

The design and delivery of ‘payment-by-results’ and ‘black box’ contracts: the case of the UK Work Programme

ICJS Research Seminar Series, 27 November 2013

Professor Dan Finn, *University of Portsmouth*

Abstract

The Work Programme is the ‘flagship’ for the payment-by-results funding system through which the Coalition Government is delivering a wide range of social policies, including those now targeted at the young and long term unemployed, ex-offenders and ‘troubled families’. The programme has radically changed the delivery of British welfare to work services and has involved innovations in the design, procurement, and delivery of outsourced employment services. The programme has pioneered ‘black box’ contracts where providers have been given flexibility to design and deliver services but with their income now largely dependent on securing long term employment outcomes.

British Ministers suggested that the new contracting system would lead to innovation, improved accountability, higher job outcomes, and better customer service, but the programme failed to meet its initial targets and, in its first two years, has attracted widespread criticism about the poor quality of services given to harder-to-place jobseekers and the negative impact of the payment-by-results contracting model on non-profit and specialist subcontractors.

This paper assesses how prime providers have utilised the flexibilities given to them and considers the composition of the subcontractor supply chains they have developed and the service delivery strategies that are being implemented. It will review evidence on provider effectiveness and consider how well Work Programme design is safeguarding service users from the risks, and criticisms, of ‘creaming’ and ‘parking’ and what the implications of the Work Programme experience might be for other clients and providers now experiencing payment-by-result services.

Introduction

In 2010 the newly elected Coalition Government placed the Work Programme (WP) and wider welfare to work reforms at the heart of its plans to reduce unemployment, out of work benefit reciprocity and public expenditure. In mid-2011, 18 prime contractors commenced delivery and they are expected to cater for over 3 million long term unemployed and disability benefit claimants over a five year period.

The development of the WP has included a series of innovations in the design, procurement, and delivery of outsourced employment services that are of significance both for other British programmes and possibly those in other countries.¹ The WP approach gives contracted providers more freedom to decide how to help participants; allows them a longer two-year period to provide help; and lets them intervene sooner; but with prime provider income largely dependent on placing participants in sustained employment. The Department for Work and Pensions (DWP) also has negotiated innovative funding arrangements with the British Treasury which means that providers are partly paid from the additional benefit savings they help to realise when they support claimants into sustained employment. The innovations in procurement, contract design and service delivery do, however, involve risks and this paper considers how well WP design is likely to safeguard the interests of service users as well as assist them make the transition into jobs.

The DWP Commissioning Strategy and the Work Programme

The WP built on reforms in procurement and contracting practices which had their genesis under the previous Labour Government. Until 2007 the Public Employment Service, Jobcentre Plus (JCP), was largely responsible for the procurement of a wide range of 'New Deal' employment programmes designed to meet the needs of particular groups, including the young and long term unemployed, with only a small element of provider funding being dependent on job outcomes.

As in many other OECD countries outsourced employment services provision was delivered by an extensive network of non-profit, public and for-profit organisations. Procurement reforms led to a significant reduction in the number of organisations involved in delivering JCP programmes with the network of providers shrinking from some 2,000 in 2004 to 438 in 2009 who at that time were delivering 1,153 contracts with an estimated annual value of just under £1 billion (DWP, 2007).² Over the period DWP were centrally procuring and testing payment-by-results (PbR) contracts including, from 2000, 'Employment Zones' (EZs). In these high unemployment areas private providers were given greater flexibility in service design but in return took on more risk with a greater proportion of their income dependent on placing people in sustained employment (Finn, 2011).

¹ In the UK outsourced payment-by-results programmes are now also targeted at 'troubled families', the young unemployed and ex-offenders and in the Republic of Ireland a variant of the prime contractor model is being utilised in the procurement of the Jobpath programme for the long term unemployed – see <http://www.welfare.ie/en/downloads/JobPath-Info-Session-260713.pdf>

² By contrast JCP operating costs in 2009-10 were just over £3 billion.

More radical reform was subsequently proposed in a review which envisaged the creation of a more effective 'welfare market'. The 'Freud' Report' (2007) suggested little change to the high volume standardised 'work first' and benefit services delivered by JCP for the short term unemployed but proposed radical change for the longer term unemployed and other 'harder to help' groups, especially the large population of people claiming disability benefits.

The Report concluded that existing contracting arrangements were inadequate. Contracts too often specified process rather than outcome and they included restrictions on recruitment and expenditure that prevented providers from expanding provision or being rewarded for increased achievement. Contracts were commonly small scale, had a multiplicity of requirements and start and finish dates, and were too short, discouraging providers from making longer term investment in their service delivery capacity. The Report proposed instead a very different performance based model based in part on the lessons from EZs and from best practice in other countries, especially Australia.

There were three innovative elements to the proposed contracting model:

- **Prime providers and supply chains:** The system would be made attractive to larger scale, well capitalised prime providers who would be awarded long term and higher value contracts and would have responsibility for marshalling an appropriate blend of subcontractors to deliver services for a wide variety of participants. A prime contractor would need to arrange the finance, invest 'up front' and bear a greater share of the risk but with organisations knowing they would have an income stream from future outcome fees.
- **The outcome based funding model:** The payment system would reward long term employment retention with outcome payments based on sharing with providers the benefit savings accrued when a participant sustains long term employment. The payment system would be differentiated recognising that helping some specific groups was more costly than helping others.
- **Service standards and the black box:** The contracting regime would set a core standard for the treatment of all participants, but the provider would have flexibility to deliver individually tailored back to work support based on specific participant needs (with an Appendix making the first official reference to the concept of 'black box' support: Freud, 2007, p. 118).

