

Research report

# Work Programme Evaluation

Procurement, supply chains  
and implementation of the  
commissioning model

by Pippa Lane, Rowan Foster, Laura Gardiner,  
Lorraine Lanceley and Ann Purvis

Department for Work and Pensions

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the Department for Work and Pensions

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# Glossary of terms

<b>Black box</b>	A term for minimum service prescription, which allows providers to decide which interventions to offer to programme participants into sustainable employment.
<b>Differential pricing</b>	A system of funding where providers are paid at different rates for outcomes achieved by different claimant groups with outcomes for the harder-to-help groups being paid at higher rates than those for groups closer to the labour market.
<b>End-to-end provider</b>	A provider that covers the range of general employment-related services a participant receives throughout their time on a programme.
<b>Jobcentre Plus</b>	Jobcentre Plus is part of the DWP. It provides services that support people of working age from welfare into work, and helps employers to fill their vacancies.
<b>Outcome-based funding</b>	Within an outcome-based funding programme, services are paid for on the basis of achieved outcomes (e.g. sustainable job outcomes) rather than for delivering the service (e.g. motivational training, interview techniques).
<b>Payment group</b>	Work Programme participants are divided into nine payment groups based on the benefit they claim and prior circumstances (e.g. prison leavers, young people formerly not in employment, education or training (NEET)). Providers are paid at different rates for outcomes achieved by different payment groups.
<b>Provider Referrals and Payments (PRaP)</b>	PRaP is an IT system which automates the clerical referrals and payments process for providers. This was introduced to replace paper-based systems, as well as to facilitate the smoother exchange of information about customers referred for provision.
<b>Quasi-market</b>	This is defined as a market of independent agents competing with one another for custom, but unlike a normal market the purchasing power comes not directly from consumers, but from the state.
<b>Specialist provider</b>	A specialist provider typically provides niche services, such as provision of support for those wanting to become self-employed or support related to a customer's health or underlying issues, such as drug rehabilitation or debt management.
<b>Supply chain</b>	The organisations providing services to Work Programme participants under contract to a Work Programme prime contractor.

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<b>Sustained job outcome</b>	This refers to a form of employment that lasts for at least 13 to 26 weeks (depending on the claimant group).
<b>The Department</b>	The Department for Work and Pensions
<b>The Merlin Standard</b>	The Merlin Standard is a standard of behaviour to which prime providers are expected to adhere in their relationship with their subcontractors. It is designed to encourage excellence in supply chain management by prime providers, to ensure fair treatment of subcontractors and development of healthy high performing supply chains, supporting the Department's Commissioning Strategy and Code of Conduct. All Work Programme prime contractors were required to gain Merlin accreditation in order to be a DWP prime contractor or risk losing their contract.
<b>Tier One provider</b>	Subcontractors in Tier One of Work Programme supply chains are responsible for delivering the end-to-end process or a specific element of the service, such as job-brokering.
<b>Tier Two provider</b>	Tier Two organisations work on a call-off basis, as and when a Tier One or prime contractor judges a participant could benefit from that organisation's help.
<b>Transfer of Undertakings (Protection of Employment)</b>	Protects employees' terms and conditions of employment when a business is transferred from one owner to another. Employees of the previous owner when the business changes hands automatically become employees of the new employer on the same terms and conditions.
<b>Welfare-to-work market</b>	The welfare-to-work market consists of a range of organisations providing various services through the Government's series of programmes to encourage and support the unemployed in finding jobs. Organisations come from public, private and third sectors and can offer a range of general employment-related services or specialist provision.

# Abbreviations

<b>CMO</b>	Compliance Monitoring Officer
<b>CPA</b>	Contract Package Area
<b>DWP</b>	Department for Work and Pensions
<b>EOI</b>	Expression of Interest
<b>EZs</b>	Employment Zones
<b>ERSA</b>	Employment-Related Services Association
<b>ERSS</b>	Employment-Related Support Services
<b>ESA</b>	Employment and Support Allowance
<b>ESF</b>	European Social Fund
<b>EZ</b>	Employment Zone
<b>FND</b>	Flexible New Deal
<b>HMRC</b>	Her Majesty's Revenue and Customs
<b>IES</b>	Institute for Employment Studies
<b>ITT</b>	Invitation to Tender
<b>JSA</b>	Jobseeker's Allowance
<b>MI</b>	Management Information
<b>MSC</b>	Manpower Services Commission
<b>NIESR</b>	National Institute for Social Research
<b>OBR</b>	Office for Budget Responsibility
<b>PAT</b>	Provider Assurance Team
<b>PbR</b>	Payment by Results
<b>PDP</b>	Performance Development Plan
<b>PIP</b>	Performance Improvement Plan
<b>PwC</b>	PricewaterhouseCoopers LLP
<b>PRaP</b>	Provider Referrals and Payment
<b>SPRU</b>	Social Policy Research Unit
<b>TUPE</b>	Transfer of Undertakings (Protection of Employment)
<b>VCSE</b>	Voluntary, community and social enterprise
<b>WCA</b>	Work Capability Assessment
<b>WRAG</b>	Work Related Activity Group

# Summary

This report presents findings based on the first wave phase of research forming part of the official evaluation of the Work Programme commissioning model.

