

State or Market? International Experiences with Outsourcing and Public-Private Partnership

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Contracting with external providers

- In many countries Ministries, PES, Municipalities contract with external providers to:
 - buy specialist services (e.g., vocational training, disability programmes)
 - increase capacity (new groups, increased demand)
 - ‘benchmark’/drive innovation in PES
- Traditionally purchase specified services, with highly regulated fixed-price or cost reimbursement contracts
- Recent developments in OECD countries include greater use of performance-based and payment-by results with:
 - Outsourcing of all PES services in Australia (1998);
 - Extensive subcontracting of advisory, matching & placement services (e.g. UK, some US states, Netherlands).
 - Experimenting with private contractors to build capacity and/or ‘benchmark’ and drive innovation in PES (Germany, France, Sweden, Poland, S. Korea, Australia)

Contract design

- Contract Types
 - *Cost-Reimbursement* - payments for expenses incurred, budget agreed at procurement, most risk borne by public agency.
 - *Fixed-Price* - paid agreed fee regardless of performance or actual cost; public agency and contractor share risk.
 - *Pure Pay-for-Performance* - least risky for public agencies and the most risky for service providers.
- 'Payment by results'/outcomes contracts are often *hybrids* that balance performance incentives, provider viability, and delivery of particular services.
- Performance measures:
 - *Processes*: enrolments, assessments, accuracy of referrals, services and, sometimes, participation in work activities
 - *Outcomes*: job placement, retention, hours, earnings, education/training.

Move to outcome based and more flexible contracts – perceived advantages

- Advantages of ‘payment by results’ and less prescriptive contracts said to include:
 - contractors agree to bear a greater share of the risk, may have to invest/risk their own capital;
 - competition for contracts through bidding processes enables purchaser to obtain better value for money, as well as driving up the quality of the service offered to service users;
 - a diversity of providers and new entrants should engender innovation, leading to better results
 - service delivery and employer strategies
 - recruitment/staffing
 - management and information systems
 - research and development (swifter innovation cycle)

Risks of outcome based contracting

- Most discussed include:
 - ‘Cream-skimming’
 - ‘Creaming’ and ‘Parking’ (clients/areas)
 - ‘Gaming’ and fraud
- Other risks include:
 - Potentially high transaction costs (offset by longer contracts, fixed outcome prices?)
 - Loss of insight into service delivery – importance of contract and performance management
 - Accountability and transparency issues in exercising oversight of public spending, and supervising activities of commissioners and contractors.
 - Ability to transfer risk – response of purchaser to market failure and/or withdrawal from contracts

Features of commissioning

- Distinctive Purchaser/Provider arrangements in different countries, but contracts usually managed through public tender/request for proposals (1 or 2 stage bidding, performance impacts)
- Tender selection criteria emphasise financial viability, legal compliance, programme design, organisational capacity, capacity to deliver services – varied use of price competition and past performance
- Varying approaches to scale and length of contracts and level of service specification, from:
 - Large number of small specific contracts (Netherlands, Sweden, Germany), to
 - Prime contractors and ‘black box’ service delivery (UK)
- Contract durations vary between 1, 3 and 5 years (purchaser and provider interest in stability, e.g., Wisconsin from ‘Right of First Selection; Australia contract ‘roll-overs’)
- ‘Competition for markets’ dominant; less emphasis on ‘competition within markets’ though Australia has star ratings, GB will move market share – Netherlands and Germany individual budgets & vouchers

Public Private Partnerships

	GB	Australia	Netherlands	New York City
Intake and referral of clients	Jobcentre Plus (JCP)	Centrelink (JSCI)	Centres for Work and Income ('Opportunity Meter')	HRA Jobcenters - Emphasis on 'Diversion'
Income maintenance	Jobcentre Plus	Centrelink	Employee Insurance Benefits Agency (UWV) or Municipalities	NYC Human Resources Administration
Direct Job Placement	JCP (9/12 months) then private providers	Job Network	CWI (esp. first six months)	'Back to Work' or WeCare prime contractors – nb Workfare model
Case Management	JCP (12 months) then private providers	Job Network	Reintegration Companies	Back to Work' or WeCare prime contractors
Sanctions	Jobcentre Plus	Centrelink	UWV & Municipalities	HRA Jobcenter
Tendering	DWP	DEEWR: Federal Department	UWV & Municipalities	NYC HRA

Research and impact evaluations

- Review of impact evaluations for European Commission:
 - Several Australian, 2 USA (Florida) and 12 English language impact studies of contracts that paid for outcomes which used experimental/quasi experimental methods
 - Mixed results –positive from Australia, UK; less positive from studies in Germany, Sweden and France, though worked better with some sub groups
 - Negative European findings linked to issues of poor contract design, early stages of contracting, and contrasted with typically increased performance from PES under competitive pressure
 - Little focus on differential performance of contractors – likely that **efficiencies and gains of contracting emerge over time** (as found in Australian experience) resulting in fewer higher performers
 - Interesting findings from process studies about how contracts changed service delivery strategies – PES more process oriented, subcontractors emphasised barrier reduction, job search/outcomes, reverse marketing, etc.

Some important commissioning issues

- Market incentives induce early service delivery innovation and improved management but evidence of ‘convergence’ and ‘innovation plateau’ in mature markets.
- Market composition:
 - Varied blends of competition between ‘for profit’, ‘not for profit’, and public sector organisations – ‘for profit’ contractors playing a more significant role in several countries and in promoting international developments.
 - Findings suggest that improved performance associated with reduction in the number of providers over time – so question about supply chain rationalisation, impact on smaller, specialist providers, and importance of performance management.
 - Problems of ‘mission drift’ for the voluntary/third sector (e.g., sanctions, advocacy) and changing composition of third sector providers
- Market providers make less use of training, employment subsidies, more expensive services. Various re-regulations ‘ring fence’ resources for client services or separate contracts for specific services.

Final observations

- Major tension between fostering competition and cooperation/integrated service delivery (e.g., training providers, employers, local government, etc.).
- Complex relationships between delivery of benefits, referral to contractors and interaction with sanctions/appeals/health – many functions still undertaken by public sector employees.
- Importance of monitoring participant experience as well as outcomes – including complaints procedures and ways of testing customer and employer experience/satisfaction.
- Evidence suggests there is likely to be a process of frequent re-regulations to both resolve delivery problems and reshape contract incentives to meet new program objectives.
- ‘Relational Contracts’ - require regular contact with officials, contract management, access, etc., with facility to renegotiate contract terms as operations and circumstances change.
- Public officials need to develop new skills in contract design, commissioning and in contract and performance management.

Research References

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- Finn D. (2011) *Job Services Australia: design and implementation lessons for the British context*, pp 1-49, Research Report No 752, Department for Work and Pensions, London, ISBN 978 1 84712 986 4, at <http://research.dwp.gov.uk/asd/asd5/rports2011-2012/rrep752.pdf>