The Work Programme

Whilst in opposition the Conservative Party had fully embraced the proposals in the Freud Report and, in a minor political 'coup', they recruited the author, ennobled him, and he was subsequently appointed Minister of Welfare Reform. By 2010 the Conservatives had committed to introducing a single WP to cater for the longer term unemployed and those on disability benefits, and this proposal was jointly agreed by the Coalition Government elected in 2010. New Ministers swiftly announced implementation plans claiming that the WP represented a 'revolution in back to work support' and that third sector organisations would play a significant role in its delivery.

The WP is targeted primarily at young and long term unemployed people receiving Jobseekers Allowance (JSA) and at those people with health problems or disabilities who receive the Employment Support Allowance (ESA) and are assessed as capable of work-related activity.³ Some claimants are able to participate on a voluntary basis but most are mandated to attend by JCP and must undertake the activities they agree with their WP provider. In any case of non-compliance the provider refers the case to JCP who remain responsible for decision making in relation to benefit entitlement.

In keeping with black box procurement the WP 'Invitation to Tender' (ITT) made clear that there would be no detailed prescription of service provision from central government and that providers had freedom to deliver in the 'most efficient and innovative way possible' (DWP ITT, 2010). Bidders were instead invited to indicate how they would support potential participants to obtain and sustain employment and in response the bidders gave detailed outlines of their varied service delivery strategies (see later). Prime contractors were required also to specify the minimum service standards they would offer to participants and must provide a document to participants on entry to the programme setting out these service standards and the first steps an individual should take in making any complaints.⁴

After an initial consultation period WP prime contractors were selected through a two stage process during which potential providers had to show how they intended to subcontract any services and manage their supply chains. WP bids were assessed in terms of cost and quality. There was some controversy that none of the points awarded were based on proven performance, and only 10% of the points were attributable to each bidder's information on how they would achieve the performance levels offered.

A National Audit Office (NAO) comparison of the scores for successful and unsuccessful WP bids suggested that neither quality nor price predominantly determined the outcome. The report expressed concern, however, about the level of price discounts and high levels of performance commitment given by successful prime contractors suggesting that the post-contract deterioration in economic conditions posed risks for WP service quality and prime provider viability (NAO, 2012a).

Figure 1: Work Programme Prime Contractors and Contract Values

Prime contractor (number of contracts won)	Estimated total contract value (£m)
Ingeus (Deloitte) UK Ltd (seven)	727
A4e Ltd (five)	438

³ Eligibility for ESA is determined through a 'work capability assessment' with applicants found capable of work and therefore not eligible; capable of some work and placed in a 'work related activity group'; or not capable of work and placed in an unconditional 'support group'. WP participation was initially limited to ESA claimants who were given a probability of returning to work within six months but this was subsequently extended to those thought able to return to work within twelve months.

⁴ There are other non-negotiable requirements for prime providers that concern compliance with legislation, e.g., on data confidentiality, health and safety and equalities; with DWP 'codes and standards'; and with procedures to meet European Social Fund auditing and regulatory requirements. Providers also must ensure effective anti-fraud control mechanisms are in place for themselves and their contractors.

Working Links (three)	308
Avanta Enterprise (three)	267
Seetec (three)	221
Maximus Employment (two)	176
G4S (three)	184
Rehab Jobfit (two)	156
Serco Ltd (two)	115
Newcastle College Group (two)	101
Careers Development Group (one)	97
Pertemps People Development Group (one)	90
EOS (one)	90
ESG (one)	70
Reed in Partnership (one)	69
BEST Ltd (one)	65
JHP Group Ltd (one)	44
Prospects Services Ltd (one)	50

Source: NAO, 2012a, Appendix Three.

The Work Programme Payment and Pricing System, Minimum Performance Levels and Market-Share Shifting

The WP funding model is designed so that by 2014 DWP will only pay providers if they are able to place and retain participants in sustained employment. The 'Invitation to Tender' set clear performance targets, in terms of the number of people getting jobs and keeping them, with a detailed payment system linking practically all the funding to long term employment outcomes. There are four elements to the payments made to WP contractors:

- An **attachment payment**. This is paid when an individual referral to the prime provider results in a successful 'attachment', usually triggered in the first meeting with an adviser. The attachment fee reduces to nil by the start of the fourth year.
- A **job outcome payment**. When a claimant has been in work for either a continuous or cumulative period of employment, as defined by DWP. Job outcome payments for some claimant groups will be reduced in the later years of the contract.
- A **sustainment payment**. This is paid every four weeks for keeping a claimant in employment after a job outcome payment has been made. The maximum number of sustainment payments differs between groups, with up to 26 sustainment payments possible for the hardest-to-place groups.
- An **incentive payment**. For jobs delivered beyond a given performance level – defined by DWP as 30% above the non-intervention rate (NIR) - the number of claimants who would have found employment without assistance from the WP (see later).