The Work Programme is a major new, integrated welfare-to-work measure introduced nationally in June 2011, targeted at longer-term unemployed people, and providing support for two years to help them into sustainable work. The programme is delivered through a network of prime contractors and subcontractors, operating under a payment-by-results regime, with increased freedom to develop provision for the individuals they support.

The commissioning model for the Work Programme has several defining features which will be explored in the Work Programme evaluation, including:

- The prime-provider approach where one large ‘prime’ contractor commissions and manages a supply chain of subcontractors to deliver the contract. Prime contractors are given longer contracts to encourage up-front investment in expectation of a long-term income stream from outcome fees.
- Outcome-based payments where contracted providers will, over time, be paid purely on the sustained job outcomes that participants achieve. To reduce the scope for providers to focus on ‘quick wins’ at the expense of participants requiring more help, a ‘differential pricing’ model has been developed to compensate and reward providers for the increased costs of this support.
- Minimum service prescription (the ‘black box’ approach) allows providers to decide which interventions to offer to best help participants into sustainable employment. Quality is maintained through ‘minimum service delivery standards’ set by the providers themselves and agreed and enforced by performance management teams within the Department for Work and Pensions (DWP).

## Scope of this report

The Work Programme evaluation takes place over the period 2011 to 2015. The evaluation explores how the programme is commissioned, how it is delivered and what the experience and outcomes are for participants. This is the second evaluation report to be published and it focuses on the commissioning model. It covers a relatively early stage of implementation; examining the procurement process in depth and beginning to explore financial models and incentives.

The findings in this report draw on fieldwork conducted in late 2011 and summer 2012 in six of the eighteen (sub-regional) Work Programme contract package areas (CPAs). It draws on interviews with provider organisations outside Work Programme supply chains, with Work Programme providers and with DWP and Jobcentre Plus staff; and on an online survey of subcontracted Work Programme providers.

## Constructing supply chains

The procurement of the Work Programme took place between July 2010 and June 2011. It was a two-stage process where providers first bid to join DWP’s Employment Related Support Services Framework. Successful providers then competed for Work Programme delivery within 18 CPAs. Framework providers that chose not to bid for the Work Programme primarily voiced concerns about financial risk, including the untested nature of payment-by-results on this scale and the high level of performance required to realise financial rewards.

To construct supply chains for their bids, potential Work Programme prime contractors actively solicited expressions of interest (EOIs) from potential subcontractors. Some potential subcontractors subsequently decided not to bid; this was largely due to concerns about outcome-based payments and financial viability. Both potential primes and potential subcontractors found the EOI process to be resource-intensive and inefficient. The Employment-Related Services Association (ERSA), the welfare-to-work trade body, is working with providers to streamline such processes for future procurement.

## Use of subcontractors when bidding

There was evidence of some providers dropping out of supply chains between bids and go-live. However, this research found little to support the idea that subcontractors had been named in proposals purely to help them secure the contract and subsequently dropped from supply chains. During live running subcontractors which were not receiving referrals were often unhappy about this but tended to feel that this was due to other factors such as insufficient referrals volumes rather than lack of intent on the part of primes.

## Programme start-up

With just six months between the Invitation to Tender and go-live, the Work Programme procurement process was substantially quicker than procurement of previous programmes. This rapid process, in particular the time between the award of contracts and go-live, was seen by providers (and DWP) as a significant achievement, but also as a pressure on start-up. Particular issues included difficulties in securing staff and premises in areas where the prime had not delivered before. For some providers, legal issues surrounding the Transfer of Undertakings (Protection of Employment) (TUPE) was a major and complex issue that added to the pressure.

## Supply chain operation

All primes subcontract to Tier One providers which deliver end-to-end support. There are also Tier Two providers that deliver specialist or discrete services on a spot-purchase basis. There may be additional ad-hoc suppliers beyond these tiers. In mid-2012 all prime contractors passed the 'Merlin Standard' assessment which regulates positive behaviour in supply chain management.

It was common for Tier One subcontractors to report higher levels of referrals than they had originally expected. When taken alongside the quick start-up of the programme, this had caused pressure on services and in some cases led to greater use of group sessions and less one-to-one support than planned. Some Tier One specialist providers with guaranteed referrals were also required to diversify their services in order to provide mainstream support.

