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## Summary

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### Results-based Funded Supported Employment: Avoiding Disincentives to Serving People with Greatest Need

Supported Employment is a long-established and important element of Government programmes for disabled people, aiming to provide support in jobs for disabled people who face more complex barriers to finding and keeping work.

The Modernised Supported Employment Programme, WORKSTEP, took effect from April 2001, with a new emphasis on increasing the proportion of people who move from supported to mainstream employment. Other key elements are new eligibility criteria, a new funding framework and quality standards.

The new funding arrangements replaced an occupancy-based funding mechanism which tended to discourage progression. Local authority, voluntary body, and now private, providers of supported employment services are now funded via a structure which combines results-based payments for development planning, placement, progression and sustained progression with post-placement ongoing monthly payments for training and support. This structure aimed both to provide incentives to providers to work with clients towards mainstream employment, and to provide safeguards for supported employees who need long term support.

One concern of policy makers was that the new funding model could discourage providers from working with supported employees with the greatest support needs. More information was required here, and the Department for Work and Pensions asked the Social Policy Research Unit at the University of York to conduct a review of results-based funding in supported employment systems.

This review was conducted in April and May 2002, and included published reports and articles, and unpublished material from practitioner contacts. The researchers searched on the Internet, restricting the search to employment services for disabled people and material written in English.

#### Key findings

- It appears that results-based funding is not applied to employment services for disabled people in other European countries or in English-speaking countries other than USA, Australia and UK.
- Models of results-based funding are widespread, where 'Milestones' developed in Oklahoma in 1992 and was adopted state-wide in 1997. Variants of this model, included in this review, were being used in Massachusetts, Kentucky, Rhode Island, Pennsylvania and Alabama. An enhanced model to meet specific needs of services for people with mental health problems began in New York in 2000.
- In Australia, the Case Based Funding Trial of services providing assistance in from 1999 to 2002.
- Adverse selection of clients (called 'creaming') is considered a potentially serious problem in the models studied, and is addressed structurally in the design of the payment systems. Different approaches all aim to maintain providers' confidence that they can manage the perceived economic risk of providing services to clients who may need more support.
- There is rather little direct evidence of the effectiveness of these approaches in preventing or reducing adverse selection.
- In the WORKSTEP context, approaches which depend on scoring or categorisation of clients may not be helpful. However, the review suggests a number of other modifications and adjustments to the WORKSTEP payment model which might be worth considering to reduce potential incentives for adverse selection.

# Executive Summary

## Introduction

In May 2002 the Social Policy Research Unit at the University of York conducted a review of results-based funding in supported employment systems. The context was policy makers' concern that the funding model in WORKSTEP, the modernised Supported Employment Programme, could discourage service providers from working with supported employees with the greatest support needs.

WORKSTEP reforms took effect from April 2001. Key elements were new eligibility criteria; targets for progression into mainstream employment; a new funding framework and the promise of quality standards.

The new payment structure for local authorities and voluntary body providers combined ongoing payments with outcome payments:

- payments for Development Plans (£500) and Job Starts (£250) support essential pre-entry work with new recruits
- Monthly Payments (different rates) fund the support needed by employee and employer
- payments for Progression to open employment (£500) fund new entrants
- payments for Sustained Progression after six months (£500) reflect need of some people for longer support
- availability of progression payments for existing employees helps providers invest in their development.

The researchers drew on known published material on supported employment in USA and Australia and on practitioner contacts leading to unpublished material. An Internet search was conducted in English. Results-based funding appears to be applied to employment services for disabled people only in USA, Australia and UK.

## The Rationale for Results-Based Funding

The first models of results-based funding emerged in the USA during the 1990s. 'Milestones' developed in Oklahoma and spread

rapidly to other states, and variants were influential in design of the Australian model.

Supported employment was added to the USA federal/state vocational rehabilitation scheme in 1986 and grew rapidly. A variety of purchase of service arrangements was used to fund employment services from provider agencies. There were moves away from input-based purchase arrangements (such as grant payments for staff). Payments were sometimes based on process (such as slot-based contracts for provision of specific activities) and increasingly on output to reflect product (for example, an hourly rate for job coaching).

Concerns were that since payments did not reflect quality of service, there were no opportunities for quality control; and there were no incentives to move clients on. At the same time, there was concern that the high cost programme was not delivering outcomes valued by clients. Providers argued that payments did not match costs, and involved excessive bureaucracy.

Results-based funding appeared to offer potential opportunities. Such a model compensates providers for measured outcomes of service - the impact on participants of the programme results. The ultimate outcome reflects a change in the person, addressing initial assessment of their need. Intermediate outcomes may reflect contributory services. Outcomes must be valued by the client and measurable. Advantages then perceived include increased emphasis on valued outcomes; increased accountability; greater efficiency and effectiveness in delivery; and greater choice and satisfaction for clients.

For these advantages to be realised requires agreement between actors about clients' needs and desired outcomes, and what the programme can deliver; appropriate and achievable outcome measures; and payment levels which enable financial viability for providers.

Potential disadvantages have also been identified. Providers might select clients who are relatively easier to help ('creaming'). They might take advantage of contracts without adopting intentions ('gaming') or see conflict between achieving set outcomes and the overall mission of their organisation. There could be potential threat

to quality of service, and competition between non-profit and business providers might act to reduce market choice.

