



**The European Commission Mutual Learning Programme  
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**SUB-CONTRACTING IN PUBLIC EMPLOYMENT  
SERVICES**

Review of research findings and literature on recent  
trends and business models

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## **ABBREVIATIONS**

ALMPs	Active Labour Market Programmes
EU	European Union
IT	Information Technology
NCNP	'No Cure, No Pay'
NCLP	'No Cure, Less Pay'
OECD	Organisation for Economic Cooperation and Development
PES	Public Employment Service
SSGI	Social Services of General Interest

### **UK**

DWP	Department of Work and Pensions
EZ	Employment Zone
JCP	Jobcentre Plus
NDDP	New Deal for Disabled People

### **Germany**

BA	Bundesagentur für Arbeit
ARGE	Arbeitsgemeinschaft (Job Center) - the association of the BA and Municipality

### **Netherlands**

IRO	Individual Reintegration Agreement
SUWI	'Implementation Structure for Work and Income' Act (2001)
SZW	Ministry of Social Affairs and Employment
UWV	Institute for Employee Benefit Schemes

### **Australia**

DEEWR	Department of Education, Employment and Workplace Relations
JN	Job Network
JSA	Job Services Australia

## EXECUTIVE SUMMARY

This report reviews literature and impact studies on employment services subcontracting in Europe. Most of the studies available concern a limited number of countries where changes in subcontracting practices have been part of wider PES and welfare state reforms. The report reviews the development of subcontracting systems in the three countries subject to the most detailed studies – Britain, Germany and the Netherlands. It also reviews findings from twelve impact studies that analysed the impact of subcontracted services in these three countries and in France and Sweden.

In each of these countries the Ministry, PES or local government used a competitive bidding process to select providers to deliver job matching, reintegration and other employment services with successful providers awarded contracts with varying amounts of provider income dependent on placing participants in jobs.

The impact evaluations show mixed results, with the most positive found in the United Kingdom and more negative findings in Germany, France and Sweden. The studies used varying methodologies, each with strengths and weaknesses, and were often undertaken in the early phases of implementation. **The findings suggest, however, that private providers can, under certain contractual arrangements, improve outcomes for particular groups and bring innovation to service delivery. The competitive pressure they bring may also prompt improved PES performance.**

Findings from the wider literature, and the three case studies, indicate that in most countries subcontracting systems have been in flux as public authorities change their systems in response to operational experience, performance and as part of wider reforms. This experience has generated much knowledge about how to design and manage subcontracting systems to maximise the gains they might offer whilst minimising risks.

Some of the ‘lessons’ from these experiences have relevance for those European governments and PESs seeking to introduce or further develop their subcontracting systems:

1. **Implementing an effective subcontracting system will involve a developmental process that is likely to require an extended period of monitoring, evaluation and modification.** It is important that when subcontracting employment services, public authorities should **design the process in ways which allow rapid learning with the contractual flexibility to make necessary adjustments.**
2. There are many choices to be made about contract design and how to organise procurement that will shape subsequent delivery and impacts. **One of the key findings concerns the negative impact of contract selection processes that gave too much weight to the lowest priced bids, resulting in poor service quality or unviable contracts.** The challenge for the provider is to balance a

range of possible bid selection criteria in ways that secure value for money but do not undermine provider capacity.

3. **Subcontracting requires information systems that enable contracting authorities to track participants, monitor provider performance and verify the quality of service delivery and outcomes.** There is a need for skilled contract managers to facilitate performance management and some key quality indicators to manage include the design and implementation of individual client action plans, caseload sizes, frequency of contact, and the suitability and accessibility of premises.
4. The evidence from European and OECD countries illustrates the **importance of contracting agencies independently monitoring client experience and ensuring that robust systems can respond to complaints of unfair treatment and poor service delivery.** This could involve customer satisfaction surveys as increasingly used in the PES. These instruments are important both because they provide important information on service delivery and because they can militate against 'parking' where contractors might otherwise focus too much attention and resource on participants perceived as easier to place.
5. The development and management of subcontracting systems is a complex and difficult task for policy makers and public officials. There is a sharp and continuous 'learning curve' and **it takes time to learn how to steer the system** to minimise perverse incentives and to capture the efficiencies and innovation that independent contractors may offer. **It may be that the gains from subcontracting emerge over time when, as in Australia, public officials can exclude poorer performers, increase competition and improve the performance management of subcontractors.**

This review synthesises findings from much of the published evidence available on subcontracting employment services in Europe but focuses most on those countries where there is extensive subcontracting and there is a commitment to evaluation. **There is little data on how, or the extent to which most other European Ministries, PESs or municipalities subcontract the delivery of employment services.**

There would be value in commissioning more detailed research into subcontracting arrangements in European countries and monitoring the ways in which member states use subcontractors, the extent to which such providers compete with or complement the activities of the PES and what this means for the design and delivery of PES core services. There would also be value in promoting exchanges to enable policy makers and programme managers to learn from the experiences and best practice lessons of the countries that have more explicitly sought to improve the coverage and effectiveness of their subcontracting systems.

# 1 INTRODUCTION

Over the past decade PES reforms in many European countries commonly share an emphasis on management by objectives, performance-oriented budgeting, and, in some cases, the decentralisation of decision-making and implementation (Heyes, 2011; Timo Weishaupt, 2011). Reform also has included the introduction of increased competition in the delivery of employment services and the growth of private sector intermediaries.

The new ways of working with the private sector are diverse. The remit has included more or less liberalisation of the rules governing private placement and temporary work agencies including, in some countries, formal agreements allowing private agencies to advertise and recruit through the PES (Eurociett, 2007). There has also been an increased role for competition in the delivery of publicly funded employment services. The changes were first evident in reforms to skills training programmes for the unemployed but have since been used to deliver job placement and integration programmes. These developments have been marked by organisational reforms, such as separating the PES roles of service ‘purchaser’ and ‘provider’ alongside the use of market type mechanisms, such as subcontracting and vouchers (OECD, 2001; Thuy et al, 2001).

This report assesses the developments in subcontracting systems where the Ministry, PES or other public agencies use a competitive bidding process to select providers who can deliver the most effective job matching and reintegration services. It concentrates on the design and impacts of the more results-based subcontracting systems implemented in several European countries and their respective impacts.

## *1.1. The background to employment services subcontracting*

Many countries have a long tradition of delivering employment services through grants or contracts with public and non-profit organisations. Such networks often include various types of training institutions, that may have links with the social partners; providers of specialist services and facilities, for example, in vocational rehabilitation or sheltered employment. More recently there has been an increase in the delivery of employment services both by social enterprises and by for-profit organisations. These for-profits include private employment agencies, such as Manpower, Randstad and Adecco, alongside a range of other companies that specialise in subcontracting to deliver employment and other ‘welfare to work’ services. This includes organisations now operating in several countries, such as A4e from the UK, Calder from the Netherlands, Ingeus from Australia, and Maximus from the USA.

The increased involvement of private for-profit organisations correlates to changes in subcontracting regimes. In a number of countries these subcontracting 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.

There are a number of reasons why public agencies subcontract with external providers. They can do so simply to complement PES services and utilise specialist skills and/or additional capacity by expanding the pool of potential providers. The introduction of competition and tendering for contracts can also, however, reduce delivery costs, stimulate innovation in service delivery and give access to skilled staff and services unavailable in the public sector. Such subcontracting also enables public authorities to expand or reduce service delivery capacity without assuming the long term commitments involved in public sector employment. Subcontracting employment services may also spur improved performance in the PES, both through competitive pressure and 'best practice' transfer.

There are disadvantages and risks associated with subcontracting. The most frequently mentioned are that of 'creaming' and 'parking' where providers may recruit more job ready clients and neglect those who may be more disadvantaged. Such risks have been most strongly associated with contracts which primarily reward providers for securing job outcomes.

## *1.2. The Report*

This report reviews literature and evaluation findings of recent changes on how the PES and national Ministries subcontract directly with for-profit and non-profit organisations to deliver employment services. It considers the development and characteristics of these subcontracting relationships, the type of activities that they deliver, and the impacts they have had. It reviews the experience of several countries at the forefront of these reforms and considers 'lessons' that have emerged from recent European and OECD experience. A summary of the literature reviewed for this report can be found in Annex A.

The first chapter of the report provides an overview of subcontracting practices in European countries, including brief case studies of developments in the procurement systems of the UK, Germany and the Netherlands.

The second chapter considers the advantages, disadvantages and risks involved in subcontracting employment services. It reviews research findings on how contracts may be better designed and implemented to secure improvements in service delivery and outcomes.

The third chapter reviews findings from European evaluations of subcontracting practices and assesses what the impact evidence and qualitative studies reveal concerning the performance and service delivery of private providers.

## 2 TRENDS AND DEVELOPMENTS IN EMPLOYMENT SERVICES SUBCONTRACTING IN EUROPE

There are a wide range of employment service subcontracting practices in European countries. This chapter provides an overview of such practices with more detailed case studies of the development of employment services subcontracting over the past decade in three European countries – Britain<sup>1</sup>, Germany and the Netherlands. These case studies give greater insight into the design and implementation of subcontracting systems.

Annex B contains findings on the design and impacts of the Australian Job Network and the revised Job Services Australia system implemented in 2009. Australia is the only OECD country to outsource the entire delivery of its publicly funded employment services and many of its subcontracting practices have influenced developments in Europe. There was more information available than in the European studies on how the subcontracting and performance management system was organised through ‘key performance indicators’ and ‘star ratings’.

### 2.1 *Context - subcontracting for employment services in Europe*

EU member states invest varying amounts of public resources in employment services and other active labour market programmes (ALMPs). There is, however, no systematic overview of the scale or extent to which employment services are delivered directly by the PES or through the more or less extensive, national networks of other public and private agencies and non-profit organisations involved in delivering employment related services.

The ‘Eurostat Labour Market Policy’ database collects systematic data on levels of expenditure, participation and the main ALMP interventions, such as vocational training and employment subsidies, and it records the proportion of expenditure that is allocated directly to employment services providers. Transfers to ‘providers’ account for about a third of overall EU expenditure, varying between those countries, such as the UK and the Netherlands, where it accounts for more than two-thirds of expenditure, to other member states where it accounts for less than a third of expenditure. The database does not give further information on the allocations to employment service providers or the extent to which delivery may be subcontracted to other service providers.