By contrast, few Tier Two subcontractors had guaranteed referral volumes and these providers commonly reported receiving few, if any, referrals. As a result, many Tier Two providers received very little income from the Work Programme. In some cases, lower than expected referrals had led to staff being laid off or kept on zero hours contracts. Many of these organisations were from the voluntary and community sector. Lack of referrals was explained as the result of a different profile of participants having been referred, requiring less specialist provision. Where there were referrals of this type often primes or Tier Ones chose to support participants themselves. This may lead to fewer specialist organisations involved the Work Programme in future. A contraction in the specialist market has been observed in other employment programmes.

## Driving performance

DWP performance managers were in regular (at least fortnightly) contact with primes and held monthly contract performance reviews to monitor Performance Development Plans (PDPs). Relationships were considered to be good, but some performance managers felt their work was hampered by poorly defined minimum service delivery standards in contracts and by a lack of real-time performance data.

Primes identified a fundamental difference in understanding between themselves and DWP performance managers about how much flexibility providers were allowed in their delivery models. Performance managers generally viewed the ‘black box’ as having only applied during contracting whilst many providers believed they had the freedom to flex delivery during live running to meet participant needs. This led to frustrations on both sides. Primes also reported receiving conflicting messages from staff within DWP on the level of flexibility allowed to them and requested greater consistency and clarity on this point.

To drive performance improvement among subcontractors, dedicated performance staff in primes used a range of methods, including analysis of staff data, management support and competition and reward between teams.

## Impact of the outcome-payment model

The expectation within the commissioning model was that prime contractors would be sufficiently large and well-capitalised to bear the up-front costs of delivery, with an expectation of profitability later in the contract term as participants begin to move into work. Although the prime providers were bearing these costs, many found it harder to finance operations than they anticipated. The explanation given was that increased referral volumes required greater up-front investment at a time when job outcomes were harder to achieve, rather than the impact of the outcome payment model per se. It will be important to explore over time how primes respond to more stable referral patterns and the phasing out of up-front attachment payments.

Almost all Tier One subcontractors were paid on roughly the same outcomes-based funding model as primes or on a modified version of this model. The risk in outcome based commissioning is therefore, to a large extent, being passed down and shared by Tier One subcontractors. Although most were aware of these terms from the start, a number admitted that they were struggling to balance their finances under this model. Some were funding their provision through attachment fees and acknowledged that this was not sustainable.

Tier Two subcontractors tended to be paid a set fee for a service or per referral rather than on an outcome basis. Therefore the impact of the outcome payment model on this group was indirect and related to the willingness of prime or Tier One providers to pass on specialist referrals or buy in specialist interventions at a time when finances were constrained.

## Impact of differential pricing

The differential pricing structure for the Work Programme is designed to encourage providers to work with participants who are less likely to move into work, compensating them for the additional costs of support. As such, it aims to safeguard against providers under-supporting those who are harder to help and prioritising those who are closest to the labour market (also referred to as creaming and parking).

Providers generally understood the rationale for having different payments for different groups and had used the pricing structure during the procurement process to develop their delivery models for bids. However, in line with the findings of the programme strand of this evaluation, there was little evidence that primes had used differential pricing in live delivery, to target different types of support to different payment groups. Providers reported that they found the broad benefit type categories quite a poor way of segmenting client needs and some primes suggested that the payment differences were not large enough to influence their behaviour.

This limited impact suggests that the payment rates might be insufficient to cover the real costs of provision for some groups, or that the difficult economic climate may make the risk of investing in long-term gains less appealing. Alternatively, it may be a transitional issue resulting from the struggle to keep up with demand in the early days of the programme, leaving little scope to structure services around financial returns.

## Impact of the economic climate

In response to rising unemployment and revised Office for Budget Responsibility forecasts, six months after the Work Programme went live DWP released new estimates in which referral volumes increased from 2.5 to 3.3 million. These far higher than anticipated referral volumes presented a much bigger challenge for Work Programme providers.

In the short term, income from attachment fees increased but providers reported that this increase in volumes at a time when they were in the early phases of operation created pressure on physical resources, leading to increased use of group sessions and online support. In the longer term, the difficulties reported by many providers in sourcing sufficient up-front funding to boost delivery, combined with their view that slow economic growth was making job outcomes and sustainment payments harder to achieve, may be a continuing influence on the shape of the programme in steady-state.

It will be a priority for this evaluation to track these influences on provider behaviour to assess the ability of the commissioning model to adapt and drive Work Programme performance during a period of flat or negative economic growth.

## Next steps

The evaluation continues over the next two years and the research drawn together here will be supported and reinforced by further interviews with DWP and Jobcentre Plus staff, prime contractors and subcontractors, and unsuccessful bidders, non-bidders and supply chain leavers. There will also be annual online surveys of subcontractors.