The funding model includes differential prices with participants divided into nine payment groups, based on the benefit the person is receiving when they start with the provider. The payment groups act as a proxy for the relative employment probability of participants with higher prices paid to support those furthest from the labour market (see Figure 2).

The differential amounts for each group were determined by DWP which set the maximum prices for each payment category by assessing the benefit savings of placing a claimant in sustained employment combined with their estimates of the cost to the provider of delivering an outcome (based on evidence from earlier programmes). In addition, for the largest group of expected participants - JSA claimants unemployed for over 9 or 12 months - the Department reduced the maximum 'Job Outcome Payment' from year three of the contract as they wanted to secure a share of the benefits expected as providers learned 'what works and how to deliver efficiencies'.

The pricing model was influenced also by the Department's estimate of performance and of the 'non-intervention rate' - the estimated percentage of participants that would have got work if claimants had only undertaken fortnightly signing at JCP (derived from historical benefit off-flow and job entry rates). This NIR is linked in turn to another WP innovation – **the 'minimum performance level' (MPL)**. The **contract specifies that prime contractors must achieve job entry rates at least 10% above the non-intervention performance level for the three largest participant groups** for whom viable estimates could be made (see Figure 3). These cover JSA claimants aged 18–24 years old; JSA claimants aged 25 and over; and new ESA claimants. MPLs were not set for the remaining payment groups but DWP did establish indicative performance targets.

Prime contractors now must meet the minimal performance levels in each CPA or they are subject to detailed performance improvement plans and ultimately risk losing their contract should results not improve. A further innovation, adapted from the Australian model, and intended to intensify competition is that of 'market share shifting' where from mid-2013 DWP was able to move some 5% of new referrals *within* each CPA from low to high performers. The first such changes commenced in 10 CPAs in August 2013 (DWP PR, June 2013).

Figure 2: Work Programme Participants and Payment Groups

Payment group	Participation	Max year 1 attachment fee	Max year 1 job outcome fee	Sustainment fees+	Total
1. JSA aged 18-24	Mandatory	£400	£1,200	£2,210	£3,810
2. JSA aged 25+	Mandatory	£400	£1,200	£2,795	£4,395
3. JSA Early Access	Mandatory or voluntary depending on circumstance	£400	£1,200	£5,000	£6,600
4. JSA Ex-IB	Mandatory	£400	£1,200	£5,000	£6,600
5. ESA Volunteers	Voluntary	£400	£1,000	£2,300	£3,700
6. New ESA claimants	Mandatory or voluntary depending on circumstance	£600	£1,200	£4,700	£6,500
7. ESA Ex-IB	Mandatory or voluntary	£600	£3,500	£9,620	£13,720

	depending on circumstance				
8. IB/IS	Voluntary	£400	£1,000	£2,300	£3,700
9. JSA Prison leavers	Mandatory	£300	£1,200	£4,000	£5,500

+ Paid monthly for varied periods with longest payments targeted at mandated clients receiving ESA.
Source: Table 3, WPSC, 2013. JSA = Jobseekers Allowance; ESA = Employment Support Allowance; IB = Incapacity Benefit

Figure 3: Work Programme Minimum Performance Levels

Jobs / Referrals	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
JSA aged 18 to 24, mostly unemployed at least nine months	5.5%	33%	44%	44%	40%	30%	10%
JSA 25 and over, mostly unemployed twelve months	5.5%	27.5%	33%	33%	33%	27.5%	5.5%
ESA Flow of new claimants	5.5%	16.5%	16.5%	16.5%	16.5%	11%	5.5%

Source: DWP ITT, 2010.

JSA = Jobseekers Allowance; ESA = Employment Support Allowance.

Black Box Contracting and DWP Performance Management and Oversight

The 'black box' approach does not apply to performance, programme delivery and post-contract supply chains. DWP monitors prime contractor performance and if an organisation wishes to make changes in service delivery or in their supply chains they must explain and justify them to DWP with significant alterations requiring contract variations. Prime contractors do, however, have greater operational flexibility and the scrutiny of service delivery is 'light touch' in relation to earlier programmes. In particular, there is less detailed oversight of quality and participant experience that in previous programmes had been undertaken by an independent inspectorate.⁵

DWP has developed its approach to contract management over time. Oversight is now undertaken by a relatively small cohort of some 120 specialised performance and account managers alongside other officials who have particular supervisory responsibilities, such as specialists investigating allegations of fraud or other financial abuses.

Inside the Black Box: Supply Chains and Service Delivery

DWP evaluations report that prime contractors developed their service delivery and supply chain models by drawing on and combining their knowledge of 'best practice' with their previous operational experience within their British and, for many, their overseas programmes (Lane et al, 2012). Prime providers also utilised their experience in managing other more or less complex delivery systems.

⁵ In 2010 DWP announced that 'Ofsted', the independent regulator for most education and training provision in England, would no longer undertake inspections of the Department's welfare to work programmes. Instead the remit of DWP's own provider assurance teams was extended to cover, "in a light touch way", some of the quality issues that formed part of external inspections.