A more in-depth Commission-sponsored survey of five countries, undertaken for the biennial report on ‘social services of general interest’ (SSGI), did report, however, that in 2006 60% of employment services provision in the UK was in the public sector, with the other 40% divided equally between for-profit and non-profit providers. In the other

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<sup>1</sup> This chapter refers to Britain rather than the UK. This is because the Department for Work and Pensions and Jobcentre Plus are responsible for subcontracting employment services in England, Wales and Scotland, but not in Northern Ireland which has a different administrative architecture.

four member states – Germany, Poland, Sweden and the Czech Republic – public institutions took up in excess of 80% of such spending (EC, 2008, p. 37).

This SSGI Report noted that whilst the provision of labour market integration services was still the responsibility of public authorities, and the PES remained the ‘most important labour market institution’, actual service provision often was ‘in the hands’ of numerous local actors. It noted too that one of the drivers of modernisation in labour market services for disadvantaged people was the evolving relationship between public authorities and non-state service providers “based on contracts, with a stronger focus on accountability, efficiency, effectiveness and the control of these factors” (EC, 2008, p.38).

## *2.2 The development of subcontracting practices in Europe*

In individual member states the commissioning and subcontracting of employment services is typically complex and, in many countries, small scale, with a wider variety of procurement practices (OECD, 2007). Activities subcontracted range from the delivery of traditional ALMPs, such as training and job search support (e.g. job clubs), through to more intensive forms of counselling and support targeted at disadvantaged groups. Such subcontracted services often are partly funded by the European Social Fund, although ESF rules were reported to limit the delivery role of for-profit providers.

In most cases a mix of public and private providers are used, with non-government organisations often perceived as best placed to work with disadvantaged groups in the labour market. In many countries local and regional PES offices are involved in subcontracting but they tend to follow national guidelines and priorities (OECD, 2007).

Whilst systematic information is not available it appears that in many European countries where the PES or other public bodies purchase employment services they typically specify 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 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 seemed less extensively used. 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, for example, providers of training programmes, which account for a significant portion of all subcontracted provision, are not thought competent to assist with job search which is the preserve of the PES.<sup>2</sup> Some countries

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<sup>2</sup> Such a situation had characterised service delivery in Spain, for example, although changes now are underway. A 2011 ‘Royal Decree’ now allows autonomous regions in Spain to incentivise the providers of training programmes to place unemployed participants directly into employment.

have ideological objections to payment by results regarding cooperation and partnerships as a more appropriate way of securing employment outcomes.

Payment by results, or performance based contracting, has, however, been a feature in those countries at the forefront of PES reform. The new subcontracting systems have been designed to enable the purchaser to shift the focus of their relationship with providers away from 'inputs' and processes towards securing the specific results that governments want. Greater emphasis has been put on measuring and paying for the 'outputs' and/or fees for services delivered, and, more recently, on the 'outcomes' secured. Outcomes seek to measure the impacts of service delivery which, in the case of employment services, may include job entry, sustained employment and earnings gains. The new contracts are diverse but they typically combine service fee and outcome payments with prices either fixed in advance or agreed in the tender and contract negotiation period.

The transition to such performance-based contracting took place initially in the USA, where it is now embedded in the delivery of training, employment and welfare to work programmes (Barnow and Smith, 2004). The expansion of this approach to contracting for employment services influenced other countries with the UK first introducing performance based contracts in the late 1980s. Such contracts were central to the design of the new market based employment services systems introduced in Australia and the Netherlands in the late 1990s (Thomas, 2007; Struyven and Steurs, 2005). Other European countries subsequently have implemented or tested changes in their subcontracting of employment services with several, such as Germany, France, Denmark and Sweden, experimenting with job outcome performance contracts and delivery through for-profit providers (Kaps, 2010; Bredgaard, 2011; Behaghely et al, 2011; Bennmarker et al, 2009).

The following sections briefly review the development and design of subcontracting systems in those European countries with the most detailed information available - Britain, Germany and the Netherlands. In each of these countries the Ministry or other public authorities remain responsible for purchasing services and the public sector retains control of benefit administration and the allocation of clients to subcontracted providers. In each country there has been, however, extensive subcontracting of job placement and reintegration services to non-profit and, more recently, for-profit providers.

### *2.3 Subcontracting employment services in Britain: from Employment Zones to Prime Contractors*

The British PES, Jobcentre Plus (JCP), is responsible for benefit administration, job brokerage and advice services. Most of the more intensive employment and training programmes are delivered by external providers.

In 1997 the Labour Government gave the PES the lead role in delivering and administering a succession of New Deal<sup>3</sup> employment programmes for the long-term unemployed and other groups. Whilst the PES delivered front line advisory and job matching services claimants were referred to an array of more intensive programmes delivered by subcontracted providers. These subcontractors included voluntary and third sector organisations, further education colleges, local authorities, religious groups and a growing number of for-profit providers.

At this point the British PES was directly responsible for purchasing external employment services through its regional offices. It did so through competitive tendering and standard prices with a small element of job outcome funding in some contracts. In the case of most subcontracted provision the process involved subcontractors registering and qualifying for an 'Approved Providers Register'. Contractors were assessed for financial probity and viability, their previous performance and their capacity for continuous improvement. When registered contractors could submit bids as invitations to tender were published. In 2002 the value of subcontracted services was estimated at £1billion, about one quarter of total spending on active labour market programmes (Finn, 2005). In 2004 it was reported that the PES had contracts with over 2,000 providers to deliver these services (DWP, 2004, p.36).

The British Government gave the PES the central delivery role for the New Deals but it also expanded the role of the private sector. The Department for Work and Pensions (DWP) tested and evaluated a series of programmes where external contractors were encouraged to develop new approaches to delivering employment programmes. The most important were Employment Zones and the New Deal for Disabled People (see Figures 1 and 2). Through this 'contestability' strategy Ministers sought to 'benchmark' public sector performance and identify efficiencies or innovations that could be extended through public sector provision (DWP, 2004).

By 2006 the multiplicity of JCP and DWP contracts, and associated transaction costs were perceived as inefficient. DWP thus sought to rationalise the procurement of programmes and introduced 'prime contractors' and experimental price competition in New Deal programmes for the unemployed. Instead of 1,000 individual contracts the programme now was delivered through 94 'prime contracts', of which 53 were for-profit, 27 non-profit and 14 were public sector organisations (DWP, 2007). These 'prime contractors' were expected to manage delivery in their district, working with more specialist subcontractors where necessary.

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<sup>3</sup> The New Deal programmes involved individual support from a PES Personal Adviser targeted at priority groups, especially the long term unemployed and lone parents. The Personal Adviser would work with clients, meeting with them as frequently as every two weeks. The adviser would normally seek to identify and reduce employment barriers and place their clients into unsubsidised jobs. If the adviser could not place the client they could refer them to more expensive support ranging from short job search or training courses to six months work experience. These more intensive forms of support were delivered by subcontractors.

### **Figure 1: Employment Zones**

EZs were established in 15 areas of high unemployment in 2000. The zone delivery model was designed to test a new approach to reducing long term unemployment through a work first, outcome-related funding model (partly based on the Australian Job Network). EZs were not designed to provide a direct comparison between state and private provision, as many elements of the New Deals already were delivered by subcontracted providers. The aim instead was to assess improvements contractors might make if given much greater flexibility to design their own interventions and paid on the basis of performance.

The zone payment model had a number of features to reward both placement in sustained employment and the speed with which people were placed into work. There were variations for different client groups but the core funding model for long term unemployed participants combined a commencement fee for completing an action plan with output related funding payments for placement in sustained employment for 13 weeks. Under the first round of contracts providers received an 'action plan' fee of £300 with about £400 payable on job entry and approximately £2,500 payable after 13 weeks retention in a job. The provider was advanced the equivalent of 21 weeks benefit payment, averaging around £1,300, out of which they paid the participants basic benefit entitlement for up to 26 weeks. As the focus was on moving participants into employment as quickly as possible, zone interventions tended to be 'short' and 'sharp'; with little emphasis on training. (Griffiths and Durkin, 2007).

### **Figure 2: New Deal for Disabled People**

The NDDP was a voluntary programme targeted at recipients of incapacity benefits between 2001 and 2008. JCP acted as a 'gateway' to the programme which was subcontracted to a network of about 65 'Job Brokers'. Brokers were a mix of for-profit, public and voluntary organisations which competed for successive three-year contracts. Some organisations specialised in helping people with specific impairments, others were generalists.

NDDP Job Brokers were paid for registrations and sustained job outcomes. From 2003 the registration fee was £300 with the job outcome payment paid at 13 weeks for a job expected to last for 26 weeks. Payments were made for both part and full-time job placements and (in 2001 prices) ranged from £500 to £2,368 with a mean of £1,155 (Stafford et al, 2007).

The prime contractor model (see Figure 3) was further extended in the delivery of 'Pathways to Work'; a subcontracted employment programme targeted at people receiving incapacity benefits. 'Pathways' initially was delivered by JCP but its national extension in 2008, when it replaced NDDP, was exclusively contracted out to private and non-profit organisations.

In 2007 the Government centralised the procurement of employment services provision within DWP and, in 2008, published a fully developed 'Commissioning Strategy' for what was now referred to as a 'managed welfare market' (Freud, 2007; DWP, 2008). Future employment programmes were to be organised through five to seven year contracts with a still smaller number of 'prime contractors'.

### **Figure 3: The Prime Contractor Model**

The prime contracting model involves a 'top-tier' contractor employing their own subcontractors in a 'supply chain' to deliver employment services for DWP. These prime providers may subcontract all service delivery to other organisations or combine elements of their own service delivery with subcontracted provision. They are subject to DWP oversight but are responsible for managing and monitoring the performance and quality of their subcontractors as well as their own performance. A significant flexibility is that private contractors are not subject to the same tendering rules that apply in the public sector.

In 2010 the DWP required organisations interested in being prime contractors to qualify for its 'Framework for the Provision of Employment Related Support Services'. Bidders for framework inclusion were selected on a combination of criteria. They had to demonstrate a track record of delivering large and complex contracts; capacity to deliver across the region(s) for which they had bid; and demonstrate the financial strength to deliver primarily payment-by-results contracts including an annual turnover of at least £20 million per annum.