The next evaluation report will be published in summer 2013 and will bring together interim findings from all strands, the first of a series of customer surveys with two waves of customer qualitative longitudinal and cross-sectional research.

# 1 Introduction

This report presents findings based on the first wave of research evaluating the Work Programme's commissioning model. The findings incorporate evidence drawn from several elements of research:

- interviews with provider organisations outside Work Programme supply chains;<sup>1</sup>
- interviews with Work Programme providers;
- interviews with DWP and Jobcentre Plus staff; and
- an online survey of subcontracted Work Programme providers.

Because the data reported here is based on experiences at a relatively early stage of programme implementation, this report should not be used to draw conclusions about the overall effectiveness or impact of the model used to commission the Work Programme. As further results become available from later stages of the evaluation the scope for drawing stronger conclusions will increase. The results presented in this report provide an early insight into the impact of the commissioning model.

This research forms part of the official multi-method evaluation of the Work Programme, commissioned by the Department for Work and Pensions (DWP), being undertaken over the period 2011–15 by a consortium of research organisations led by the Institute for Employment Studies (IES) and also including:

- Centre for Economic and Social Inclusion (Inclusion);
- GfK NOP;
- National Institute of Economic and Social Research (NIESR); and
- Social Policy Research Unit at the University of York (SPRU).

## 1.1 Background and policy context

### 1.1.1 Payment by Results

In the Work Programme, the DWP has rolled out possibly the largest single payment by results employment programme in the world.<sup>2</sup> The use of payment by results (PbR) in employment programmes is part of a wider, long-term shift towards the contracting out of public services to the private sector and to paying for services on the basis of their outcome rather than their outputs. This 'outcome-based commissioning' approach encourages commissioners to focus on ends, not means, and is seen as a way of promoting improvements in public services. PbR aligns funding arrangements with this outcomes focus, paying for services, at least in part, on the basis of the outcomes that they achieve.<sup>3</sup>

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<sup>1</sup> This included organisations that chose not to bid for a Work Programme contract, those who bid and were not successful and those who left supply chains post contract award.

<sup>2</sup> Former Minister for Employment Chris Grayling interviewed in Ethos online magazine, September 2012 'Interview with Chris Grayling MP on tackling unemployment'.

<sup>3</sup> Battye, F. and Daly, M. (2012) *Payment by Results in public service reform: a silver bullet, dangerous weapon, neither, both?* Paper presented to the Work and Pensions Economics Group Conference.

### **1.1.2 Payment by results in employment programmes**

It is possible to trace the roots of outcome-based commissioning in employment programmes back as far as the 1980s when the Manpower Service Commission<sup>4</sup> began contracting out delivery to local authorities and the voluntary sector, starting with the Youth Training Scheme and the Community Programme. However, it wasn't until the 1990s and the Training and Enterprise Councils that government first began to link funding for the delivery of services, i.e. training for the unemployed, to the achievement of qualifications and job outcomes. This was called 'Output-Related Funding' and it marked a shift from paying exclusively for inputs to linking payments to a measurement of outputs.

### **1.1.3 The New Deals, Employment Zones and Pathways to Work**

Training and Enterprise Councils were disbanded in 2001 and the Employment Service (the predecessor to Jobcentre Plus) was used to deliver, but also to manage, the contracting out of the New Deal programmes. At its height, contracting for the New Deal led to 3,311 separate contracts (reduced to 2,294 in 2006) being managed by Jobcentre Plus.

In 2001, the Government launched Employment Zones (EZs). EZs were a significant change in the commissioning of employment provision because, for the first time, the private sector was responsible for the whole programme. In the New Deals Jobcentre Plus was the majority deliverer. EZs were also the first attempt at a minimum service prescription or 'black box' approach, with contractors or 'providers' given greater freedom to personalise support for unemployed people.

In EZs, output-related funding accounted for around 80 per cent of payments. As the Government only paid where outcomes were actually achieved, EZs represented the first step in the transfer of financial risk from the public sector to private contractors. Over the lifetime of EZs there was persistent experimentation of different payment mechanisms, including incentives to work with the most disadvantaged and bonus payments linked to performance. The idea of competition between providers was also tested in the 'multiple provider' EZs.

There was similar experimentation within new forms of employment provision targeted at people on disability benefits. The voluntary New Deal for Disabled People commenced in 2003 and was delivered through a network of mainly non-profit Job Brokers. Job Brokers received a registration fee and roughly equal outcome payments for both job entries and sustained employment. The amount of the job entry and sustained employment payments varied between Job Brokers and was negotiated as part of the procurement process with the Department. Sustained full-time employment was originally defined as when a participant was in work for at least 26 weeks out of the first 39 weeks following job entry. From October 2003, Job Brokers were allowed to claim the sustained outcome payment from 13 weeks' employment on the understanding that the employment was likely to last for a minimum of six months.

