



Flexible New Deal: Making it work

Supported by:



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What would success look like for FND?

The new system must succeed in four areas:

1. Achieve **cost-effective** commissioning;
2. Create financial incentives for providers to **help all jobseekers**;
3. Provide **sustainable** employment outcomes; and
4. Stimulating **innovation** in welfare-to-work services





Essential characteristics of FND

Existing programmes	FND
Payment for processes	Payment for outcomes
JC+ commissions specialist services	Large private/3 rd sector organisations commission services



Risk associated with FND market design

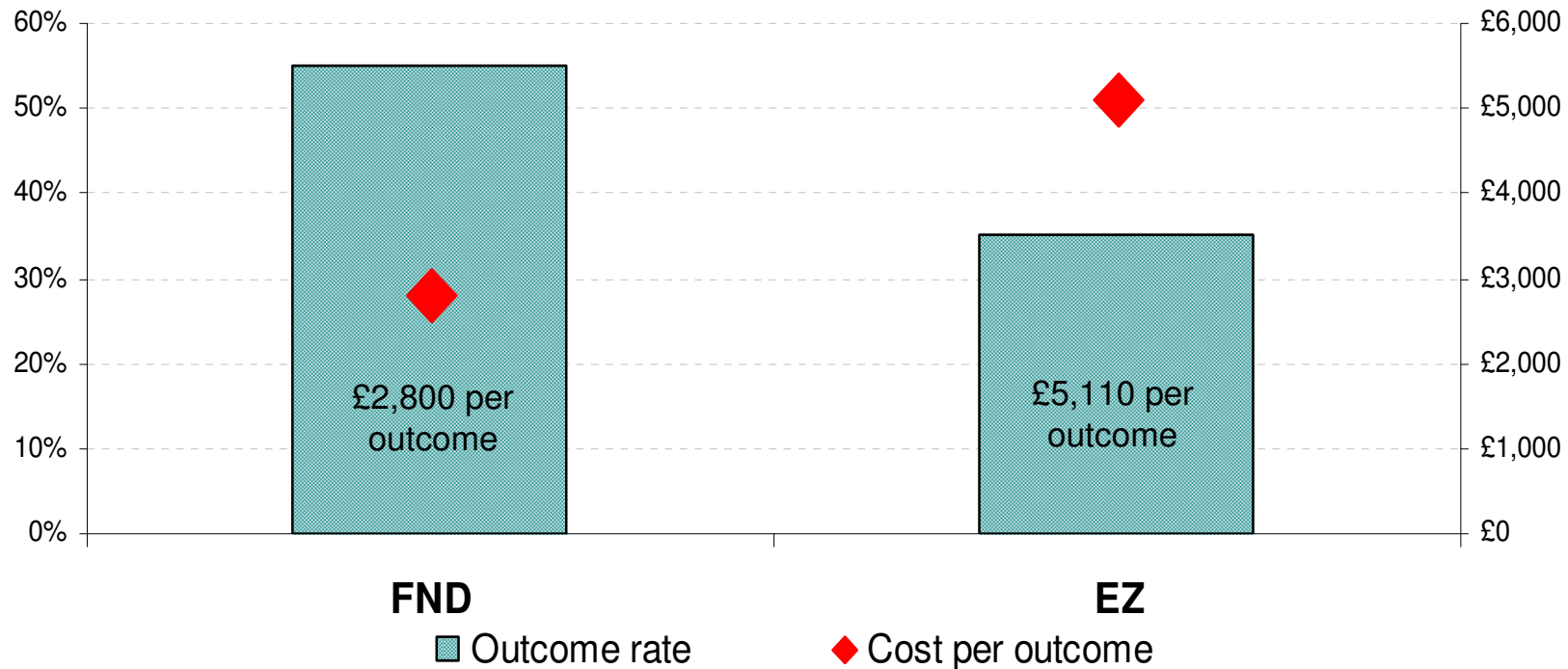
FND implementation poses four risks that jeopardise programme delivery:

1. Commissioning process risks yielding unrealistic and **undeliverable** bids
2. Uniform outcome payments but highly variable costs associated with different clients will lead to **parking** of 'harder-to-help' clients
3. Risk of '**revolving door**' employment
4. Market failures associated with highly **concentrated** prime contractor market threaten the involvement of specialist organisations



1. Bidding process - Risks

Job outcome payments and rates as proportion of caseload



- ▶ National performance expectations are for FND to **outperform** EZs with **less money**
- ▶ Bidding environment **highly uncertain**: new client group; macroeconomic uncertainty; and burgeoning welfare-to-work market. **Winner's curse?**



1. Bidding process - solutions

To minimise risks to delivery, DWP should:

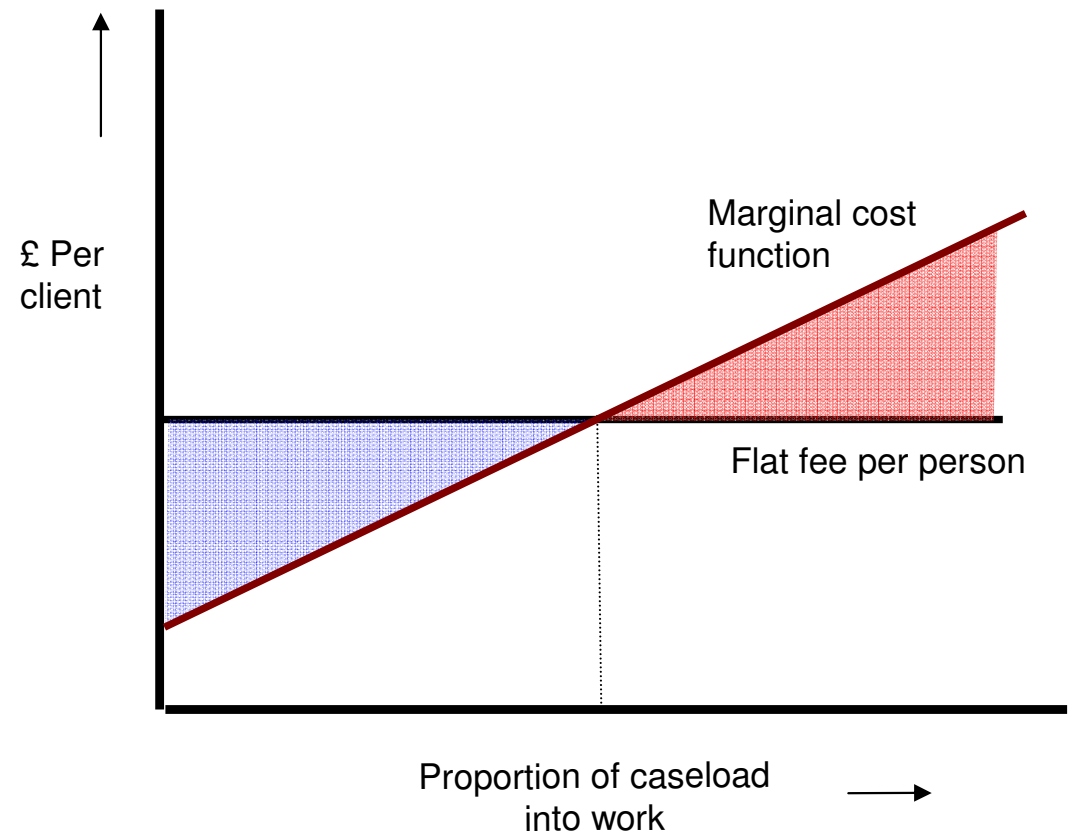
- ▶ replace the national performance expectations with a more **realistic** assessment of performance levels.
- ▶ be **explicit** about the modelling and data that underpins those expectations.
- ▶ Require **pre-award clarification interviews** to probe why bids diverge from the central case