The Framework is an umbrella agreement between DWP and the selected prime providers who now qualify to bid to deliver employment programmes for a four year period. DWP invites framework providers to compete for prime contracts, as in the Work Programme, and it selects successful bidders in these 'mini-competitions' on a combination of criteria, including quality, supply chain management, price and performance offer.

An enlarged 'prime contractor' model now is at the centre of the British Government's subcontracted 'Work Programme' and, from 2011, 18 prime contractors will provide employment services to all the long term unemployed and many of those on disability benefits. JCP will continue to administer the benefit system and PES services in the first year of unemployment.

There are some 40 individual Work Programme contracts estimated to be worth between £10 and £50 million a year and over the five year contract period it is expected

that between 2 and 3 million people will participate (DWP, 2010). The selected prime providers will have considerable flexibility in service delivery and will be funded largely on the basis of securing sustained employment with their income comprised of an initial 'attachment fee', job outcome payments (at 13 or 26 weeks) and then longer term 'sustainment payments' payable for up to two years.

The prime contractors selected have different delivery models with some intending to subcontract all their service delivery while others will subcontract less than a third of their provision. Overall the DWP calculates that the prime contractors will deliver just over 43% of all services, with 18.3% subcontracted to non-profit organisations, 30% to for-profit companies, and 8.5% to public organisations (Simmonds, 2011, Table 1).

#### *2.4 The German employment services subcontracting system*

The so-called 'Hartz' reforms in Germany resulted in significant changes in the organisation and delivery of services and in the role of the PES, the Bundesagentur für Arbeit (BA). From 2005 the BA has been wholly responsible for the insured unemployed during their first year of job seeking providing placement, benefit payment and referral to labour market programmes. In most of the rest of Germany the BA shares responsibility with municipalities – in jointly managed ARGEs - for the delivery of employment services to other unemployed people receiving the means-tested 'basic allowance' (Eichorst et al, 2008).

Traditionally the public financing of private contractors in Germany was mainly grant based and carried out within the logic of administrative law. Private providers – usually after close communication with the local branches of the BA – proposed 'measures' in line with the national and legal framework of policy instruments and the local BA branch would decide which proposals were eligible. Grants went formally to the individuals that used the services or directly to the providers and there was little use of funding to directly incentivise performance (Lange, 2007; Bruttel, 2005).

PES reforms were associated with the introduction of more contestability in service delivery and with legal changes that allowed performance based subcontracting. Several new types of contractual arrangements with private providers have subsequently been implemented. These include two separate vouchers, one for use with training providers, and the other with private placement agencies, and 'personal service agencies' which are placement-oriented temporary work agencies for the unemployed. The most extensive subcontracted provision is for placement and integration services which can range from basic job search training through to complete job search and placement activities.

Reforms in 2003 made the application of public procurement law mandatory for subcontracting integration and placement services and, in 2004, the BA started to concentrate the procurement of these services. One intention was to limit the direct contractual links between local offices and providers which were perceived to have

resulted in higher prices. Whilst providers who bid for tenders had to meet basic quality standards, greater emphasis was put on price competition and more BA contracts were let on a 'no cure, no pay' or 'no cure, less pay' basis. One study reported that the average cost for placements by third parties was €600 in 2004 and €725 in 2005 (Schneider, 2008, p. 57). Another study reported that the median incentive payment for those receiving 'basic allowance', varied between €950 and €1,260 per assigned job seeker according to age, gender and other factors. Many of these participants triggered additional and varying 'expense allowances' paid to the provider and worth between 7.5% or 12.5% of the potential incentive payment (Bernhard and Wolff, 2008, Table 2, p. 11).

In 2006 the number of participants in subcontracted integration measures averaged about 112,000, with a budget of about €120 million. There were some 16,000 contracts let, typically of six or twelve months, and with between 50 and 150 participants (Schneider, 2008).

The subcontracting reforms were introduced alongside changes in the number of places purchased. Kaps (2010, Table 1) reports that in 2004 some 635,000 people participated in commissioned placement services, with a further 17,500 in 'integration measures' (where contracts were more flexible but higher risk because of "a bonus-malus-payment scheme"). In 2007 the number of commissioned places fell to just under 245,000 whilst integration places increased to 95,500. In 2008 commissioned places increased to over 443,000 whilst integration places fell to just over 8,000. Kaps gives no explanation for these variations.

Schneider (2008) found that the combination of changes in procurement led to a reduction in the number of local providers, the emergence of 'supra-regional providers' and a decline in competition. He reports that in 2006 competition for tenders in many areas did not exist and the BA received only a single provider offer for two thirds of the contracts it awarded.

These problems with contract selection and delivery are of particular significance because this is the period in which the main German impact studies of subcontracted provision were undertaken (see Annex D).

There were other subcontracting developments with several ARGE experimenting with new contracts and providers. In 2006 in Nuremberg, for example, the ARGE commissioned the for-profit provider Ingeus to deliver a pilot programme to test if an Employment Zone style programme could assist 'basic allowance' recipients (see Figure 4).

The BA is now reported to be placing greater emphasis on the quality of subcontracted provision but some case study evidence suggests that procurement may still be price driven, accounting for between 65% and 75% of the marks awarded when judging bids (Greer et al, 2011, p.17).

The BA has also been testing a pilot programme involving an increased number of clients over a two year period with more flexibility for subcontracted providers (Kaps, 2010). The experimental programme commenced in six cities in July 2007 and planned to last for three years. A separate private provider was selected in each area to work with between 1,000 and 2,000 short-term unemployed people for between six and eleven months. The employment integration rate has been defined in each pilot and varies between 29% and 65% according to the difficulty of placing participants. The payment system comprises an 'up-front' payment of between €600 and €950 and a fee for successful integration of between €1,700 and €2,500. Successful placement is defined as at least 15 hours a week in employment that is liable to social insurance contributions. Half the integration fee is paid after 3 months employment with the balance after 6 months. Providers face a 'fine' if they do not meet their integration target.

The BA has commissioned an evaluation to learn from the pilots but the full results have not yet been published.

#### **Figure 4: The ARGE contract with Ingeus in Nuremberg**

In 2006 the ARGE contracted with Ingeus to work with participants who had been unemployed for over a year. The unemployed person could refuse to participate but once they joined their participation was a mandatory condition of continued benefit payments.

The ARGE agreed to refer a specified number of participants to Ingeus in the first four months of the programme. Ingeus was able to work with the participant for up to ten months during which the only requirement was that the participant was interviewed on a regular basis. Ingeus advisers, who had relatively low caseloads, developed Action Plans with which they designed and tailored job search support to the individual. Once in work Ingeus is expected to provide up to six months of in-work support.

Payments were made to Ingeus at different stages, with 56% of funds for each individual paid on commencement; 10% on job placement; 17% after 13 weeks and 17% after 26 weeks of sustained employment. To qualify the job had to be one that met social insurance requirements. Ingeus was required to get at least 40% of participants into work in the first year to trigger the second year of the contract. In the first year it placed 47% of participants in work of whom 75% had sustained employment for over 13 weeks (Jordan, 2008).

#### **2.5 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 PES, and the network of over 400 municipalities who can choose to subcontract the delivery of employment services for people receiving social assistance.

The character of the Dutch 'reintegration market' was developed through a sequence of reforms that culminated in the 'SUWI' (Implementation Structure for Work and Income) Act (2001). Amongst other things the Act required the UWV to purchase reintegration services from private providers. Municipalities were also required to contract out up to 70% of their reintegration services, although this requirement was dropped in 2006. The central Ministry of Social Affairs and Employment (SZW) does not act as a purchaser. Its aim was to give the market "as much freedom as possible" and to keep government intervention "to a minimum" (SZW, 2005, p. 54).

'Reintegration' services are targeted at all benefits claimants subject to activation requirements. The services encompass case management, assessment, rehabilitation, vocational and/or job search training, mandatory work experience, extended work trials, and job placement and retention services. In the market, the service packages are often organised and purchased as 'trajectories'. When the UWV or a municipality purchases what is called a full 'reintegration trajectory' this includes contracting out the case management service. Alternatively, in-house reintegration coaches or case managers in the UWV or municipalities refer service users to shorter programme components made up of individual service modules.

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 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.

These 'no cure, less pay' contracts typically paid 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). Early tender rounds saw the price of

trajectories increase, from an estimated €3,500 in 1998 to €4,700 in 2003 (Struyven and Steurs, 2005, p. 220). They also involved high transaction costs for both the UWV and providers (Sol, 2003). Subsequent changes sought to reduce administrative burdens, create more stability and increase the emphasis on payment for job outcomes. The share of '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). By 2004 it was argued that provision was dominated by larger providers delivering standardised services and few new entrants were bidding in response to tenders (Morrell and Branosky, 2005).

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 5). These individual vouchers were popular and, within months, more users were opting for IROs than were participating in tendered trajectories. The IRO led to an influx of much smaller 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. About 1,700 of these delivered IROs only and some 1,500 were 'one person-providers' who might service only 10 or 15 participants. The provider registration requirements were minimal and there was concern about the quality of provision.

### **Figure 5: 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). This was associated

with an increase in the role of UWV 'reintegration coaches'<sup>4</sup> who since have taken a more direct role in the management of individual client trajectories.

Under the framework agreement providers had to meet specified process and performance requirements to be placed on a UWV 'approved list'. The UWV selected between 150 and 200 providers in each region whose bids offered to provide either complete trajectories, in the form of IROs, and/or specified framework services. The framework now enables providers to bid to run a range of services most of which are fixed price, with only job search and placement being dependent on outcomes (see Annex C for the UWV tariff scale for 2011).

There is less information on Dutch municipalities who enjoy considerable freedom in designing their procurement strategies and, whilst influenced by UWV developments, have followed no common framework for subcontracting services. A study of their subcontracting practices in 2007 and 2008 reported that in both years they spent about three quarters of their activation budgets with private providers, with an average nominal spend per client of €4,000. The data for 2008 indicated that about 22% of the overall budget was spent with for-profits, whilst 50% was spent with non-profits. It was significant that the non-profit providers had lengthier contracts and that many "had strong ties to the social assistance desks" and had often been "part of the municipality services in the past" (Koning, 2009, p. 8). Another feature of the Dutch system is that many of the smaller municipalities subcontract the delivery of reintegration services to other municipalities.