In 2007, the national extension of the 'Pathways to Work' specialist disability programme, which in 40 per cent of the country was being delivered through Jobcentre Plus, was contracted out to a network of prime contractors. The outcome-based payment element in Pathways was slightly lower than in EZs at 70 per cent with half the contract value paid for 'job outcomes' and 20 per cent for 'sustained job outcomes'. Qualitative research found that these outcome-based contracts had a significant influence in shaping the nature and level of support received by participants.<sup>5</sup>

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<sup>4</sup> The Manpower Services Commission (MSC) co-ordinated employment and training services and was a tri-partite body, controlled by a Board composed of industry, trade unions, local authorities and education interests.

<sup>5</sup> Hudson, M. et al. (2010) *The influence of outcome-based contracting on Provider-led Pathways to Work*, DWP Research Report 638, DWP.

### 1.1.4 The ‘Commissioning Strategy’ and the Flexible New Deal

In late 2006, the DWP Secretary of State commissioned Lord Freud (then David Freud) to undertake an independent review of the Government’s welfare-to-work strategy. The Freud Report, delivered in March 2007, concluded that contracts too often specified process rather than outcome and included too many restrictions on providers.<sup>6</sup> The report set out the first attempt at a full ‘payment by results’ model for employment provision based on lessons from EZs and from other countries. There were three innovative elements to the proposed model:

- **The outcome-based funding model:** Payments would reward long-term employment with outcome payments based on sharing the benefit savings with providers when a participant sustains employment. Payments would recognise that helping some groups are more costly. A prime contractor would need to invest ‘up-front’ and bear more risk, but the larger contracts would encourage organisations to invest knowing they would have an income stream from outcome fees. Funding from benefit savings would enable DWP to extend programmes, especially to those receiving disability benefits.
- **Prime contractors and supply chains:** The system would be made attractive to large, well capitalised prime contractors who would be awarded long-term and larger contracts and would have responsibility for commissioning subcontractors to deliver services for a wide variety of participants.
- **Service standards and the black box:** The contracting regime would set a core standard for the treatment of all participants, but the provider would be responsible for case management and would have flexibility to deliver tailored support based on participants’ needs. Underlying this is the notion that this approach will encourage providers to develop a personalised approach customised to the needs of individual participants, and stimulate wider innovation in service delivery.

The Government accepted Freud’s proposals and, in 2008, the DWP published its ‘Commissioning Strategy’ which built on Freud’s key principles.<sup>7</sup> The Commissioning Strategy committed the Department to playing a market ‘stewardship role’, encouraging prime contractors to maintain a diverse supply chain. The DWP did not specify sub-contracting arrangements, but the Commissioning Strategy outlined a Code of Conduct describing the principles that should guide good supply chain behaviour. The strategy also described ‘customer experience’ as one of its a key components and articulated a number of key underpinning principles in this area.

DWP implemented the new commissioning strategy cautiously, testing features of the proposed approach culminating in the procurement of the Flexible New Deal (FND). The main aim was to move away from a basic contract compliance model, towards operation at a more strategic level, with providers being able to share future thinking and insights from their other delivery/management experience, and working to identify opportunities for efficiency gains or better outcomes. FND saw the vision of large prime contractors fulfilled, with voluntary, community and social enterprise (VCSE) sector organisations primarily performing sub-contracting roles due to limitations on their ability to make the large investments required to operate at a sub regional level.

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<sup>6</sup> ‘Reducing dependency, increasing opportunity’, David Freud, DWP, 2007.

<sup>7</sup> DWP Commissioning Strategy, February 2008, <http://www.dwp.gov.uk/docs/csrep-08.pdf>

Originally, the FND was designed to be 80 per cent outcome funded, with a 20 per cent service fee, but with unemployment rapidly increasing at the time of commissioning, the service fee was raised to 40 per cent in exchange for an additional requirement for providers seeing each participant at least once a fortnight. Thus the FND had some limitation to the black box approach and was not as strongly outcome focused as it was designed to be.

The commissioning model behind FND was evaluated by PriceWaterhouseCooper (PwC) over the period before contracts were terminated<sup>8</sup>. In relation to the key areas of enquiry, the evaluations found that FND had seen a growth in the number of providers, particularly specialist providers delivering smaller valued contracts, supply chains were short with primes also operating as subcontractors in other areas. Views on the capability of DWP and Jobcentre Plus to manage providers were mixed, but this capability was perceived to have improved over time. FND providers welcomed the flexibility of the black box approach, but wanted it to go further. They also reported that they had developed new approaches for dealing with harder-to-place customers.