Work Programme Prime Contractor Models and Supply Chains

Two different models of prime contractor delivery practice have developed. The first model comprises a **prime managing agent** who provides no direct services and delivers all WP activities through a supply chain of contractors. This is the model chosen by two of the largest for-profit primes, Serco and G4S, and by 'Rehab Jobfit', which DWP classifies as a non-profit organisation.⁶ The added value of these organisations lies in their expertise in building and performance managing supply chains and in organising finance.

The other model is that of a **prime delivery agent** who combines direct delivery and subcontracting with a supply chain. Variants of this model are used by the other 15 prime providers, most of whom directly deliver a wide range of employment programmes in both the UK and in other countries. There are variations in the level of services that are contracted by these primes, ranging from a low of some 15% through to a more typical 30% to 40% of provision. About half of these organisations also act as subcontractors in the supply chains of primes in other CPAs.

Prime supply chains and delivery models also comprise different tiers of subcontractors.

Tier 1 comprises subcontractors who deliver an 'end to end' service in which they are usually responsible for the participant from the point of JCP referral and 'attachment' through to a job outcome, and sometimes through to subsequent employment retention support. Some prime providers, such as Serco, segment these services. Tier 1 subcontractors tend to have high value and more certain contracts on which they can make relatively firm planning assumptions. The terms of their contracts with primes often involve the prime charging a management fee, typically between 10% and 20% of the fees received by the prime, with the payment periods for job outcomes mirroring the terms of the prime's main contract with DWP.

Tier 2 subcontractors include many specialist providers and those delivering targeted interventions. These organisations are likely to provide specific services via 'service level agreements' and 'call-off' or 'spot purchase' contracts. They provide services as and when required by the prime or its tier 1 subcontractors rather than entering contracts for a specific share of the prime's provision. There are likely to be other suppliers beyond these tiers who may be used to deliver one off, unique interventions in response to a particular participant's needs and circumstances.

Prime providers suggest that they have made significant 'up front' investments in their supply chains, especially in staff training and recruitment, ICT systems, and the acquisition and refurbishment of premises (Lane et al, 2012). They also have invested in performance management systems undertaking regular reviews with subcontractors, sharing best practice and intervening with performance improvement

⁶ 'Rehab Jobfit' is a joint venture between the non-profit Rehab organisation that is based in the Republic of Ireland, and Interserve. Interserve is a for-profit company and one of the 'world's foremost support services and construction companies', operating in the public and private sectors in the UK and internationally, with an annual revenue in excess of £2 billion and a worldwide workforce of 50,000 people. In May 2012 Interserve also acquired another WP prime contract through its takeover of the Yorkshire based BEST services.

strategies where needed. All primes use competition in their supply chains typically publishing regular performance tables so that subcontractors and their own staff are immediately aware of their relative performance position. Several primes shift market share and have subcontractors competing in the same delivery areas. Other primes stress a more collaborative working style, albeit within the context of meeting performance targets. There also have been investments in developing relationships with local and, for the larger primes, national employers.

The concern about the impact of prime contracting on non-profit, smaller and specialist providers means there is particular interest in the composition of WP supply chains and how they change over time. There is, however, limited information publicly available. DWP, for example, publishes a numerical sector audit of the subcontractors identified by prime contractors but this is of limited value as it gives no indication of the services delivered or the value of the contracts held by different organisations.

Work Programme Service Delivery Models and Minimum Standards

Prime contractors deliver a range of employment-related services. There are variations but all primes place employment-focused front line advisers, supported by IT-based case management systems, at the core of their different delivery models.⁷

Each prime typically has an initial 'engagement phase' that manages the transition from JCP referral to programme attachment. JCP randomly assigns all eligible participants to prime providers who then utilise their own diagnostic and profiling tools to typically segment participants into three groups. This is followed by a 'work first' job broking and job placement stream for those considered more job ready; a barrier reduction phase for those requiring intermediate assistance; and longer term provision for those with major employment barriers, including the use of more specialised services.

The range of services offered by prime providers may be divided into five categories:

- **Case Management:** This includes referral, intake and 'attachment' activities, the development of an individual activity plan, assessment of the need for services, case monitoring and tracking, and the initiation of sanctions for noncompliance with employment or work activity requirements.
- **Employment Services:** Prime contractors operate 'work first' policies with an emphasis on job search and placement balanced now by the need to retain people in employment. Services typically include individual and group job search and placement assistance, as well as referrals and linkages to more intensive employment programmes, such as work experience and vocational, usually job-specific training.⁸

⁷ These advisers are categorised and referred to by a variety of job titles, for example, personal advisers or recruitment consultants. For simplicity in this paper they are referred to generically as advisers.

⁸ One notable variation concerns EOS, a for-profit with one prime contract in the West Midlands, which has created 'Employment Centres' that provide extensive in-house work experience/simulated work environments to develop sector relevant skills and experience.

- **Support Services:** These may include temporary assistance with child care and transport, referrals to other services, and signposting to longer term services that may be accessed whilst in employment.
- **Specialised Services:** These include direct services such as condition management, physical rehabilitation and physiotherapy, as well as referral to organisations that specialise in meeting the needs of particular groups, such as those with mental health conditions, drug treatment needs, debt advice and so on.
- **In-work, Retention and Re-engagement Services:** This typically includes post-placement support from an adviser to help manage the transition into employment through to the job outcome payment. This is followed by call centre follow up services to both confirm employment status for claiming sustainment payments and to promote swift employment re-engagement where participants leave or lose their jobs.