The Netherlands will see radical change from 2012 involving a major reduction in the functions and budgets of the PES and UWV, with lesser reductions experienced by municipalities. Most jobseekers eligible for unemployment benefits will not receive face-to-face services and the UWV will have no budget for measures for the unemployed. It will, however, still purchase services for people on disability benefits. The impact of these planned changes on the subcontracting system is not yet clear.

## 2.6 *Conclusion*

The overview and case study findings reveal significant **variations in subcontracting practices**. There are **differences in policy objectives, in methods of programme procurement, and in how clients are divided between different programmes**. The findings indicate that subcontracting for employment services is not a simple option and that the systems in each of the case study countries have been in flux over time. In each country the **public purchasers of employment services frequently have had to revise contractual terms and financial incentives as problems have arisen and conditions have altered**. In all three countries there has been much 'learning by

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<sup>4</sup> UWV reintegration coaches provide personalised and flexible support to clients. They assess employment probabilities and barriers, agree individual reintegration plans, monitor job search behaviour, and they are responsible for organising services and referrals to subcontracted providers.

doing' and regular adaptations as officials have sought to establish performance management systems and contracts that increase job outcomes, improve service quality and reduce unintended consequences.

Whilst subcontracting systems must be implemented in specific national contexts and institutional frameworks the case studies contain important lessons on how to design and implement subcontracting systems and on what may be transferable. These lessons are elaborated in more detail in the next chapter and synthesised with findings from the wider literature.

### **3 CONTRACT DESIGN AND THE ADVANTAGES AND DISADVANTAGES OF SUB-CONTRACTING: LESSONS FOR POLICY MAKERS AND PRACTITIONERS**

This chapter reviews findings on contract design and the advantages and disadvantages of subcontracting. It extracts findings on how policy makers and practitioners might best design and manage the delivery of employment services through subcontractors.

#### *3.1 The advantages, disadvantages and risks of subcontracting*

There are a number of advantages associated with subcontracting employment service delivery. Proponents maintain that private organisations have brought innovation and new capacity to service delivery and that competition and payment for performance has generated efficiencies and cost savings. Officials involved in the delivery of employment services stress that subcontracting enables them to speedily expand and reduce capacity and purchase specialist services for particular client groups. There is evidence that subcontracting has acted also as a benchmark for the PES and that competition acts as a powerful tool for improving performance and driving organisational change.

Critics dispute the claim that the conditions for effective competition exist and stress findings which show few impacts achieved or that claimed efficiencies and savings are secured at the expense of equity and service quality. Critics argue that transaction costs are high and that subcontracted systems often are characterised by ‘creaming’ and ‘parking’, which may take a number of forms.<sup>5</sup>

The first concern 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 (Koning and Heinrich, 2010; Struyven and Steurs, 2005). This is a particular risk 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.

The second issue concerns ‘creaming’ and ‘parking’ that occur after the provider has recruited participants (Davidson, 2010; Bredegaard and Larsen, 2008; Wright, 2008). The cited evidence suggests providers may, deliberately or unconsciously, concentrate efforts on those participants perceived as more easily trained or likely to be quicker to place in employment. Participants who would prove more costly to help are likely to receive only minimal services.

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<sup>5</sup> It is important to note that there are transaction costs associated with programme changes inside public organisations and creaming and parking may occur in PES delivery systems, especially those that measure and reward performance standards or targets.

Other problems include ‘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). At its most extreme this may include fraudulent activity where providers, or their employees, may seek, for example, to falsify evidence of job outcomes (for an investigation of such fraud claims and how such risks are managed in Britain see WPSC, 2010).

Another problem concerns the potential for market failure, where economic circumstances or poor performance undermine earlier assumptions and the public purchaser has no choice but to intervene and either ‘bail out’ an under-performing provider or quickly find an alternative to continue service delivery (see, for example, NAO, 2010).

The findings from this review suggest that public purchasers have sought to manage the gains and disadvantages associated with subcontracting through a continuing process of redesigning contracts and procurement systems. Critics see such re-regulation as an indication of the inherent instability of subcontracting systems; proponents regard it as part of a process of ‘continuing improvement’. The following sections consider what has been learned from the experiences.

### 3.2 *Choices in the Design of Employment Services Contracts*

Employment services contracts may be designed in different ways to procure the services required by different groups. A US study (McConnell et al, 2003) identified three types of contracts used in the procurement of welfare to work services and these are similar to those used in Europe for purchasing employment services (Struyven, 2004). The contract types include:

- **Cost-Reimbursement Contracts:** In these contracts providers receive payments for the expenses they incur. Generally, costs must fall within a budget approved during the procurement process. Some cost-reimbursement contracts specify performance standards, but payment is not dependent on meeting them.
- **Fixed-Price Contracts:** Fixed-price agreements establish a set fee for subcontractors, regardless of performance or the actual cost of providing services. As with cost-reimbursement contracts, the contracts may include performance measures, but a contractor’s performance does not directly affect payments.
- **Outcome or Performance Based Contracts:** Under these contracts, providers are paid by results with outcome based contracts making some or all of the payment dependent on successful job placement. Performance contracts specify a wider range of measures which may include job outcomes but also other factors, such as assessments made, action plans agreed, and so on.

McConnell and her colleagues (2003) point out that the advantage of a fixed price contract is predictability - both the service provider and the government agency know in advance how much will be paid - but it is not easily adapted to unforeseen circumstances. In contrast, a cost-reimbursement contract reduces financial risks for the contractor but the purchaser takes all the risk. Neither of these contract types provide strong incentives for subcontractors to improve performance or reduce costs.

Outcome or performance-based contracts create incentives but unless they are well designed and monitored they increase the risks of creaming and parking (see also section 1.5 below). Another concern is that payment to the provider might not be made until sometime after costs are incurred thus causing cash-flow problems, especially for smaller organisations. The viability of the provider may be at risk too if the flow of participants is not as predicted or there is an unanticipated reduction in available local vacancies.

In the European countries reviewed employment services contracts blend elements of the contract types, with varying amounts of provider income dependent on up-front payments, service fees and job outcomes. The optimal balance will reflect the objectives of the public sector purchaser, meet the needs of the client groups targeted and fund the services to be delivered.

### 3.3 *Duration and size of contracts, the Prime Provider model and 'black box' contracts*

There are important design choices to be made concerning the size and duration of contracts. A purchasing system with a large number of small and short term contracts has several advantages. It enables the commissioner to review contract terms frequently, adapt services, and competition may be enhanced because poor performers can be quickly excluded with low entry costs for other potential providers. The disadvantages, as experienced in the Netherlands and Germany, can include relatively high transaction costs with few providers willing to make longer term investment in their delivery capacities. One possible solution is practised in the USA where annual contracts are the norm. In Wisconsin, for example, a provider will be given a 'Right of First Selection' if they meet required performance standards with the contract put out for competitive tender only when the existing provider fails to meet such standards (Heinreich and Choi, 2004). In Australia also providers who meet performance expectations have regularly had their contracts extended thereby reducing disruption and administrative costs with only the poorest performers losing their contracts (Finn, 2008).

The alternative option of longer duration and higher value contracts is now being tested in the prime provider model introduced in the UK, and has been implemented in parts of the USA, especially in New York City (Bryna Sanger, 2003; Finn, 2009). This model allows the public purchaser to attract and work with fewer, well-capitalised contractors. Larger contracts limit administrative and monitoring costs, allow contractors to reap

economies of scale and give the 'primes' scope to coordinate services and develop and invest in supply chains.

An additional feature of the British model is that the contracts awarded to prime providers are intended to follow a 'black box' approach that allows providers great flexibility and freedom in how they design and implement service delivery rather than following what has been characterised as the prescribed one-size-fits-all design of the earlier New Deals. Whilst the provider remains subject to legislative requirements and has to meet other minimum standards they are free to try new and innovative ways of supporting people into jobs. It is not yet clear what impact such contracting arrangements will have.

A disadvantage of longer contracts is the potential loss of flexibility in changing contractual terms. In Britain there are various safeguards that enable the Department to renegotiate terms within the contracting period. This includes the capacity to take action if a prime contractor fails to meet specified minimum performance standards for particular groups of participants, including contract termination if performance does not improve. Such clauses also provide some protection for the provider who, for example, may be able to renegotiate terms if there is a significant unanticipated change in economic circumstances.

There is a risk that the prime provider delivery model may involve a loss of insight into service delivery, the experience of clients and of relationships between the prime and its subcontractors. There has been concern also that primes may seek to shift the risks of delivery onto their subcontractors thereby undermining the quality of service delivery and the viability of smaller and specialist providers. In the UK, the DWP has put a range of safeguards in place to reduce such risks including, for example, independent evaluations or prime contractor delivery and a code of practice to regulate the relationship between prime providers and subcontractors (WPSC, 2009; 2011).

### *3.4 Effective tendering and procurement, evaluating bids and setting prices*

The review findings indicate that effective tendering and procurement have several characteristics. One key element is a well-defined specification of service requirements in the tender document, with a clear outline of the terms of the contract and the payment system, including definitions of key concepts, such as what constitutes an employment outcome. US evidence finds that 'specific service requests and correct incentives increase the likelihood that government agencies and contractors will work toward common goals' (McConnell, et al, 2003). Contracts also should indicate the circumstances in which terms might be renegotiated enabling both parties to respond to changed circumstances.

Bid submission and selection processes differ in each country though several favour a two-stage tendering process. The first element typically comprises a pre-qualifying phase, often establishing organisational legality and relevant qualities. The second

phase comprises a more detailed response to a specific service requirement. Public purchasers use a variety of criteria when evaluating bids including, for example, price, service delivery design, the competences and experience of employees, organisational capacity, past performance, and so on. The weight given to the individual criteria and how they are assessed varies.