### **1.1.5 The Work Programme**

In the summer of 2010, the Coalition Government announced that in order to seek improvements in programme performance, both the FND and Pathways to Work would be replaced by the Work Programme. The significant differences between the Work Programme and Pathways to Work and the FND are: higher performance expectations; larger contract areas<sup>9</sup> with fewer prime contractors; a more fully outcome-based payment model; opening up eligibility to Employment and Support Allowance (ESA) claimants; and even less prescription.

The key elements of the Work Programme commissioning model can be summarised as:

- **A prime-provider model** – The Department contracts with a small number of prime contractors who commission and manage a supply chain of delivery organisations. Under FND, the Department facilitated the development of the Merlin Standard<sup>10</sup> to support the development of successful supply chains and champion positive behaviours and relationships within supply chains, in line with the Commissioning Strategy Code of Conduct.
- **Outcome-based funding** – The Work Programme model goes further than previous models, incorporating several new elements, in particular:
  - **Emphasis on sustained outcomes** – The up-front ‘attachment payment’ (when the participant enters the programme) will be a relatively small part of the total and will reduce to zero over the course of the contract. Participants will remain attached to the Work Programme provider for two years, irrespective of whether they have entered work, and the bulk of the funding will be triggered for achievements later during these two years. In particular, a ‘job outcome’ payment will be triggered after a participant has been in work for a number of weeks (13 to 26 weeks, depending on the claimant group), which aims to reduce payments to providers for

<sup>8</sup> See Armstrong, D., Byrne, Y., Cummings, C. and Gallen, B. (2010) *The Commissioning Strategy: Provider survey on early implementation*, DWP research report 704 and Armstrong, D., Cummings, C., Jones, K. and McConvill, E. (2011) *Welfare to Work Commissioning: Wave Two Provider Survey*, DWP research report 757.

<sup>9</sup> England, Wales and Scotland have been divided into 18 ‘contract package areas’ (CPAs) for the purposes of the Work Programme. Following a competitive tendering process, two or three Work Programme providers have been contracted to operate as prime contractors in each of the CPAs (a list of the CPAs, showing their geographical coverage and the providers currently operating in each is shown in Appendix A).

<sup>10</sup> <http://www.merlinstandard.co.uk/about-merlin.php>

deadweight.<sup>11</sup> Further ‘sustainment’ payments are payable (on a regular four-weekly basis) when the participant has been in work for a longer period (17 to 30 weeks, dependent on the target group).

- **Differential pricing** – Providers are paid at different rates for outcomes achieved by different claimant groups, with outcomes for the harder-to-help groups being paid at higher rates than those for groups closer to the labour market. This change to the incentive structure for providers attempts to address concerns that providers concentrate effort and resources on those participants for whom they believe they can achieve an employment outcome most quickly and/or cheaply.
- **Ongoing performance competition** – Providers are able to compete for market share to reward high performance. This will manifest itself through a process known as ‘market share shifting’, an innovation adapted from the Australian model, under which better-performing providers will, over time, be rewarded by being allocated a larger number of claimants, while the poorer-performing providers (who remain, nevertheless, above the minimum performance threshold) will receive fewer claimants. A key feature of this is that within any area, individual claimants are assigned to one of the two or three providers operating in that area entirely at random, so that performance comparisons can be readily made.
- **Minimum service prescription** – Unlike under FND, there are no mandatory service components. Providers are completely free to decide which interventions to offer to help participants into sustainable employment. In their bids, each prime was able to propose its own delivery model supported by its own minimum service delivery standards. Whilst DWP monitors primes’ adherence to minimum service delivery standards, contracts are managed against minimum performance levels (relating to outcomes achieved rather than services delivered) which are set by the Department.
- **Larger, longer contracts** (up to five years in length with payments up to seven<sup>12</sup>) – The intention here is that the greater market stability offered by this contractual framework will facilitate the development of provider capacity and expertise and encourage investment to support innovation in service delivery.

## 1.2 Evaluating the Work Programme

In line with previous programme evaluations, this research focuses on measuring performance, understanding delivery and assessing customer experience and outcomes. However, since the Department is not directly responsible for service delivery or design, this evaluation also seeks to explore how the market responds to the commissioning approach, how it influences service delivery and outcomes, and how the decision-making process of Work Programme providers operates. For these reasons, the evaluation was designed with a dual focus.

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<sup>11</sup> Deadweight is the extent to which job outcomes would have been achieved without programme intervention.

<sup>12</sup> Participants remain on the programme for up to two years, so outcome payments for those referred just prior to the end of the provider’s five-year contract could be made for a further two years.

