

Lessons from contracting out welfare to work programmes in Australia and the Netherlands

Findings
Informing change

November 2008

The Government is committed to contracting out delivery of welfare to work programmes and paying providers for getting participants into sustained employment. The main political parties concur that such a 'welfare market' will lead to service innovation, improved accountability, better job outcomes, and better customer service and value for money, referring to the success of similar reform in countries like Australia and the Netherlands. This study examines particular lessons from these programmes for this country.

Key points

- Evaluations suggest that performance-based contracting typically improves the short-term job prospects of participants by around 5% to 10%, and does so more quickly than standardised programmes.
- The evidence suggests that: the privatised Australian Job Network finds more people jobs for half the cost of the previous system; the cost of providing service packages in the Dutch 'reintegration market' fell by 2007 from €4,700 to no more than €3,000 for each client going through the programme.
- The cost efficiency gains attributed to both systems appear significant but relatively little is known about how far these gains have been offset by reduced services and high transaction costs for the purchaser, providers and service users. Such costs include contract design, bid preparation and assessment; contact management, supervision and revision; and, for the service user, negotiating and satisfying the requirements of a more complex system.
- The Australian and Dutch systems have been in flux. Delivering Government objectives through contracts is prone to the same implementation problems experienced in public sector delivery systems.
- Contracting out poses further challenges because it fragments programme responsibility amongst multiple contractors, changes the relationship between policy-makers and frontline service deliverers, and blurs lines of responsibility and accountability.
- There is a strong association between incentive-based contracts and 'parking', where harder to help participants receive a bare minimum of services.
- A solution to this is 'service guarantees', giving participants some choice between providers and access to redress and complaints mechanisms.

The research

By Dan Finn, University of Portsmouth.

Background

The principles of the British Government's new delivery strategy will be applied as part of the 'flexible New Deal' (fND). From 2009, all long-term unemployed people will be referred for employment assistance to external 'prime contractors' paid largely for placing people into sustained employment. Prime contractors will manage local 'supply chains' and deliver services directly or through subcontractors.

The transition to performance-based contracts has potential for innovation, flexibility and efficiency savings but managing complex services through contracts also has important risks for service access, costs, quality and accountability. There are two particular risks. The first is 'creaming', where contractors who are paid by results are likely to concentrate on participants closest to the labour market and more easily placed in a job. The second risk is 'parking' where harder to help participants receive a bare minimum of services and are unlikely to make any progress whilst participating in a programme.

Systems in Australia and the Netherlands

In the decade since its creation in 1998, the Australian Job Network has moved from 'radical experiment' to established institution. Policy-makers adapted the model to secure greater efficiencies, deal with unanticipated effects and redefine services to 'activate' more working-age benefit claimants. The Australian Job Network finds more people jobs for half the cost of the previous system.

The Dutch 'reintegration market' was fully established in 2002. Municipalities and the social insurance agency (UWV) purchase reintegration services from private providers. The cost of UWV reintegration 'trajectories', which combine case manager support and other services, fell from an estimated €4,700 to between €2,500 and €3,000 by 2007 and the 'Work First' and 'Workfare' programmes introduced by municipalities have cut costs and increased the number of social assistance claimants entering employment. Recent 'Individual Reintegration Agreements' (IROs) have the potential for creating a more responsive client-driven system – at least for those claiming social insurance benefits.

The evidence reveals, however, that contracting out employment assistance services is not a simple option.

Both the Australian or Dutch systems have been in flux over time. The delivery of Government objectives through contracts is prone to the same implementation problems experienced in public sector delivery systems. Contracting out poses further challenges because it fragments programme responsibility amongst multiple contractors, changes the relationship between policy-makers and those who deliver frontline services, and blurs lines of responsibility and accountability.

'Parking', price competition and benefit savings

In Australia and the Netherlands, incentive-based contracts have been associated with 'parking' harder-to-help service users. Private and public providers in incentive- and target-driven systems are more likely to focus their efforts on those participants who will produce outcomes or score points.