2. Reaching the hardest to help

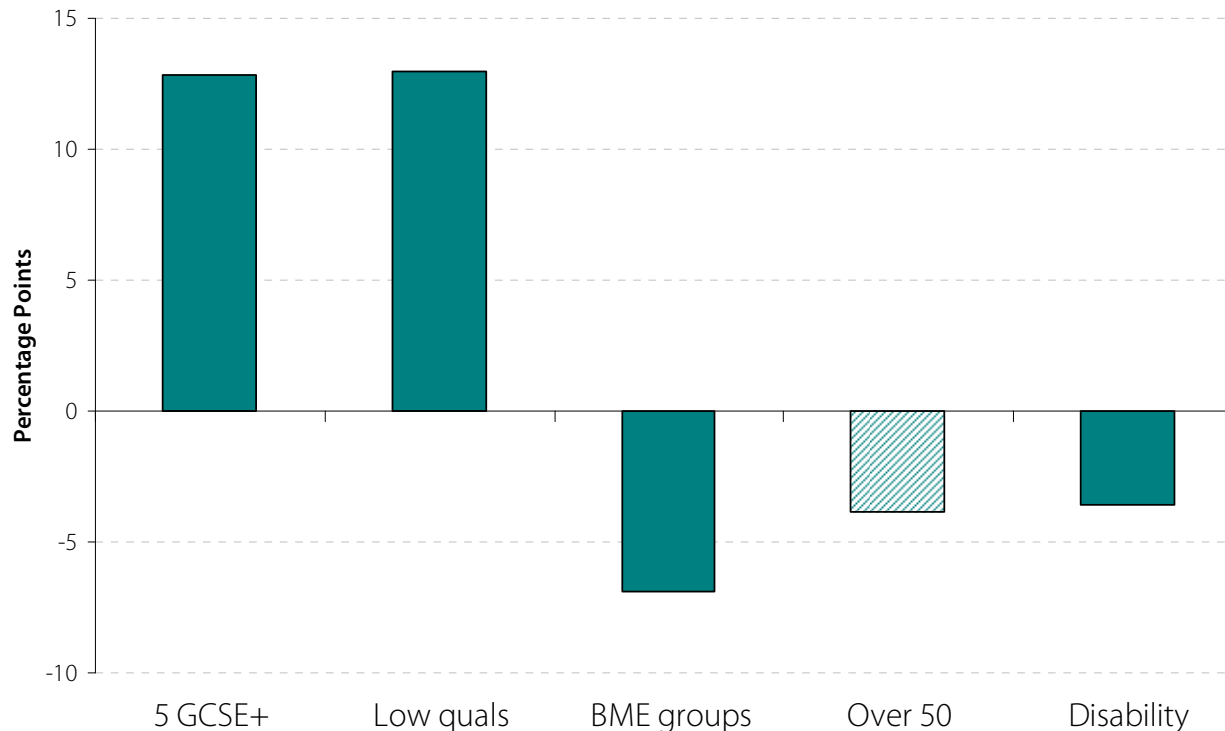
Non-aligned interests between the procurer and the service provider lead to:

- ▶ **Parking:** directing minimal resources at harder to help people
- ▶ **Creaming:** helping those closest to the labour market at the expense of others, because they carry the greatest profit



2. Reaching the hardest to help – analysis

Figure 3.3: Impact of certain characteristics on chance of employment
3 months later