## 1.3      The programme strand

The ‘programme strand’ of the evaluation focuses on the experiences of different participants from the point of referral to the point of completion, and the outcomes achieved in the short to medium term. This strand is critical because the non-prescriptive nature of the programme means that there is limited information available on the type of the support delivered to participants. Through research with participants and Jobcentre Plus and provider staff this strand aims to understand the support participants are receiving, what staff and participants think about services and how effective these services may be in helping people find and keep employment.

## 1.4      The commissioning strand

The commissioning strand of the evaluation focuses on the response of the provider market in the first three years of the programme. It covers the response of the market to the initial procurement by DWP, but the main focus is on how the market is managed by DWP and the prime contractors to help the stronger organisations prosper, and how this supports the development and delivery of a high-quality employment programme which meets its objectives.

To enable the evaluation to explore in detail the early implementation of the Work Programme from both a programme delivery and commissioning perspective the first two evaluation reports consider these issues separately, with some reference made between the two. However, the two strands are complementary (as Figure 1.1 sets out) and as the programme progresses future reports will integrate the strands more fully.

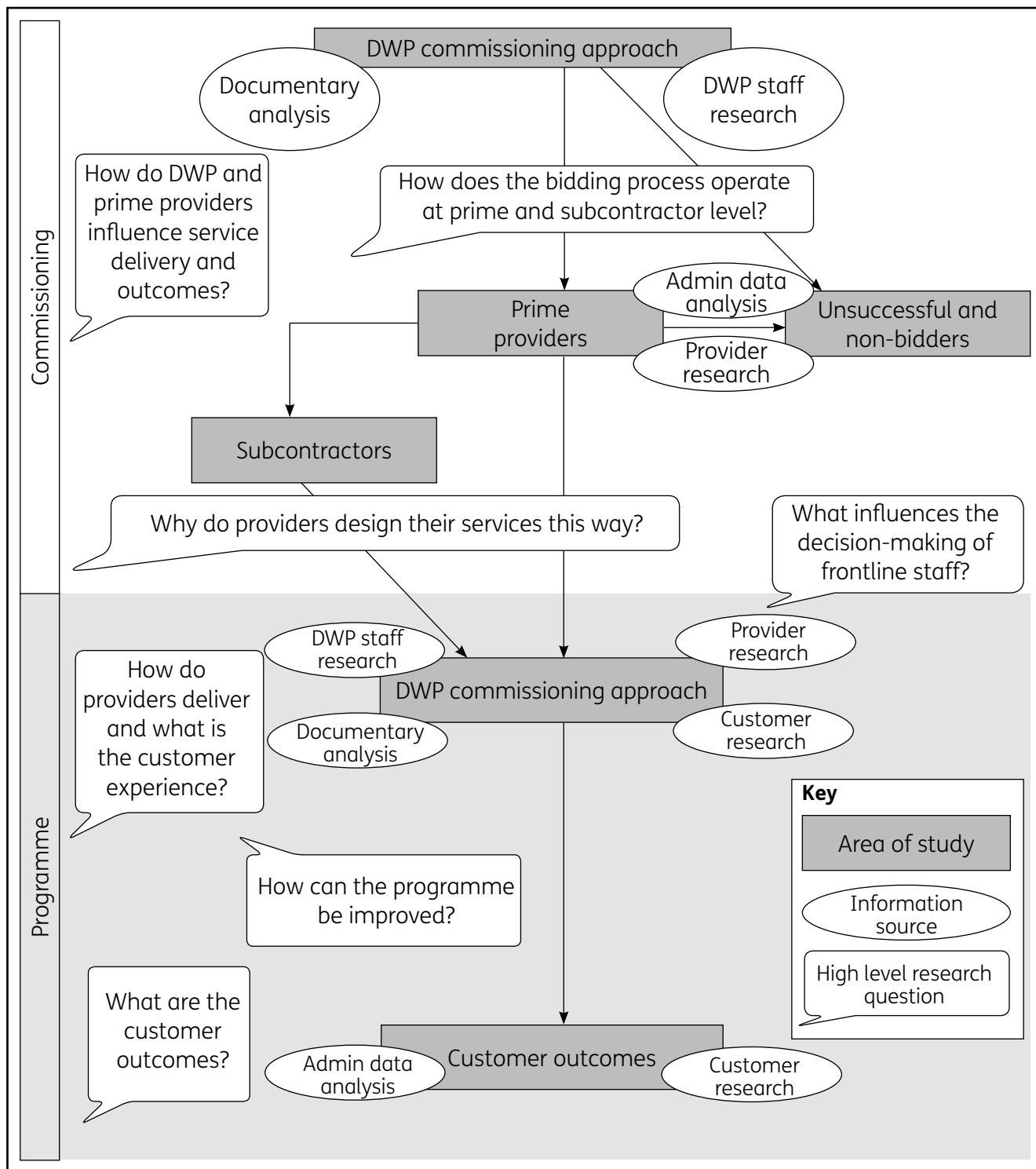
The first Work Programme evaluation report was published in late 2012 and focused on programme delivery in the period shortly after implementation.<sup>13</sup> The report started to describe the ‘black box’ (i.e. Work Programme services) from the perspective of participants and staff.