One primary objective of subcontracting may be to reduce or restrain costs but there have been some important lessons about the weight attached to competition based on prices. The evidence suggests it is important that the procurement process does not encourage unrealistic bids and cost estimates. The poor performance of German tendered provision between 2004 and 2006 was linked to placing too great a weight on lowest price competition; and in both the Netherlands and Australia early price competition encouraged unrealistic cost estimates that subsequently limited provider capacity, stifled innovation and encouraged parking (Finn, 2008). A more recent example is the British 'Pathways to Work' contracts, the design of which induced providers to 'bid low and promise high'. Subsequent delivery was undermined by poor planning assumptions about the characteristics of the client group, the impact of the recession, and the speed of implementation, with the Department having to change the funding rules to ensure provider viability (NAO, 2010). The outcome was that providers delivered a 'bare bones' service and focused attention on reducing costs and rapidly placing the most employable participants into work (Hudson et al, 2010).

It is notable that in most of the countries reviewed price is only one factor used to determine successful contract bids. The design challenge for the purchaser is to determine the level and combination of service fees and outcome payments needed to ensure service quality and, with other factors, to determine the weight to give to the price and performance bid from a provider.

### *3.5 Strategies for minimising creaming and parking*

The review findings indicate that **minimising creaming and parking remain significant challenges although the risks may be over-stated** and may be reduced through careful design and oversight. It is important to note that some creaming, or prioritisation of effort, seems inevitable, in both public and subcontracted systems in a context of limited funding and case manager time, the type of job opportunities available and the employment barriers of the hardest to help.

Purchasers of employment services have used a variety of methods to ensure that the needs of more disadvantaged participants are met and the actual design of many contracts is aimed at inducing what is called 'positive creaming' by paying subcontractors more for assisting the hardest to help (Struyven, 2004). Other approaches include requiring providers to accept all participants referred to them, thereby reducing the potential to 'cherry-pick' the most job ready. Purchasers also may mandate providers to service all participants and then scrutinise the delivery of such requirements through regular contract monitoring and/or participant surveys, so limiting

the ability of providers to service participants differently. Where creaming or parking is identified the purchaser should be able to use the information to make improvements. The findings will give an indication of how the contract and incentive payments need to be redesigned to get the provider to focus more on those participants who may previously have been parked (Sturgess and Cumming, 2010).

Provision for the most disadvantaged often is delivered through separately procured programmes, as in the Netherlands where smaller contracts and differential prices are calibrated to the characteristics of disadvantaged clients, or in Britain where 'Work Choices' targets those with significant disabilities (DWP, 2009). Such separately subcontracted provision, often aimed at people with disabilities, typically offers different prices, funding arrangements and performance standards during which participants are prepared for work and/or entry to more mainstream provision. Such programmes may combine service fees with rewards to providers for achieving performance milestones as well as employment outcomes (Finn, 2011; Corden and Thornton, 2003).

A final factor that limits creaming and parking is the ability, over time, for policy makers and programme administrators to redefine and improve contract design, performance measures and incentives (Grubb, 2006; Heinrich and Marscke, 2008).

### *3.6 Performance management and monitoring of subcontracted providers*

Service delivery may be contracted out but policy makers and public officials remain accountable for service quality and effectiveness, policy compliance and the proper use of public funds.

OECD reviews and literature from the US, UK and Australia report that subcontracting requires effective information systems that enable agencies to track participants, monitor provider performance and verify service delivery and outcomes. The processes for the monitoring of subcontractors also merit close attention. In Britain and Australia, for example, site visits by contract managers may be undertaken early in the delivery cycle, to identify emerging problems, and/or targeted at providers who may be considered higher risk (WPSC, 2010). The content of such site visits may include reviews of individual action plans, interviews with participants, performance data analysis and, where problems are identified, developing and implementing performance improvement plans. A particular concern in several countries is the tension between the desire to reduce bureaucratic requirements whilst maintaining appropriate oversight and regulation.

Implementing and maintaining information and monitoring systems will have costs both for the purchaser and the provider in addition to any transaction costs incurred in designing and awarding contracts.

### 3.7 *How to develop a pool of employment services providers able to deliver contracts*

The capacity of subcontracting to deliver the positive impacts associated with competition relies on the existence of a pool of suitably qualified providers willing to bid to deliver services. Possible providers may include non-profit and for-profit organisations and, in certain circumstances, other public sector organisations.

One key problem is that in many European countries the pool of potential providers is limited and even in those countries with mature subcontracting systems there may be few providers in areas of high unemployment. There are various tools for encouraging providers to enter subcontracting including awarding grants for “capacity building” through to payment terms that help cover the costs of contractor expansion. Such strategies have most commonly been used with non-profits.

Another development has been the emergence of for-profit employment services providers. In several countries there is now a network of such providers and some private employment agencies and other for-profit providers subcontract to deliver employment services in a number of different European countries. Such providers bring resources, expertise and additional capacity but in many countries there is opposition to their involvement in such services. There are also issues about the relative competitive advantages (and disadvantages) they may have in comparison to existing providers, especially non-profits (Wright et al, 2011; Davies, 2008; Bryna Sanger, 2003).

There is evidence that involvement in employment services subcontracting has had a significant impact on non-profit organisations in several of the countries reviewed. In Germany and the UK, for example, there has been a reduction in the number of such providers as employment service budgets have shrunk and new subcontracting systems have been implemented. There is evidence, however, that many non-profit providers have been able to secure contracts, improve their performance and develop and deliver services which they contend remain consistent with their values and ‘social missions’ (Finn, 2008; Bryna Sanger, 2003).

### 3.8 *Safeguards for clients in subcontracted employment services*

Service user journeys across mixed public and private provision may be complicated, especially for the most disadvantaged. In both the UK and the Netherlands users are required to make transit between different service providers and to satisfy their respective requirements. Many may find these transitions smooth but in both countries there have been problems with incorrect assessments, missed appointments, and variations in how different providers handle and report attendance or infractions that may lead to sanctions. There have been problems too with the flow and sometimes the accuracy of information and data exchanged between public and private agencies.

Comparative evidence on employment services subcontracting confirms the importance of contracting agencies independently monitoring participant experience and ensuring that robust systems are in place to respond to complaints of unfair treatment and poor service delivery. In Australia the Department has introduced a clear **'Service Guarantee', published in each subcontractor's delivery site, with final recourse to an independent complaints telephone line.** An important way of testing participant experiences could be through 'customer satisfaction' surveys as increasingly used in the PES. These instruments are important both because they provide important information on service delivery and because they can militate against 'parking' where contractors might otherwise focus too much attention and resource on those participants they identify as easier to place.

## 4 FINDINGS FROM IMPACT EVALUATIONS OF SUBCONTRACTED EMPLOYMENT SERVICES IN EUROPE

Evidence reviews on ALMP effectiveness report that job search assistance and counselling programmes have a higher short term impact and are more cost effective than traditional programmes, such as training and subsidised employment (Card et al, 2010). There are, however, relatively **few studies with hard evidence on implementation processes and even fewer of subcontracted employment provision**. This review identified only twelve English language European studies which used quasi experimental or random assignment methodologies to assess the impacts of subcontracted job search, placement and reintegration services (see Annex D).

This section briefly reviews the findings from these impact studies and also considers findings from several qualitative studies of subcontracted provision. These qualitative studies may be of more use to policy makers and programme managers because they give greater insight into the delivery strategies utilised by subcontracted providers when they are given greater flexibility to design services.

### 4.1 *The results from the impact studies of employment services subcontracting*

The impact evaluations show mixed results for delivery by private providers with the most positive results in four British studies and mixed or negative results from studies in Germany, France and Sweden (the headline results from the impact studies can be misleading out of context so Annex D gives a detailed summary of each of studies including the methodology, the contract design evaluated and the respective findings).

Three of the British studies, for example, compared the results of Employment Zones and New Deal programmes finding that both had net impacts on the destination of long term unemployed participants but that the zones appeared to be more effective. One study found that a year after eligibility, 34% of zone participants had experienced a spell of work at some time, compared to 24% in the comparator group (Hales et al, 2003). Another study found that 8% more 25 to 50 year old zone participants started jobs, and 10% more retained those jobs at 13 weeks, than in comparable New Deal areas (Griffiths and Durkin, 2007).

By contrast the German studies found that for the short term unemployed private providers had a negative impact on employment outcomes (2.3% to 2.6%) and the probability of unemployment was 7% higher, whilst there were varied effects for the long term unemployed with positive impacts on some hard to help groups but adverse effects on those with more recent work experience (Winterhager, 2006; Bernhard and Wolff, 2008). A large scale French experimental study found that while more intensive support from PES and private providers increased participants' exit rates to employment by 4 to 9 percentage points, the impact of the PES programme was 'about twice as large' as those of the private providers (Behaghely et al, 2011, p.14). In Sweden the results from an experimental study found that private providers secured

better outcomes, and higher wages after twelve months, for immigrant participants, but they had worse results on both indicators than the PES for younger participants (Benmarker et al, 2009).

It is difficult to draw conclusions from these disparate findings. Each of the studies used varying methodologies, with relative strengths and weaknesses. Each study focused also on the results from specific subcontracting systems in a particular period in individual countries. Voluntary and differential participation in subcontracted services limited the validity of findings from the random assignment experiments. **Most of the studies were undertaken also in the early phases** of the development and implementation of subcontracting reforms and they **highlight faults in the design of contract incentives and procurement processes**. In the respective countries studied the **subcontracting systems have since been changed with significant design reforms, many made in response to the evidence emerging from these and other evaluations**.

One particular issue is that the studies largely compared one general form of PES provision against all private providers and they gave little information on the characteristics and performance variation between different private providers. One of the advantages of subcontracting is, however, the ability over time to select better performing providers with less effective providers losing contracts or leaving the market. Indeed, the **findings from Australian research suggest efficiency gains and cost reductions from subcontracting take time to emerge**. The evidence from the Job Network, for example, is that improved impacts were achieved only as the federal Department developed its knowledge of the performance capacity of different private providers, excluded poor performers, and improved its ability to steer the programme through competition and more effective performance management (see Annex B).

#### *4.2 The Service delivery strategies in subcontracted employment provision*

The impact studies have only a small amount of information on the differences between the service delivery strategies of private providers and the PES. Several qualitative studies provide greater insight into such differences and how they might link to performance.

