, but cuts to housing benefit run against these measures.

Build on links with employers and job brokers. Job outcomes will become more and more important, and in many cases harder to come by.

Watch this space. Very little detail has been announced about the design and delivery of the Work Programme, the next ESF bidding rounds, and other commissioning. Nor has there been any detail about the ‘Big Society Bank’. LESPN will keep you informed of developments.