The availability of such services is underpinned by the 'minimum service standards' specified in the primes' WP contract. There is, however, much variation in the commitments given and the level of detail. Some prime contractors have committed to meeting participants at set intervals and specified the services that may be available. Others have committed only to high-level statements of what participants may receive with minimal details on frequency of contact and of the actual services available. The House of Commons Work and Pensions Select Committee (WPSC) and NAO have criticised this approach as it makes it difficult for DWP to measure the comparative level and quality of WP provision (see Figure 4). The minimum standards also provide only limited safeguards for participants who may receive few services or experience 'improper practice' (NAO, 2012a; WPSC, 2013).

Primes utilise combinations of service contacts with participants including face to face, group, online, telephone, drop-in and self servicing, with many investing in virtual 24 hour services that allow participants to, amongst other things, access online job search supports, vacancies and learning courses. Front line offices and resource centres typically are open plan, house advisers, and offer a range of facilities such as interview and training rooms, open access IT suites and job search resource rooms. These premises usually are based in or close to major town centres and accessible by public transport. In rural areas primes may contract with local providers and/or combine outreach facilities with online and telephone based services.

There are variations in how prime providers and subcontractors organise, train and pay their advisers. In some organisations advisers manage their caseloads from the point of attachment through to job placement and retention. Other organisations segment advisers allowing them to specialise in different phases of the 'customer journey' or in working with particular groups, such as, ESA participants.

There is little comparative data on WP caseload sizes but evidence to the WPSC suggested that average caseloads of 120 to 180, and sometimes higher, were common (WPSC, 2013, p.8). Only one prime provider committed publicly to an active caseload size of eighty for each of their advisers. An evaluation of the predecessor comparatively better funded 'Flexible New Deal' found that caseloads ranged from 60 participants per adviser at a small end-to-end subcontractor to 120

participants at a prime provider office (Vegeris et al, 2011, p.24). By comparison in 2010 JCP adviser caseloads varied between 118 and 213, with a national average of 168 (NAO, 2013, p. 18).

Many providers expect all advisers to contact employers and/or they may employ specialist ‘employer engagement consultants’ or ‘reverse marketers’. The aim is for such advisers to find unadvertised job vacancies in the local economy and to persuade employers to consider WP participants for them. Providers often promote their services in helping reduce employer recruitment costs and offer smaller employers in particular assistance with recruitment, bespoke training, and sometimes subsidies in return for recruiting their participants. Such services include offering continuing support to employers and their workers after recruitment and on-going engagement with WP providers may make it easier for employers to meet demand for new recruits (CBI, 2012).

Figure 4: Work Programme Prime Provider Minimum Service Standards Given in Initial Contracts

Initial contact	Four will make initial contact by phone within two days of referral; one within three days of referral; three within ten days; and two within 15 days. Three state they will make a welcome call but do not specify when.
Initial face-to-face meeting	Three state an initial meeting will take place within ten working days of referral; three state 14 working days; three 15 working days; one 20 working days. Three do not state when initial meeting will take place.
Meetings with personal adviser	Eleven state that an adviser will meet with the claimant every fortnight; four commit to every month; one states that a participant will meet with an adviser regularly but does not specify how often. Five do not mention the timing or method of the initial contact. Five do not mention an initial adviser meeting. Two do not mention a regular meeting with an adviser.
Fares for interviews	Six will reimburse claimants for attending appointments. Twelve do not state they will provide financial support to claimants to attend provider meetings.
Other pre-work contact	Two state provision for claimants to get in contact.
In-work support	Three provide either call centres or some other method that claimants can use to contact the provider for support and advice once in work. Of these, only one will contact claimants based on the risk profile of the claimant. One will contact claimants regularly; one provides access to online learning support; and one will provide a 24-hour independent helpline for advice.
Support for harder-to-help	Thirteen offer additional support for participants that face substantial barriers to gaining work or a bespoke programme of support.

Source: NAO, 2012b, Table 12.

Work Programme Performance: the first two years

Up to the end of June 2013, 1.31 million people had been referred to the WP, of whom 97% had been ‘attached’ and had started to receive at least some support from their prime provider (DWP, 2013). Some 85% were JSA claimants of whom two-thirds were male. About half of the ESA group were male and female respectively.

Monthly referral numbers have been declining steadily and were, on average, 36% lower during April 2012-March 2013 than in the first year of the programme. This decline reflects a fall in the number of people claiming benefits who were becoming long term unemployed and the fact that the 'stock' of participants on predecessor programmes was transferred to the WP during year one. There had been a significant change in intake patterns. Whilst only 3% of the June 2011 monthly intake were ESA claimants they made up nearly a third of the intake in June 2013.

Government Ministers controversially resisted early publication of job outcome data and the first official results were only published in November 2012 - some 17 months after delivery began - covering the period from June 2011 to the end of July 2012. This data showed that 31,000 job outcome payments had been made to primes and that performance was significantly lower than the 5.5% MPL targets anticipated by DWP and committed to by providers. All primes were technically in breach of contract.