### **Results-Based Funding Models**

The underlying principle is that, following assessment of individual need for employment support, the provider supplies services to enable progression towards placement in a sustainable job. A small number of defined service outcomes, and in some cases additional process outcomes, serve as benchmarks, achievement of which results in payment to provider.

The full text explains in detail the main structural features and contextual background of the models studied, from data available in 2002.

The *Oklahoma Milestones* has been highly influential. In 2002 this model used six milestone payments for outcomes of assessment; job preparation; job placement; four weeks retention; ten weeks retention; and closure. There were two levels of funding ('regular' and 'highly challenged') in each of two models, reflecting different needs for preparation and enabling providers to offer appropriate levels of services (a 'tiered' structure). Quality standards were incorporated in service requirements for each benchmark payment.

Variants of Milestones were developed in *Alabama, Massachusetts, Kentucky, Rhode Island* and *Pennsylvania*. Some were 'blended models' with a mix of results-funded service outcome benchmarks and additional support services with fee-for-service funding to enable providers to meet individual needs. Most fee-for-service payments were capped.

*New York Office of Mental Health*: a small pilot began in 2000 to enhance and develop existing results-based programmes, specifically to help some people with mental health conditions who failed to reach later milestones. Two additional milestone payments funded support for longer than usual, and an additional payment for support continuing beyond nine months aimed to increase job retention and assist with career advancement or job changes.

*Australian Case Based Funding Trial for Disability Employment Assistance*: was part of a broad

reform of rehabilitation and employment services. Initially, a Job Seekers' Classification Instrument assigned clients to one of three funding levels. There was then one payment for employment outcome, and two sets of monthly payments, from commencement of service and for maintenance after placement, respectively. Evaluation suggested that some people were disadvantaged by this model. Two new assessment instruments were developed for Phase 2 with adoption of five funding levels.

### **Addressing the Problem of Creaming**

A results-based funding scheme creates incentives to serve those clients who can most quickly and easily be brought to the payment points ('creaming'). A related problem is leaving behind clients thought likely to need more services to reach outcomes, and sacrificing later outcome payments ('parking').

Structural approaches to these potentially serious problems in supported employment aim to maintain providers' confidence that they can manage the perceived economic risk. Different approaches revolve around ways of:

- ensuring overall economic viability in the programme
- setting different benchmarks for clients with greater needs
- providing higher compensation for providing services to client groups or individuals with greater needs, for example in a tiered structure
- providing additional fee-for-service funding to meet needs of individuals, for example in blended models
- requiring 'quotas' of people with greater needs among outcomes
- external control and management of referral of clients to providers.

### **Reviewing the Evidence**

The *Oklahoma Milestones* has been reviewed via a series of interviews with key vocational rehabilitation personnel and provider surveys. The approach is generally reported as a success. Reduction of clients assessed but not placed in

work suggests that the model has some effect in reducing 'parking'.

The interim report from evaluation of the Australian trial concluded that there was no pattern of 'under-servicing' clients who do not achieve an outcome, but the model had not entirely eliminated either creaming or parking. Suggestions for reducing parking further included replacing the ongoing payments with more milestone payments; adjusting weightings of both ongoing and outcome payments; and improved client tracking and audit.

### **Implications for WORKSTEP**

The review, by design, did not address potential advantages and opportunities in paying supported employment providers for results. Focusing on the main potential disadvantage raises the following issues in the WORKSTEP context.

Fundamental to the US and Australian models is the concept of 'categorisation' of clients. Scoring a person's need for employment support is no easy task. Developing appropriate instrumentation in the UK would require time and resources, and raise complex administrative issues. Moreover there is increasing rejection in the UK of categorising people on the basis of disability. Current eligibility criteria for WORKSTEP are fairly broad based, and development of a 'tiered structure' might involve looking for simple proxies for need for support that fit a social model of disability.

Selection of clients for WORKSTEP depends on some discretionary decisions and working relationships between providers and Disability Employment Advisers. This stage of referral and acceptance is receiving increasing attention within the USA and Australia. It will be important to understand ways in which people are referred for the WORKSTEP programme, and to monitor reasons for non-acceptance by providers and characteristics of people not accepted.

According to the theory underpinning the US models, which weights benchmark payments according to risk involved, the first WORKSTEP benchmark payment appears relatively high. There are no requirements for subsequent

outcome payments to be linked back to the Development Plan, considered important in US models for maintaining quality of service and progression. The uncapped monthly payments in WORKSTEP may provide incentives for some providers to stop aiming for the progression benchmark. Any consideration of lowering monthly rates, however, must take account of the fact that, realistically, providers may have relatively large numbers of clients who continue to require ongoing support services after placement.

The need to protect those people who will continue to need considerable support to sustain employment represents quite a challenge for the WORKSTEP payment model. It might be worth considering whether potential incentives for adverse selection could be reduced further by:

- making more links between the Development Plan and later benchmarks
- making continuation of ongoing payments contingent on reviewing the Development Plan, with management of this process by a third party
- introducing 'targets' in terms of proportions of participants achieving later benchmarks which each provider must meet.

Considerable importance is attached in other countries to dialogue and consultation with stakeholders to achieve a payment model that works well.