A distinctive contributory factor to parking has been price competition between providers – now abandoned in Australia and the Netherlands. Price competition encouraged unrealistic cost estimates that subsequently limited provider capacity and stifled innovation. Too great an emphasis on cost reduction undermined service quality.

Expenditure savings arise not only from downward pressure on prices but from reductions in benefit caseloads. Budgeting rules for Dutch municipalities enable them to reinvest savings from benefits into employment assistance or use them for other purposes. Steps towards such a model are now emerging in the UK. Such an incentive system requires continuous scrutiny to ensure that priority is given to assisting service users into employment rather than simply reducing the number receiving benefits.

Service quality and outcome payments

Evidence on the quality and variability of the services delivered is mixed. More positive assessments highlight the enhanced capacity of frontline case managers when they tailor support to individuals and broker job placements with employers. More critical evaluations suggest that providers 'crowd around' less costly job search assistance. Incentive payment systems need careful design if they are to encourage service innovation, or substantial investment in training, or other forms of more expensive assistance required by those with significant employment barriers.

To tackle problems with parking and improve transparency Australian and Dutch purchasers have introduced greater specification of service requirements

and shorter periods of intensive assistance. These developments have relevance for the flexible New Deal where providers will enjoy considerable flexibility over the year that participants may be with them. It is easy to envisage an outcome similar to that under the first Australian Job Network contracts where providers concentrated service provision during the initial stages and towards the end of the process, with little contact over long periods in between.

In Australia, the Jobseeker Account ensures that a significant element of the public budget is 'ring fenced' for investment in job seekers. This 'guaranteed' budget allows case managers the discretionary resources to deliver flexible investment in disadvantaged jobseekers and constrains any negative tendencies for profit taking.

Significantly, as in Great Britain, both Australia and the Netherlands have new funding streams for vocational training. A key challenge is to ensure that prime contractors and training providers integrate the additional and pre-vocational support necessary if long-term unemployed people are to take advantage of the opportunities created.

Star ratings and innovation

The emerging British 'star rating' performance system appears designed to avoid some unintended effects of the Australian relative performance system. Nevertheless, as the system is extended to cover all programmes care must be taken to avoid perverse incentives and negative effects on provider behaviour.

International experience shows that competition alone may be insufficient to drive continuous improvement and sustained innovation. The development and spread of best practice requires both contract redesign and exchanges through networks that extend beyond individual organisations and often across sectors. Contract managers may do some of this but the Department for Work and Pensions (DWP) and other interested bodies, such as provider and third sector associations, have a development role to play.

Service user safeguards: 'voice and choice'

Moving across mixed public and private provision is complicated for service users. The flexible New Deal has increased risks due to its duration, subcontractor delivery chains, and the requirement for regular contact with a private provider whilst 'signing on' fortnightly with Jobcentre Plus. Service users need clear and timely information to avoid 'mixed messages' and trends in

sanctions imposed and provider referrals should be monitored.

The DWP stresses the importance attached to 'excellent customer experience' and that service users should have 'informed choice'. Evidence from Australia suggests that for 'informed choice' to be meaningful users need clear information on the providers with whom they will be placed and the service on offer.

More radically, the success of IROs in the Netherlands suggests scope for a user-driven alternative to the rather constrained choice on offer in the flexible New Deal. IROs give service users more time to choose a provider and negotiate the kind of employment assistance they receive.

Comparative evidence on welfare markets confirms the importance of contracting agencies independently monitoring client experience and ensuring that robust systems respond to complaints of unfair treatment and poor service delivery. It is important to establish clear lines of responsibility and inter-agency collaboration in handling complaints, and to develop a comprehensive system for collating complaints information.