The second set of performance data was published in June 2013, with official statistics now released on a quarterly basis. The most recent data, on outcome payments made to providers between June 2011 and June 2013, reveals that 168,420 outcome payments were made, representing 14.7% of the 1.14 million individuals who had been on the programme the minimum sufficient time (3, or usually 6 months) to trigger a job outcome payment. The results showed improvement in the second year with the programme nearly meeting the MPL targets for the most numerous JSA groups and with individual providers exceeding them. However, performance was still well below the MPL for those participants claiming ESA with providers struggling to place and retain them in employment.

Although the relative improvement in MLP performance was genuine it was amplified by a technical flaw in how the measure is calculated. Effectively the job outcomes for one year are measured against the number of people entering the programme in the same year. Because the number of entrants in the second year was significantly lower the higher flow through and job outcomes of participants who were now in their second year on the programme artificially boosted performance. A more accurate measure is given by simply considering those participants who achieved a job outcome in their first year on the programme. This suggested that while performance for JSA participants had been improving month on month it was still effectively below DWP MPLs (CESI, 2013, p.2). The authors attributed much of this effect to weaker labour market conditions than originally assumed, but they also reported that the improvement in JSA performance had reached a plateau. By contrast job sustainability for JSA participants was above DWP's original expectations.

DWP does not routinely publish data on *job entries* but this is separately published by the Employment Related Services Association (ERSA), which represents prime providers and other subcontractors. This gives an early indication of future job outcome trends. This data reported that by June 2013 there had been 384,000 individual job entries (ERSA, 2013). Prime providers estimate that between 65% and 85% of these participants will experience enough employment and go on to qualify for job outcome payments. ERSA suggested providers were placing participants into jobs at a faster rate than in the first year and that the longer individuals were on the

programme the more likely that they would be placed in employment. However, only 39% of people who had participated the full two years had started a job.

Despite an improvement in performance it is clear that the majority of WP 'graduates' have not been placed and a growing number of long term unemployed and disabled claimants are now exiting the programme without employment. By June 2013 96,110 participants had completed two years on the WP (DWP, 2013). Of these 14% had entered employment and achieved the maximum number of sustainment payments; 27% were in employment and still eligible for sustainment payments; and 56% had returned to JCP provision.⁹ In response DWP has developed an intensive mandatory job search regime for JSA WP returners that includes 'work-for-your-benefit' schemes.

Criticisms of Service Delivery and Black Box Contracting

The implementation of the WP has been punctuated by negative media coverage initially about alleged 'fraud' and profit taking on the part of some providers¹⁰ but more continuously about the poor quality of service for some participants, with some providers and/or in some locations. The evidence for the claims consists mainly of anecdotal reports from individual claimants and campaign groups, reported in the media or on internet sites, and complaints to Members of Parliament. The criticisms concern advisor caseloads being too high; poor service quality, with participants complaining about infrequent contact and/or a lack of resources, such as computers and other job search materials; and 'improper practices' with, for example, some participants being required to do unpaid work experience for their providers or with other poorly vetted organisations.

Other criticisms have concerned the impact on non-profit subcontractors who have received no or fewer than anticipated WP referrals, with some concluding that they had been used as 'bid candy' by the primes they had agreements with. A few non-profit organisations have publicly withdrawn from the programme whilst others have renegotiated their contracts with primes. There have been complaints also that 'harder to place' participants have been parked and that some WP providers were 'cost-shunting' by referring participants to non-profit providers who were delivering specialist or volunteer services funded from other sources.

It is difficult to generalise from the accounts given although they received some endorsement in respective inquiries undertaken by both the House of Commons Work and Pensions and Public Accounts Committees (WPSC, 2011, 2013; PAC, 2012). The Committee's have drawn particular attention to concerns about the quality of services delivered and the extent to which primes may be parking harder-to-help participants.

⁹ Some of these claimants spent some time in employment during the 104 weeks but returned to benefit not having achieved the maximum number of sustainment payments.

¹⁰ The few direct cases of fraud that have been identified concern payments made in earlier programmes where there was less rigorous checking of claimed job outcomes (NAO, 2012b). The evidence on profit-taking concerns the behaviour of the owners of particular companies, especially A4e - see, for example, <http://www.dailymail.co.uk/news/article-2187087/A4e-Emma-Harrison-Paying-8-6m-tax-payers-money-right-thing-do.html>.

Evaluation evidence on WP service quality is limited, with more rigorous findings available only from the DWP's own evaluation.¹¹ The first DWP commissioned report gave findings from qualitative research with participants and front line staff undertaken in six areas and involved interviews with some 90 participants and 56 staff from providers and Jobcentres (Newton et al, 2012). The research found early delivery problems including the impact of far higher numbers of JSA claimants being referred into the programme than primes had planned for. There were examples also of poor communication and information flows between JCP and prime providers concerning 'handovers' when participants entered the programme and in the sanctions process where, for example, JCP failed to notify providers of relevant changes in circumstances.