In British EZs qualitative research found that participants preferred the more informal atmosphere of zone offices (in contrast to Jobcentres) and reported receiving more intensive and more individual support. While both zones and JCP made use of Personal Advisers, who had similar caseloads, it appeared there were some differences in how they operated. **The approaches diverged not so much in the content of provision but “in the quality, intensity and customer orientation of [EZ] services, including the flexibility and continuity of adviser support into employment, the amount of practical assistance available, [and] the extent of employer engagement”** (Griffiths and Durkin, 2007, p. 34).

Early qualitative findings from research into the recent German pilot experiments have also found differences between PES and private delivery (Kaps, 2010). Front line **counsellors in the PES reported that their interactions with clients were driven by process requirements** and the need to fill places on available provision. By contrast **counsellors in private providers were more focused on the single objective of job placement**, had more time to interact with their clients, and could provide more direct assistance with job applications whilst also encouraging clients to use their own informal networks to search for opportunities. **Because private providers were required to see their clients more frequently they were also more likely to place clients who were furthest from the labour market.** It is not yet clear whether these different service strategies result in different outcomes.

Finally research from Australia suggests that **the introduction of a more flexible service delivery model combined with outcomes-based funding allowed providers to tailor services to different participants**, develop new practices to identify and tackle individual employment barriers, provide continuity of support through case workers, test methods for motivating jobseekers, and provide various post placement services (NESA and DEWRSB, 2001; PC, 2002). It was also found that service delivery was different in ‘high performing’ delivery offices which were characterised by local management cultures focused on delivering ‘key performance indicators’, specialist staff working with employers and the use of targeted wage subsidies (DEWR, 2006). This research reinforces the point that **when assessing the impact of subcontracting it may be important to distinguish between different private providers as well as between public and private sector delivery.**

#### 4.3 *Conclusion*

The findings from the impact evaluations and other studies reviewed show mixed results from subcontracted provision. The key finding is, however, that **private providers can, under well designed contractual arrangements, improve outcomes for particular groups and bring innovation to service delivery.** The competitive pressure they bring may also prompt improved PES performance.

## 5 CONCLUSION

The findings from the wider literature, and the three case studies, indicated that **in most countries subcontracting systems have been in flux** as public authorities changed their systems in response to operational experience, performance and as part of wider reforms to PES and ALMP delivery. The most effective design for a subcontracting system cannot be known in advance and so, the findings suggest, that **public authorities should design the process in ways which allow lessons to be learned rapidly and necessary adjustments made.**

The **development and management of subcontracting systems is a complex task** for policy makers and public officials. There is a sharp and continuous 'learning curve' and **it takes time to learn how to steer the system to minimise perverse incentives and to capture the efficiencies and innovation that independent contractors may offer.** It may be that the gains from subcontracting emerge over time when, as in Australia, public officials can exclude poorer performers, increase competition and improve the performance management of subcontractors.

This review has synthesised findings from much of the published evidence available on subcontracting employment services in Europe but most of the literature focuses on those countries where there is extensive subcontracting and there is a commitment to evaluation.

There is little data on how or the extent to which most other European Ministries, PESs or municipalities subcontract the delivery of employment services. There would be value in commissioning more detailed research into subcontracting arrangements in European countries and monitoring the ways in which member states use subcontractors, the extent to which such providers compete with or complement the activities of the PES and what this means for the design and delivery of PES core services. There would also be value in promoting exchanges to enable policy makers and programme managers to learn from the experiences and best practice lessons of the countries that have more explicitly sought to improve the coverage and effectiveness of their subcontracting systems.

## **ANNEX A: RESEARCH DESIGN AND METHODS**

The research comprised a rapid evidence and literature review of quantitative and qualitative English language studies and reports published since 2003. It included reports and literature uncovered through a systematic search of peer-reviewed journal articles and more specialised databases, including those of research institutes and the European Commission, the OECD and the ILO. The searches were supplemented by on-line and phone discussions with a range of expert researchers and PES/Ministry officials from individual European countries, including the international managers from two private companies involved in delivering PES-related contracts in a number of different EU (and other) countries. The focus of the review was on literature considering the policies and practices of EU countries but also included literature from two other countries, Australia and the USA.

There were three types of studies identified in the review process. Most of the publications were national comparative studies of subcontracting systems published as journal articles, reports and in edited collections. The studies analysed developments primarily in the countries that have introduced the most radical market-based reforms (Australia, the Netherlands, and the UK), with some contrasting the findings with the experiences of other European countries (such as, Germany, Denmark and Flanders in Belgium). There were also individual country studies (for example, of Germany, Denmark and France). The academic studies utilised a variety of analytical approaches, ranging from 'institutional economics' (Bruttel, 2007); 'quasi-market' theory (Bredgaard and Larsen, 2008; Struyven and Steurs, 2005); implementation and network theory (Bredgaard, 2011; Considine, 2010); and legal and industrial relations theory (Sol and Westerveld, 2005; Greer et al, 2011). The review also identified twelve English language studies that sought to identify the net impacts of subcontracted job search, placement and reintegration services (see Annex D).

These studies were supplemented by a more or less extensive range of 'grey literature' especially in the countries that made most use of employment service subcontracting. This literature comprised publications from Ministries and interest groups, with some reports also from audit, oversight and regulatory authorities. These and the national studies together provided important contextual information concerning the delivery, operation and impact of different subcontracting systems.

## **ANNEX B: THE DESIGN AND IMPACTS OF THE 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 service fees and job outcome payments (Thomas, 2007). Over the following decade the design of the JN evolved through three distinct periods, each marked by different 'Employment Service Contracts'.

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 then would issue a tender document inviting providers to submit bids. Submissions were assessed by federal civil servants with contracts awarded for three year periods.

The three JN contracts were procured slightly differently (Cumming, 2011). For the first contract, providers could bid to deliver up to three different services: job matching, job search training and intensive assistance. Providers could compete on price for job matching and job search training functions. Bids were assessed for quality and then ranked by price. The Department assessed bids on quality and price and was not required to accept the lowest bid. Prices for intensive assistance were fixed, however, and providers competed to deliver this service solely on quality.

For the second round of contracts, the Department allowed some price competition for intensive assistance. A 75% weighting was given to the quality of the services in the bid and a 25% weighting to price. The Department set a floor price which potential providers could bid above if they pledged to deliver 'greater outcomes than the average'. This kind of competition was intended to ease the transition to a fully competitive market for intensive assistance. In practice the floor set the price, as potential providers bid down to that level. Price competition was thought to have resulted in poorer quality and the third round of procurement saw a return to fixed-price competition.

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 have other incentive effects in that those providers who have achieved a certain level of performance, reflected in their ratings, have had their contracts renewed automatically in most re-tendering exercises.

The star ratings are released on a six monthly basis and based on how well a provider performed in placing people into sustained employment. The ratings include regression adjustments for labour market conditions and participant characteristics allowing for a rigorous comparison of the relative performance of each provider in each delivery site across the country. Star ratings are intended also to enable jobseekers to make an informed choice about the provider to whom they are referred (Lam, 2007).

### *1.1. The impacts of the Australian Job Network*

The Australian Government maintained that, from the JN's inception that it was much cheaper and outperformed the former public sector delivery system (Thomas, 2007). The Department publishes regular results on outcomes from a quarterly post-programme monitoring survey. The results showed overall three month JN employment outcomes increasing steadily from just over 30% in 1999, in the transition to the new system, to over 45% by 2004 and flattening out thereafter (Davidson, 2010).

The particular contribution of the JN has been assessed through a series of 'net impact' studies which have compared the outcomes of JN participants with matched comparison groups of unemployed people.<sup>6</sup> After criticism that the first net impact assessments included both compliance and commencement effects a 2006 study sought to assess the additional transitions into employment outcomes secured only after unemployed people had commenced JN services. This study reported that the net impact of intensive assistance targeted at the long term unemployed and most disadvantaged had increased from 0.6% in 2001, to 6.2% in 2002, to 10.1% in 2005 (DEWR, 2006, p. 4). Another study, based on longitudinal survey data, found that job outcomes for intensive assistance improved between 3 and 18 months after leaving with respondents also reporting a movement from casual to permanent employment, albeit a significant number were still employed part-time (DEEWR, 2008).

The most recent 'net impact' study measured changes in benefit status rather than employment outcomes reporting that the twelve month 'off/part-benefit outcomes' net impact achieved by job seekers in intensive assistance in March 2008 was about 6%. One other significant finding was that the net impacts shown by JN and other programmes were "shown to be strong in both areas of high and low unemployment" (DEEWR, 2010a, Table 1; p. 5). Some observers are more critical, pointing out that less than one in three of the jobs secured by the most disadvantaged JN participants were full-time and half of those leaving the JN had had no employment in the 16 months after participation (Fowkes, 2011, p.11).

Departmental assessments attributed the relative success of the JN to 'work first' service delivery strategies, the pressure generated by star ratings and the reinforcement of the pay-for-performance contracting regime that followed a contract

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<sup>6</sup> There are methodological issues about how the Department selects its comparison groups for these studies and criticisms of the way in which the net impacts are calculated (Davidson, 2010).

redesign. By 2005 services were also being provided by a much smaller number of better managed agencies delivering service strategies that had been progressively refined on the basis of operational experience (Grubb, 2006). The number of core JN providers fell from over 300 in the first contract to about 100 in 2008.

The other much publicised success of the JN was to drive down costs. Officials frequently emphasised raw data on costs to indicate that between 1991 and 1994 the cost per employment outcome was around A\$8,000, rising to just under A\$16,000 in 1995-96 (Carters 2010, slide 26). These costs fell to A\$6,500 in the first phase of the JN, and then to A\$3,500 by 2005, reflecting in part the falling values of contractually fixed fees and outcome payments which after 2003 were not indexed in line with inflation or with provider costs. One significant question was the extent to which JN cost efficiencies were, as many critics and JN providers suggested, secured at the price of weakened service quality (Murray, 2006).

### *1.2. Job Services Australia*

In 2009, after a fourth tender, the JN was reformed into 'Job Services Australia' (JSA). The new system caters for all Australian job seekers and it has integrated core employment assistance services with specialist provision for the hardest to help and for those seeking to start small enterprises. In the new 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. The JSA contract has given providers greater flexibility in service design, provided differential payments to encourage them to work with the hardest to place, and created incentives to secure better linkages with skills provision.