Contracted providers and non-profit organisations

In all three countries both for-profit and non-profit providers have emerged as a distinct interest group and powerful lobbying force, sometimes with competing interests about their relative competitive advantages. Providers have a legitimate interest in lobbying for additional resources and reform of market design so long as it is borne in mind that provider interests do not always correspond with those of users as well as those of the purchaser. The interests of many local and smaller charities and community-based organisations may differ from those of larger national charities.

The involvement of non-profit organisations in welfare markets has raised concerns about the relationship between their social mission and the constraints of contract delivery. There has been some evidence that the requirements of contracts – especially in the role that providers play in imposing conditionality and sanctions – have had an impact on such organisations' original purpose.

The relationship with providers at times can be uncomfortable for Government. In Australia there was particular controversy about 'gagging clauses' in contracts between Government and providers. Such criticism is an important dimension of public debate and encourages accountability.

It will be vital to monitor the dominant role of larger providers in the British market. The transition to prime contractors is likely to reshape the landscape with for-profit organisations, with access to risk capital, dominating service provision. The future for many voluntary and community-based organisations, and some for-profit providers, will be as subcontractors. It will be important to understand the impacts of the new market on the organisational capacity and social capital of local areas and the extent to which they may be at risk should market conditions change and larger for-profits 'buy out' contracts and remove their capital to seek greater profits elsewhere.

Contracts and accountability

Contracts for the delivery of employment assistance services involve more than commercial considerations. They seek to shape the ways in which providers exercise operational discretion encouraging contractors and their staff to act with the professionalism expected of public officials. The accountability of contracted providers is, however, more limited than that of public providers concerning, for example, the scrutiny role of Parliamentary Committees, audit authorities, the Human Rights Act (1998), and they are beyond the scope of the Ombudsman.

Contracting out employment and other such services poses challenges for political accountability. There is considerable scope for 'blame shifting' and the responsibility for poor performance is less obvious. Consequently the role of independent research, challenge and scrutiny is particularly important, especially where political consensus is so wide.

Implementation in this country

In addition to the observations above, the researcher concludes that:

- Consideration should be given to a mechanism such as the Australian Jobseeker Account to ensure that a significant part of the public budget is 'ring fenced' for investment in job seekers.
- Whilst choice is constrained by the job search obligations of those in receipt of Jobseeker's Allowance, individuals should still be able to exercise choice at the point of recruitment and after their first month of participation. They should be able to move at any time if they have legitimate grounds to be dissatisfied with their experience. There should be flexibility to ensure that providers who attract participants can expand their capacity to accommodate user choice.
- DWP should consider the introduction of a clear 'Service Guarantee', with recourse to an independent complaints line. It should ensure all flexible New Deal centres display such a Service Guarantee with information on how to make complaints, and require providers to keep a complaints register.
- The DWP and other interested bodies, such as provider and third sector associations, need to develop a more open structure for brokering information exchange and technical advice involving prime contractors, sub-contractors, related public sector organisations and groups that can articulate the perspective of service users.
- DWP contracts and those between prime contractors and subcontractors should allow informed and free comment and not constrain the ability of non-profit organisations in particular to advocate on behalf of disadvantaged communities.

About the project

The research design combined an evidence and literature review with findings from interviews with policy makers and analysts undertaken in Australia and the Netherlands in 2007. The review covered English language official reports and evaluations, independent studies from various policy institutes and academics and findings from audit, oversight and regulatory authorities.

For more information

The full report, **The British 'welfare market': Lessons from contracting out welfare to work programmes in Australia and the Netherlands** by Dan Finn, is published by the Joseph Rowntree Foundation. For more details please contact Dan Finn at dan.finn@port.ac.uk or at the University of Portsmouth, Milldam, Burnaby Road, Portsmouth, PO1 3AS.

Published by the Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP. This project is part of the JRF's research and development programme. These findings, however, are those of the authors and not necessarily those of the Foundation. ISSN 0958-3084

[Read more Findings at www.jrf.org.uk](http://www.jrf.org.uk)

Other formats available.

Tel: 01904 615905 email: info@jrf.org.uk