The evaluation confirmed that the primary delivery approach in the WP revolves around the development of an individual action plan and the allocation of participants to an adviser for one-to-one support. The details of how, when and with what intensity action plans were used, varied considerably as did "the degree and manner in which the participants' own preferences and views were incorporated into the planning process" (Newton et al, 2012, p.4). Some action planning processes followed standard procedures with generic actions whereas other providers gave advisers a wider range of discretion allowing them to negotiate and personalise the actions for individuals. The action plans were subject to review and updating and were used to monitor participants' progress and to actively move them in stages towards their job goals.

Nearly all participants interviewed wanted to work but prior to entering the programme they had been taking little action other than meeting the basic job search requirements placed on them by JCP. This apparent passivity was often explained as being the result of many months (years in some cases) of unsuccessful job searching, the discouraging effect of repeated failures to find work, and the persistence of perceived barriers to work (such as poor health, age, lack of work experience, low basic skills, few or no formal qualifications, or a criminal record). There was some evidence that participants' perceptions and reported behaviour had shifted during participation with some reporting that their "advisers were spending more time, taking more interest in them as individuals, and working more proactively on their behalf than had their counterparts in previous programmes" (Newton et al, 2012, p. 93). It appeared that the quality of the initial contact with the provider was a critical influence on attitudes and motivation. Regular, positive interactions with advisers were reported to increase participant engagement and motivation whereas negative attitudes would be reinforced if participants were asked to engage in inappropriate or irrelevant activities or they experienced pressure to enter what they considered to be unsuitable employment.

Patterns of contact between advisers and participants were, however, 'extremely variable' both between different providers and between different types of individuals. Providers reported that the frequency and intensity of adviser-participant contact was lower than they had envisaged with high caseloads restraining the ability to tailor support to individuals. There was also evidence that advisers "prioritised more job-

¹¹ DWP have commissioned a consortium of independent research organisations to undertake an independent mixed-methods evaluation of the WP. Research commenced in 2011 and will conclude in 2014.

ready participants due to higher than expected caseloads and growing pressure to achieve job outcome targets” (Newton et al, 2012, p.4).

The evaluators suggested that whilst the programme was delivering a degree of ‘procedural personalisation’ through one-to-one adviser support and action planning there was less evidence of ‘substantive personalisation’ in “the sense of participants receiving distinct and, if appropriate, specialised support aimed at addressing their identified individual needs”. This conclusion was based largely on the fact that the evaluators found a “frequently-observed reluctance to make referrals to specialist support” (ibid, p. 7).

The impact on Third Sector Organisations

Much controversy surrounds the impact of WP prime contracting on the third sector. There are criticisms of the design of prime contracts, which effectively excluded all but the largest voluntary organisations; the terms of the contracts offered by prime providers; the exclusion of some TSOs from prime supply chains; and the low number of referrals to specialist providers. Government ministers reject such criticism and point to safeguards, such as the ‘Merlin standard’, that requires primes to have positive relationships with non-profit subcontractors. They also place particular emphasis on the potentially positive role of TSOs and point out that there are two voluntary sector led prime providers, with over 400 other voluntary and community sector organisations delivering subcontracts.

The future of TSOs in the ‘welfare market’ is unclear. Comparative evidence from Australia and the USA, however, gives some insight into the longer term impacts of outcome and performance based funding systems.

In both comparator countries, as in Britain, non-profit organisations play a key role in the delivery of employment and training programmes especially in periods of high unemployment. Such non-profit involvement grew significantly until the 1990s when the introduction of ‘work first’ welfare reforms, falling unemployment and new contracting systems signalled a significant ‘shake out’ of such providers and greater involvement by for-profit companies. Officials in each country suggest this change removed less effective providers and made the remaining non-profits more efficient and ‘business-like’. Others perceive a loss of important community assets and social capital with negative impacts especially on disadvantaged communities.

A detailed US study of larger non-profit organisations with major contracts found that while some struggled with the challenge, others improved their performance and ‘developed services consistent with their social mission’. As in Australia such organisations had comparative disadvantages, such as their restricted capacity to take financial risks and raise capital on financial markets, but this was offset in part by their ability to raise funds from individuals and foundations to enhance their service provision and to reinvest in services rather than distribute their surpluses as profit.

The experience of smaller non-profit organisations in both countries has been equally mixed. Many studies report how some have exited the market, either because they failed to win contracts or chose not to compete. Other organisations

continue to criticise the new contracting regimes on equity and service quality issues due to the transition from grants to contract and performance incentives. Some, providers of specialised services have been able to win contracts directly. In Australia and the US cities that use prime contractors smaller organisations frequently bid as partners or named subcontractors. The larger for-profit or non-profit organisations provide capital and management, financial and programme expertise, while the smaller community based organisations offer specialised knowledge of particular client groups and credibility with hard to reach communities.

In Australia non-profit involvement has been critical for government to ensure provision in areas less attractive to for-profit providers, either due to location or the particular characteristics of client groups. One feature of non-profit delivery in both countries is that involvement has not appeared to generate the levels of political opposition experienced by the for-profits.