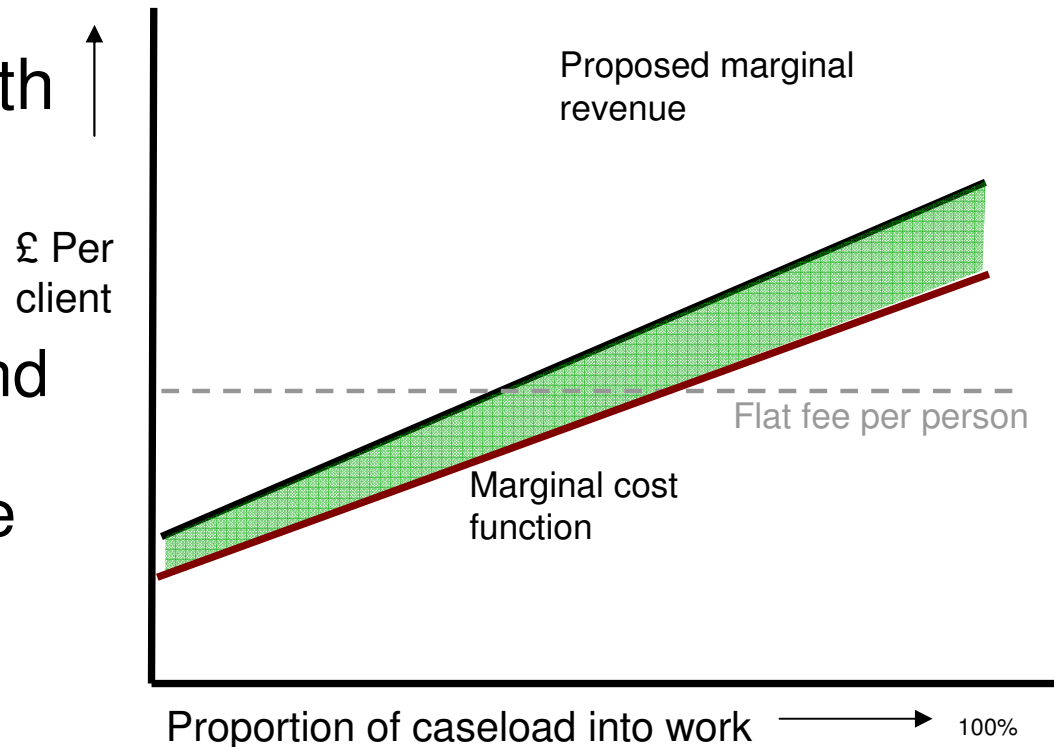


- ▶ On average, LTU have 9.4% chance of finding work within 3 months
- ▶ Analysis shows that easier- and harder-to-help clients are **readily identifiable**: chances of achieving a job outcome vary hugely

2. Reaching the hardest to help – solutions

Need to align financial incentives of contractors with those of the Department

- ▶ use **graduated outcome payments** based on proportion of caseload found work
- ▶ Combine higher service fee with **fines** on contractors where clients do not find work after 12 months



3. Creating sustainable employment

Employment Zones and sustainable employment

- Hales et al. (2003) evaluation suggests that among those found work through Employment Zones, a higher proportion were **dissatisfied** with, or had poorer quality, jobs.
- Both EZs and New Deal had little impact on the chances of clients **sustaining** work 7 to 10 months later

FND goes some way to remedy this but not far enough

- 70% of FND money is paid for 13-week outcomes; remaining 30% for 26-week outcomes



3. Creating sustainable employment

Figure 4.1: Proportion of long-term unemployed sustaining employment



- ▶ Sustaining employment to 3 months is insufficient to stop the ‘revolving door’
- ▶ Need to provide additional **12-month outcome payments** funded from AME-DEL switch



4. Supply chain

- ▼ **Monopsonistic power** of primes disadvantages smaller sub-contractors.
- ▼ **Informational advantage** of prime contractors. Primes know more about each client's likelihood of job success than do sub-contractors, and can exploit this.
- ▼ 'Benign neglect' of the market will therefore cause specialist providers to be marginalised and discourage innovation among those involved.





4. Supply chain

▼ Market power imbalance:

- ▼ An **independent body** with the power to fine and censure is needed to ensure adherence to the code of conduct
- ▼ **Transparency** about prime contract specifications

▼ Asymmetric information:

- ▼ **Risk-sharing** financial relationships should be enforced between prime and sub-contractors so that primes cannot pass on 100% of the risk associated with client outcomes



Conclusion

- ▼ FND does have the power to offer a step change in employment service provision but only if **market design** is right
- ▼ Currently the programme sets the interests of procurer and contractor in **tension** with each other, to the detriment of jobseekers
- ▼ By adopting the recommendations of this report FND can resolve these tensions and fulfil its potential