

# **Contracting out employment programmes - lessons from other OECD countries**

“What do we know about the effectiveness of  
Active Labour Market Policies?”

Ivàlua

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# Presentation Objectives

1. Explaining why and how selected OECD countries are contracting for employment services

2. Extracting key lessons from OECD experiences to understand how the use of such contracts may lead to more effective service delivery

3. Identifying some key questions on market design and implementation for policy makers

# Context

- The Public Employment Service (PES) and other labour market intermediaries:
  - From prohibition to competition and cooperation
  - Placement vouchers with private agencies (e.g., Germany)
  - Contracting for services – mixed economy of providers
  
- In many countries Ministries, the Public Employment Service (PES), municipalities contract with external providers to:
  - buy training and specialist services (esp. disability)
  - increase capacity (increased unemployment)
  
- A number of countries have been using external providers to:
  - ‘benchmark’/drive innovation in PES
  - provide competition/replace all or some publicly delivered provision
  - transition also to variants of payment-by-results

# Types of Employment Services Contracts

**Cost-Reimbursement:**  
payments for expenses incurred, budget agreed at procurement  
→ high risk for public agency

**Fixed-Price:** paid agreed fee regardless of performance or actual cost  
→ public/private risk sharing

## Contract Types

**Pay-for-Performance:**  
payment linked to measurable performance indicators  
→ low risk for public agency

**Outcome-based:** public agency only pays for job placements/outcomes  
→ high risk for service providers

**In practice:**  
extensive use of **hybrid contracts.**

**Outcome measures:**  
job placement, retention, hours, earnings.

**Process measures:**  
enrolments, assessments, accuracy of referrals and, sometimes, participation in work activities

# Evolution of welfare markets

	1980	1990	1995	2000	2005	2010	
<b>USA</b>	JPTA (1982)		TANF (1996) WIA (1998)	NYC Prime Contractor Model (2000)	We Care (NYC 2005) Back to Work (NYC 2006)		
<b>Aust.</b>		Working Nation (1994) Job Network 1 (JN1) (1996) JN2 (1999)		JN3 (2003)		Job Services Australia (2009-15)	
<b>UK</b>		New Deal (1997)	Employment Zones (2000)	Pathways to Work (2005)	Freud Report (2007)	Flexible New Deal (2009) Work Programme (2011)	
<b>Ger.</b>		Social Code III (1998)	Placement Vouchers (2002)	Reintegration Service (2003 – 07)	ARGE (2005)		
<b>Neth.</b>			SUWI Act (2001)	16 UWV Tender Rounds and IROs (2002-08)	Purchase Framework (2008)		Municipalities ('make or buy' freedom 2004)

# Advantages of new approaches

- **Advantages of outcome based contracts:**
  - purchasing body must focus on exactly what they want the provider to achieve
  - ensures providers focus on the purpose of the service, both at a general level and in activities/management of front line staff
  - encourages a knowledge driven approach to practice - providers will invest in 'what works' and more quickly identify methods of practice that can achieve results
  
- **Advantages of flexibility:**
  - providers are given more or less discretion to innovate, identify best practice and use their skills to design and deliver services
  - purchaser pays less for activities unlikely to produce a job outcome

## But Risks of Contracting

- A. Cream-skimming/parking
- B. Displacement
- C. Deadweight



These risks exist in publicly managed services but become more 'transparent' with cash payments to contractors

- D. Contract gaming
- E. Market failure
- F. Supplier Capture



These risks are unique to the contractor model and can exacerbate risks A – C.

# Features of contracting systems

- Distinctive Purchaser/Provider arrangements in different countries, but contracts usually managed through public tender/request for proposals
- Contracts usually awarded on a balance of quality and price
- Varying approaches to scale of contracts and level of service specification:
  - Large number of small contracts (Netherlands, Sweden, Germany) - less risk if poor performance; specialist providers; entry costs low.
  - Prime contractors (UK, New York City) - fewer, well-capitalised contractors. Reduced transaction costs, administration/monitoring, & economies of scale.
- Contract durations vary between 1, 3 and 5 years (purchaser and provider interest in stability)
- 'Competition for markets' dominant; less emphasis on 'competition within markets'



# Lessons Learned from Evaluation Studies

## Frequent re-regulations

- To resolve delivery problems and reshape incentives to meet programme objectives.

## Public officials need new skills

- Contract design, commissioning and managing contract delivery

## Complex relations - design, and delivery of cash benefits and employment services

- Design of cash benefits and job search and reporting obligations and sanctions critical contributor to provider effectiveness.

## Need to monitor participant experience & outcomes

- Including service standards, complaints procedures and experience/satisfaction with services

**Findings on impacts are mixed , especially from mainland Europe– but evidence from case studies shows early cost reductions and increased performance emerging over time**

## Other Key Research Findings

- Market viability/turbulence depends on capacity of purchaser to accurately predict future levels of participation on which providers can bid/plan provision.
- Loss of insight into service delivery:
  - Importance of performance management
  - Feedback from clients and employers
- Potentially high transaction costs.
- Tension between fostering competition and cooperation/integrated service delivery

# Important Commissioning Issues

- Design the process and contracts in ways which **allow lessons to be learned rapidly and adjustments to be made.**
- **Introduction of longer duration and/or larger contracts** give the opportunity for greater risk transfer and encourage provider investment – risks managed through careful contract design and performance monitoring and management.
- **Effective competition between providers needs** clear objectives and indicators, transparent performance data and, where feasible, possibility of moving market share from lower to higher performers.
- **Design and frequency of the payment system** - critical for ensuring viability, investment in service delivery and engagement with all clients.
- Purchaser needs an **efficient/timely administrative, IT and payment systems** - enable purchaser to track participants, monitor performance and verify service delivery and outcomes.
- If concern that companies **may make excessive profits** – consider ‘open book accounting’ or may have a formal ‘profit cap’ (but may blunt/distort performance incentives).

# Some Questions for future procurement

- Key question is whether Spain/Catalonia wants to design a contract or develop a new public-private delivery system.
- If latter, factors to consider include:
  - What kind of employment services market is Spain/Catalonia seeking to develop, what are existing provider capabilities and how do they need to be developed?
  - Who should be doing contract design, procurement and performance management? May need to develop Ministry and public sector capacity.
  - How do existing contract designs, procurement and delivery practices need to be developed to meet policy objectives and improve performance.
  - How to design client experience and entitlements and how best to organise jobseeker segmentation, referral and attachment to providers.

## Some publications

- Finn D. (2012) *Subcontracting in Public Employment Services: the design and delivery of ‘outcome based’ and ‘black box’ contracts*, European Commission Mutual Learning Programme for Public Employment Services, at [http://eprints.port.ac.uk/10001/1/20121023\\_P2P\\_AP\\_Outcome\\_oriented\\_subcontracting\\_EN.pdf](http://eprints.port.ac.uk/10001/1/20121023_P2P_AP_Outcome_oriented_subcontracting_EN.pdf)
- Finn D. (2011) *Subcontracting in Public Employment Services: Review of research findings and literature on recent trends and business models*, European Commission Mutual Learning Programme for Public Employment Services, at [ec.europa.eu/social/BlobServlet?docId=6964&langId=en](http://ec.europa.eu/social/BlobServlet?docId=6964&langId=en)