There are few rigorous studies of the differences between non-profit or for-profit service delivery. Case study and anecdotal evidence suggests they have different management styles, and that staff employment conditions, incentives and training vary in important ways. Some studies report, for example, that for-profits appear to work closely to the conditions of the contract and are driven by performance outcomes. In contrast, non-profit providers were more likely to meet the needs of their clients despite their contract obligations. In Australia, for example, some studies suggest that even within a competitive environment non-profits remained committed to providing more intensive services, had higher staff to caseload ratios, and sought to minimise the impacts of sanction policies. By contrast other studies suggest that there has been convergence, with non-profit delivery becoming indistinguishable from that of for-profits, and with a muting of the advocacy role of non-profits.

These findings suggest wider concerns for TSOs beyond the number, terms and value of any contracts with primes. It may be as important to monitor the impact of the WP and other prime contracting models on the composition of the non-profit organisations involved. It will also be important to understand the impact that outcome based contracting and a harsher welfare regime has on the social purpose of TSOs and on their claim to distinctiveness in service delivery.

Conclusion

Even though WP prime providers have overcome the early problems associated with the transition to a new delivery system they face formidable challenges. To be successful they are expected to generate unprecedented levels of employment outcomes and provide services to participants for longer at significantly lower cost than any earlier comparable British employment programme. The paradox of the PbR funding system is that if providers are not successful in securing job outcomes the funding shortfall will be amplified, with Government apparently saving money but with fewer resources invested in services.

This performance challenge has been intensified further by other trends where the labour market projections on which the DWP funding model was based have proven optimistic, with unemployment higher and employment lower than anticipated. This

context has been further exacerbated by poorly predicted changes in the absolute numbers and the benefit characteristics of those referred to the WP, with an initial surge of long term unemployed JSA claimants now giving way to a much lower level of absolute referrals with a significantly higher proportion of them in the hardest-to-place ESA category. These factors have contributed to early and continuing pressures on the programme that have required prime contractors to rapidly adapt service delivery capacity and make speedy adjustments to supply chains.

In this context it seems inevitable that, as in the public sector, providers and their advisers will prioritise, in light of their objectives and resources, those with whom they work most intensively. Cumulative evaluation findings suggest that front line advisers are going to assess new participants both on formal and informal employability scales deciding on those they can assist into sustained employment and those who are more responsive and committed to the support on offer. The differential front line delivery of employment assistance appears an inevitable consequence of the limits of the available funding, the available job opportunities and the tractability of the barriers faced by many WP participants.

Over the next three years it will become clearer if British policy makers have managed to fashion a contracting regime that has been able to harness the resources and the capacities of the private and third sectors to deliver improved personalised services that assist workless people to get and keep jobs. It may be, however, that delivering welfare to work and other public services through PbR 'black box' contracts simply will have reduced the visibility of government decisions, disguised reductions in the funding and quality of programmes, with many participants being 'parked' rather than helped to find work or desist from offending.

References

- CBI (2012) *Work in progress: fulfilling the potential of the Work Programme*, Confederation of British Industries, London.
- CESI (2013) *Work Programme statistics: Inclusion analysis*, 26 September, Centre for Economic and Social Inclusion, London.
- DWP (2013) *First Release: Work Programme Statistics*, 26 September, Department for Work and Pensions, London.
- DWP (2008) *Department for Work and Pensions Commissioning Strategy*, Cmnd 7330, London, The Stationery Office.
- DWP (2007) *In work, better off: next steps to full employment*, Cm 7130, Department for Work and Pensions, London.
- DWP ITT (2010) *Work Programme: Invitation to Tender*, Department for Work and Pensions, London.
- ERSA (2013) *Work Programme Performance Report*, 20 June, Employment Related Services Association, London.
- Finn D. (2007) *Contracting Out Welfare to Work in the USA: Delivery Lessons*, Research Report No. 466, Department for Work and Pensions, London.
- Freud D. (2007) *Reducing dependency, increasing opportunity: Options for the future of welfare to work: An independent report to the DWP*, London.
- Lane P., Foster R., Gardiner L., Lanceley L. and Purvis A. (2012) *Work Programme Evaluation: Procurement, supply chains and implementation of the*

- commissioning model*, Research Report No 832, Department for Work and Pensions, London.
- NAO (2012a) *The introduction of the Work Programme*, National Audit Office, London.
- NAO (2012b) *Preventing fraud in contracted employment programmes*, National Audit Office, London.
- Newton B., Meager N., Bertram C., Corden A., George A., Lalani M., Metcalf H., Rolfe H., Sainsbury R. and Weston K. (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, Research Report No 821, Department for Work and Pensions, London.
- PAC (2012) *Department for Work and Pensions: the introduction of the Work Programme*, Report of the Public Accounts Committee, House of Commons, Session 2010–2012, HC 1814, the Stationery Office, London.
- Vegeris S., Adams L. Oldfield K., Bertram C., Davidson R., Durante L., Riley C. and Vowden K. (2011) *Flexible New Deal Evaluation: Customer survey and qualitative research findings*, RR 758, Department for Work and Pensions, London.
- WPSC (2011) *Work Programme: providers and contracting arrangements*, Report of the Work and Pensions Committee, House of Commons, Session 2010–2012, HC 718, the Stationery Office, London.
- WPSC (2010) *Management and administration of contracted employment programmes*, Report of the Work and Pensions Committee, House of Commons, Session 2009–2010, HC 101, the Stationery Office, London.