The principles of the JSA market and outcome based funding system are similar to those which characterised the JN. On entry into the system a JSA provider is required to develop an individually tailored 'Employment Pathway Plan' which maps out any training, work experience or additional assistance a service user 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.

JSA contract management is guided through a 'Performance Management Framework' and 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 would be resolved. There is also a provider Code of Practice that sets the ethical framework and principles which

should guide how providers deliver quality services and this underpins the 'service guarantees' that are given to jobseekers setting out some minimum service standards.

JSA performance continues to be assessed against 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 results are not used for star ratings but may influence business reallocation and future contract awards. 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.

## ANNEX C: OVERVIEW OF PROCUREMENT OF REINTEGRATION SERVICE DELIVERY BY UWV IN 2011

The following table identifies reintegration services and prices for people on jobseekers allowance or at risk of becoming unemployed and people on disability benefit. Data from UWV provided by Dutch expert contacted for this project.

<b>People on jobseekers allowance/at risk of becoming unemployed</b> All service delivery must be combined with a serious job intention, where possible a job guarantee. Purchase possible until 1 October 2011	<b>Service delivery and average price</b>
Clients either at risk of becoming unemployed or already unemployed up to 3 months	Service delivery with a run time of less than 3 months (Competence Test Centre, International Diploma Evaluation, Accreditation of Informal Learning, short term guidance courses or vocational training courses shorter than 3 months Average price: € 1,750.-
Clients unemployed between 3 to 12 months: exclusively for clients WIA <35% (Law on Work and Income provision according to the Capacity to work) and clients in poignant circumstances. Matching fee:	In addition to the above, service delivery with a maximum run time of one year) (IRO, vocational training courses, innovative service delivery). Average price: € 2,500 - Work based training: € 1.610 - and a maximum of one period of after-care ad € 1,000-
Clients unemployed 12 months and longer	In addition to the above, PAWA (Befitting Job Offer Programme, no cure / no pay) Varying prices (Contract through national tender)

<b>People on disability benefit</b>	<b>Maximum price (exclusive of VAT)</b>
IRO	Maximum of € 5,000 - exclusive of vocational training course On an average: € 4,000.- exclusive of VAT and vocational training course
Vocational training	Maximum of € 5,000.
In Bedrijf lerend werken (In Company, workbased training)	Matching fee € 1,610.- plus a maximum of four periods of after-care at € 1,000.- each
Innovative service delivery	Innovative regional (pilot) projects. Prices vary per region and per project
Kidney patients	Varying prices (Contract through national tender)
Reintegration trajectories for migrant clients with physical and/or mental restrictions	Varying prices (Contract through national tender)
Reintegration trajectories for clients with physical restrictions	ditto
Reintegration trajectories for clients over 45 years of age	ditto
Reintegration trajectories for clients with mental/psychiatric restrictions	ditto
Reintegration trajectories for clients for which UWV provides safety, health and welfare services	ditto
Reintegration trajectories for clients with auditory disorders and/or who are partially sighted	ditto
Reintegration trajectories for clients who want to be self-employed	ditto
Feasibility assessment self-employed work	ditto
Assessment necessity of vocational training	ditto
Disabled people, excluding Young disabled people, with serious to very serious learning impediments; client group with reduced physical possibilities	ditto
Disabled people, excluding Young disabled people, with serious to very serious learning impediments; client group with reduced mental possibilities	ditto
Young disabled clients from special needs education	ditto
Young disabled clients with mental restrictions	ditto
Young disabled clients with structural functional restrictions of a physical nature	ditto
Young disabled clients with disorders in the autistic spectrum	ditto

Young disabled clients with structural functional restrictions of a mental/psychiatric nature	ditto
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## **ANNEX D: FURTHER DETAILS FROM THE EVALUATIONS OF THE IMPACT OF SUBCONTRACTED EMPLOYMENT SERVICES IN EUROPE**

### *1.1. The British impact studies*

Two British studies assessed the early impacts of Employment Zones. They compared zone performance relative to that of the New Deals targeted at long term unemployed people aged between 25 and 50 years. The study by Hales et al (2003) conducted interviews with participants in both programmes in comparable regions 11 and 20 months after commencement. The study found that about a year after each person first became eligible for referral, 34% of zone participants had experienced a spell of work at some time, compared to 24% in the comparator group. After about two years, the 10 percentage point difference had faded to 4 percentage points, but was still at 8 percentage points for jobs of more than 16 hours per week (the minimum hours that attracted an outcome payment for zone providers).

A second quantitative evaluation assessed administrative data on individual periods of unemployment and unemployment flows over time in comparable zone and New Deal areas. The data were then subjected to a number of statistical tests and the results appeared consistent. They pointed “to a small but significant” impact in “exits from unemployment during the first year” of zone activity relative to those in New Deal provision (Hasluck et al, 2003, p. 77). The impacts were fairly small, however, with the proportion of long-term claimants who remained unemployed 15 months later being about 48% in zone areas and 51% in comparison areas. This programme effect was not at the expense of other groups of the unemployed. The evaluation reported also that by the third year after commencement both programme impacts had dissipated.

A later evaluation synthesised the findings from qualitative and quantitative studies of the zones (Griffiths and Durkin, 2007). It contained findings from unpublished internal administrative data and cost-benefit analysis. Full results are not given but the authors report that zones continued to be more effective with 8% more 25 to 50 year old participants starting jobs, and 10% more retaining those jobs at 13 weeks, than in comparable New Deal areas. There was no evidence that zones achieved better results as a result of investing their resources only in job-ready participants to the detriment of those harder to help, although both zones and the New Deals were least effective for the most disadvantaged. The review also confirmed that the zone results may have been short-lived. Not only were relatively few jobs sustained longer than 13 weeks, but over time, there was a convergence between the performance of zones and New Deals (Griffiths and Durkin, 2007, p. 25, p.5).

The better performance of zones came at a price. The cost-benefit analysis suggested that zone outcomes cost significantly more and offered less value for money than their New Deal comparators. Not only this, but “with fixed price contracting and the output-

related funding regime, there [was] no obvious mechanism for exerting downward pressure on purchaser costs” (Griffiths and Durkin, 2007, p.4).

There was also a large-scale, comprehensive and multi-method evaluation of the NDDP programme delivered through subcontracted Job Brokers to voluntary participants on incapacity benefits. This included qualitative studies, impact assessments and cost benefit analysis and the synthesised results published in 2007. Impacts were tracked through matching participants with comparable non-participants. The cost benefit analysis took into account reductions in benefit payments, reductions in the cost of administering benefits, and increases in tax payments and compared them with the costs of the programme (Stafford et al, 2007).

Impacts were estimated through a regression analysis and found that NDDP was effective in encouraging participants to move off incapacity benefits and led to an increase in their employment. In the case of those registering on NDDP between 1 July 2001 and 31 December 2002 there was a 16% reduction in benefit receipt after two years for participants on benefits long-term and 13% for participants on benefits short-term. Of the 260,330 NDDP registrations between July 2001 and November 2006, 110,950 (43%) had found jobs by November 2006, and of these 57% had retained employment for 13 or more weeks.

In terms of those entering employment, the overwhelming majority of participants (92%) were employees, and most of them worked 16 or more hours per week. Most participants who entered work did so within the first few months but a small proportion (6%) entered paid work after 12 or more months registered with a Job Broker.

The cost-benefit analysis indicated that NDDP reduced the Government’s expenditure by over £2,500 for a typical longer-term benefit recipient and by about £750 to £1,100 for a typical more recent benefit recipient. It was estimated that for each pound expended on the programme the Government saved between £3.41 and £4.50 for longer-term claimants and between £1.71 and £2.26 for more recent claimants.

### *1.2. The German impact studies*

The German studies assessed subcontracted placement services delivered in 2004 and 2005 respectively. The first impact study concerned largely short term unemployed people placed with private providers in the first quarter of 2004 and a control group selected from administrative records through ‘propensity score matching’ (Winterhager, 2006). The study found that after two months private providers had a negative impact on employment outcomes (2.3% to 2.6%) and the probability of unemployment was 7% higher. The effects ceased after some months in line with the assignment duration of three months. There were some positive effects for sub-groups such as women in western Germany and older people.

The author concluded that contract design and the selection of lowest price bidders contributed to the poor performance of private providers. Indeed, he found evidence of

a positive correlation between the amount of job outcome premium payment and increased treatment effect for those providers paid a higher job outcome fee. The second German study assessed the impact on the outcomes for longer term unemployed people receiving the 'basic allowance' (Bernhard and Wolff, 2008). Participants were 'followed up' for longer, up to 24 months after assignment. The treatment group comprised participants placed with subcontracted placement services between February and April 2005. Propensity score matching was used to identify a control group randomly selected from 20% of the benefit recipients not then participating. The control group may have participated in ALMPs, including subsequent participation in private placement services.

The study sought to identify three types of effects – whether the participant gained employment; whether they were not registered unemployed or in an ALMP; and whether they had ceased claiming benefit. The results found a 'lock-in' effect in the first 4 to 5 months of participation which was attributed to the fact that the private provider needed to get to know the participant.

Some positive employment effects were found after 20 months but the results of the other outcomes suggested that private providers had not been effective and, indeed, that for certain groups participation had been 'counterproductive'. Effects varied according to participant characteristics with positive impacts on some hard to help groups such as men aged under 25 from eastern Germany, men from western Germany with a migration background and women from western Germany over the age of 30 and out of the labour market for over two years. The employment effects for those with recent employment experience were adversely affected and this group seemed able to find 'new jobs more effectively on their own'.

### *1.3. The Dutch impact studies*

One distinctive characteristic of the Dutch Government's approach to the 'reintegration market' was that it chose not to undertake systematic evaluations into the net impacts of the reforms or of the role of private providers (de Koning, 2007, p.247). There have, however, been two recent studies of interest. These studies do not directly evaluate the impacts of private and public provision but they do assess the impact of different types of subcontracting on provider behaviour and job placement rates.

The more detailed study concerns the differential impacts of the 'no cure, less pay' (NCLP) and 'no cure, no pay' (NCNP) contracts used by the UWV between 2002 and 2005 (Koning and Heinrich, 2005). On average about 50% of the NCLP contracts were paid during the programme with 50% paid on placement. NCNP contracts were paid 100% on job placement.

The authors analysed the impact of the contract changes using panel data that enabled them to control for the varying characteristics of different cohorts of claimants and to develop explicit measures of selection into the programmes. They found evidence that

the transition to NCNP contracts was associated with evidence of 'cream- skimming', where providers selected or refused more employable participants, but found that these effects were 'minimal' and had little impact on job placement rates. This was partly a function of contract design where the UWV issued relatively small contracts targeted at particular groups of claimants with the NCNP contracts restricted to unemployed clients who were all relatively close to the labour market.

Overall the move to NCNP contracts increased shorter term job placements for more readily employable workers, with contracts from 6 to 12 months, by about 3%. The evaluators were unable to establish if the additional jobs were merely temporary or whether they acted as 'stepping stones' to more sustained employment (although they were sceptical that this would happen). The findings showed that NCNP contracts were not effective in raising placement rates for those receiving disability benefits. The authors emphasised the importance of careful contract and incentive design to avoid inducing unwanted selection and 'parking' behaviour.

The second Dutch study evaluated the impact of different municipal subcontracting arrangements on social assistance caseloads (Koning, 2009). The different forms of contracting involved either the use of private providers or subcontracting with other municipalities. The results were derived from an analysis of administrative and survey data collected in 2007 and 2008. Over both years about 74% of municipal welfare to work budgets had been invested in contracts with private organisations.

The evaluation reported that increased investment in welfare to work spending increased social assistance outflow rates, but by less than 1%. There was little difference in the outcomes secured through private or municipal subcontracting. The report suggested that this finding may be attributable to the fact that much private provision was similar to municipal provision. About two-thirds of the external expenditure was allocated to non-profits with a third invested in for-profit providers. A significant portion of the non-profits were either special purpose agencies created by the municipalities, or providers with long contracts and long standing relationships with the municipality. The author suggested that these relationships may mean that the cost of programmes is 'unnecessarily high' with more research needed into how municipalities 'price' their provision.

#### *1.4. The French impact studies*

In 2011, the results from a large scale random assignment study of French subcontracting were published. The evaluation arose following the decision of Unedic, the then social insurance agency to expand some small scale contracts with private providers that it had first introduced in 2005. In 2007 the agency increased the coverage targeting 41,000 jobseekers among those eligible for at least a year of unemployment benefits. 11 private companies were selected through a bidding process conducted separately in 16 areas and jobseekers were allocated to them for up to six months. The payment structure was common to all contracts, with 30% of the

maximum payment paid when the jobseeker enrolled on the programme; 35% paid if the jobseeker found a job within six months and the remaining 35% paid after six months employment. The maximum possible payment varied in each area, between €3,000 and €3,947. To qualify the jobs obtained had to exceed 110 hours employment per month, be of indefinite duration, or offer at least a minimum six month contract.

The French PES (then ANPE) responded to this competitive pressure and launched its own in-house intensive programme in 2007 for 40,000 participants. This targeted the same group but also included the newly unemployed and other long term unemployed people. ANPE proposed an experimental random assignment evaluation which Unedic agreed to, overseen by a steering committee chaired by the Ministry of Labour. The evaluation covered 393 local PES offices, involving more than 200,000 job seekers. Jobseekers were free to refuse participation in either of the intensive options.

The evaluation compared the performance of the private providers in delivering intensive job search counselling to the unemployed with both an enhanced service offered by ANPE and the less intensive service the PES normally provided. The evaluation suggests that both variants of intensive services “used the same method and basic ingredients” involving, for example, at least weekly contact, monthly face-to-face meetings and caseload ratios of about 40 to 1, compared to the 120 to 1 in mainstream PES provision (Behaghely et al, 2011, p.6). In the private programme participants were allocated to the provider for 6 months, which could be extended to nine months (Jordan, 2008, p. 10)

The evaluation found that both private and public variants of more intensive job search provision increased the participants’ exit rates to employment by 4 to 9 percentage points, a 15% to 35% increase against exit rates of about 25% from conventional PES delivery. The effects were ‘pervasive’ across sub-populations but tended to be “stronger among job seekers with a higher probability of long-term unemployment” (Behaghely et al, 2011, p.3).

The study also found that the impact of the PES higher intensity programme was ‘about twice as large’ as those of the private providers with the gap being “statistically significant’ for up to six months after random assignment. In the areas where the two intensive programmes were in direct competition, the PES impact was 11 points after 3 months with the private provider starting to catch up after six months. The PES impact, however, remained twice as large up to 9 months, diminishing only after one year. The evaluation found that the impact of both PES and private providers was weaker in areas where they operated singly suggesting that direct competition improved performance (Behaghely et al, 2011, p.14).

The authors concluded that the private sector programme, as implemented in 2007, was less effective and ‘probably’ more costly than the public variant. They found little evidence that the performance difference was due to the time it took private providers to start up. They attributed the variance rather to the stronger employer networks of the

PES and the design of the contract. They tested the differential incentives within the contract and found that the reward for extra provider effort diminished after a certain performance level was attained, suggesting that future contracts should have redesigned incentives.

A smaller scale impact evaluation used random assignment to test the performance of a private provider in delivering employment services to 'minimum income' (RMI) recipients (Crepon, et al, 2011). The research followed the 2004 assignment of responsibility for RMI and related integration services to 'Départements'. Such services normally are delivered in-house or through non-profit organisations but this particular Département had decided to invest significantly in employment services, subcontract delivery to a private provider, and undertake an evaluation.

The programme was targeted at those in receipt of RMI for at least two years and the provider was expected to contact eligible individuals, elicit their participation and help them secure employment. Payment to the provider comprised a lump sum of €2,000, and staged payments based on the longer a successful participant was placed in employment - €1,600 after three months, €500 after six months and a final €500 after nine months. The programme commenced in 2006 and there were three waves of randomisation, commencing with the stock of existing claimants in March and two smaller cohorts of new claimants in May and October. Cumulatively 13,236 individuals were in the treatment group and 4,430 assigned to the control group. The programme was voluntary and there was low take-up by eligible participants (less than one in five).

The evaluation ceased in October 2007 with the results derived from an analysis of administrative records. The authors found some increase in earnings amongst participants but, even after taking into account welfare savings and the value of employment, they concluded that the cost of the programme was too high relative to any benefits derived. The results were more positive for those receiving RMI for between 2 and 4 years but even in such cases the costs were considered disproportionate. The authors commented that the up-front fee paid to the provider may have been too generous.

### *1.5. The Swedish impact studies*

A recent Swedish impact study was undertaken in anticipation of the Government's decision to expand the role of private companies in delivering job coaching for the unemployed (Benmarker et al, 2009). The PES pilot programme commenced in 2007 in three different labour markets where private providers were commissioned to work with 'hard-to-place', but employable, groups of immigrant, disabled and young people aged under 25. The first two groups were allocated to the provider for six months, the young people for only three months.

The selection of providers had been through a two-stage procurement process. Interested providers first had to demonstrate their capacity to deliver the service and in

the second stage outline their service delivery strategy and price. Bids were assessed 40% on price and 60% on quality. Quality criteria included the proposed service delivery model, time to be spent with clients, employer strategies and innovation. 38 organisations submitted initial bids of which between eight or ten were invited to submit for specific client groups. In each pilot area two competing providers were selected for each target group. The contract values and volumes were therefore small.

The contracts paid 40% of the agreed price on assignment, 30% when an employment contract was signed and 30% after 3 months employment. Providers were given flexibility in how they organised their services but jobs had to last at least three months and be full time (or the full assessed work capacity of those on disability benefit). Participation was voluntary for the client but the contractor had to accept all referrals and, after commencement, report participants not actively seeking work. PES staff operated with their normal performance standards, could refer control group participants to other services as usual, but received no special incentives. The report notes however that PES workers may have reacted to the competitive pressure from private providers and may have been concerned about the Government's new subcontracting policy.

The trial had the aim of randomly allocating 5,000 participants to private agencies or the PES, with the final wave completing their placement with a private provider in July 2008. Voluntary recruitment meant that ultimately only 669 of the 2,400 people assigned to the experimental group started with private providers. The study analysed a combination of administrative data, tax records and the results from two participant surveys. There was no comparison of the relative costs of PES or private services.

The study found that clients of private providers were seen more regularly by their placement adviser and received more support in job search techniques, and there was some evidence that they were more active in their job search and were more satisfied with the service. This increased service intensity, however, did not result in better performance although there were differences between outcomes for client groups. Private providers secured better outcomes, and higher wages after twelve months, for immigrant participants, but they had worse results on both indicators for the younger participants. The evaluators interpreted these heterogeneous effects as evidence that 'care' had to be taken when deciding which groups to service in-house and which groups to refer to private providers.

The second Swedish study focused on a small scale pilot implemented between 2000 and 2001, the results being published in 2007 (Delander et al, 2007). In the project a temporary work agency was given the opportunity to deliver a placement service for a group of unemployed people with an immigrant background. The agency was allocated an unspecified lump sum per participant, equivalent to the amount that the PES would have received. There was no job placement payment but the incentive was that the provider would retain the unused lump sum if they placed a participant in work.

The pilot operated in three local labour markets and participants were 'followed up' for a period of 18 months. In the 'intervention' area the temporary employment agency was allocated 100 participants. In the second comparison labour market PES staff received additional resources equal to those in the intervention area to work with 100 participants. In a third PES office another comparison group of 100 unemployed immigrants was selected but received only normal placement services. Matched control groups were selected also in each of the first two areas. Participation in the project was voluntary.

This was not a random assignment evaluation and effect estimates for the six groups in the pilot were derived from a difference-in-differences matching methodology.

The effect estimates showed that the PES office that offered enhanced services secured a notable increase in the proportion of participants entering jobs with or without wage subsidies compared with the normal PES office. In the private intervention area there was an increase only in jobs with subsidies and a decrease in employment without subsidies. After further tests the evaluation reported that the probability of a private provider participant being employed at the end of the period was almost "20 percentage points lower than for a participant using the reinforced employment office". There was also no significant difference between the results of the temporary work agency and the conventional PES office. The authors concluded that the working practices and culture of the temporary agency had not been adjusted to meet the needs of their new, more difficult to place, client group.

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