This second report provides the context within which the services described in the first report were delivered and seeks to provide early insights into why services were delivered in that way. This report therefore considers how the Work Programme was procured, how that affected supply chain construction and how this may have impacted on service provision in the early days of the programme. Critically, this report begins to explore whether the commissioning model drives provider behaviour (and service delivery) as intended, through the use of outcome payments and differential pricing, and how external factors have affected the operation of the model. As such, this report aims to build on the first, setting the scene for future reports which cover both the programme and commissioning evaluation strands.

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<sup>13</sup> 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*, DWP Research Report 821, Sheffield: DWP.

**Figure 1.1 Structure of the Work Programme Evaluation**



### 1.5 Scope and structure of the report

The main evaluation objectives of the commissioning strand are as follows:

- Is the commissioning model leading to an effective quasi-market for contracted employment provision?
- How does the DWP Commissioning Model underpin the Work Programme impact on the provider market?
- How are DWP and provider capabilities developing?
- How do DWP and prime contractors influence service delivery and outcomes?
- Why do providers design their services the way they do and what influences their decision making in relation to the delivery of services to customers?
- Is the DWP Commissioning Model fit for purpose? More specifically:
  - Has the prime-provider model encouraged providers to behave more strategically?
  - Has payment by results delivered better value for money for the taxpayer by transferring risk to the providers so that DWP only pays for success?
  - Has reduced service prescription encouraged personalisation of support and innovation in service delivery by allowing providers to make more effective decisions about what helps customers into sustainable employment?
  - Has offering larger and longer contracts improved market stability, thereby encouraging investment in service development?

These objectives are designed to be met over four fieldwork waves:

- Qualitative interviews with unsuccessful bidders, non-bidders and providers who left the supply chain following contract award (autumn 2011).
- Qualitative interviews with DWP and Jobcentre Plus staff, Work Programme prime contractors and subcontractors (early summer 2012).
- A second wave of qualitative interviews with DWP and Jobcentre Plus staff, prime contractors and subcontractors, unsuccessful bidders, non-bidders and supply chain leavers (2013).
- A final wave of qualitative interviews with DWP and Jobcentre Plus staff, prime contractors and subcontractors, and unsuccessful bidders, non-bidders and supply chain leavers (2014).
- An annual online survey of subcontractors.

Given the broad scope of the objectives and the timing of the fieldwork, some prioritisation will be given to different objectives at different points in the evaluation. The findings in this report result from the first two waves of fieldwork and the first of three annual surveys of subcontractors (further detail of the research methodology is available at Appendix B). Therefore, although these findings are unable to fully meet the research objectives for the commissioning strand at this stage, they provide valuable early evidence across the range of objectives.

Chapter 2 of this report describes the process of commissioning the Work Programme from the perspectives of prime contractors and subcontractors that were successful in the bidding process, those that were unsuccessful and some providers that decided against bidding at all. This chapter also describes the resulting Work Programme provider market and how supply chains were constructed. These findings provide early evidence against evaluation objectives to explore provider market structure and the impact of the commissioning model on the provider market.

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Chapter 3 focuses on how DWP managed the contracts with prime contractors over the first year of the Work Programme. This includes how relationships were built between providers and DWP Account Managers, Performance Managers and Third Party Provision Managers. It also covers how DWP Performance Staff were managing provider performance and explores the process of managing contracts within a ‘black box’ model. In terms of addressing the commissioning evaluation objectives, this chapter forms a useful foundation for a longer-term assessment of how DWP capabilities are built and strengthened during Work Programme implementation and live running.

Chapter 4 builds on this picture of contract management with an exploration of how prime contractors were managing the performance of their own supply chain, from the perspectives of both primes and subcontractors. This includes an examination of how primes were transferring the financial risk to subcontractors, how they were driving improvement and best value in the supply chain and how much flexibility they allowed in the delivery model. These findings contribute to the evaluation objective of understanding how providers’ capabilities develop during the course of the programme and also the objective to explore how prime contractors influence service delivery in their supply chains.

Chapter 5 examines the key principles of the Work Programme commissioning model and explores the extent to which these were operating as intended during the early stages of the Programme. This includes the operation of the black box within supply chains, the impact of financial incentives and differential pricing and performance management against ‘minimum service delivery standards’. This chapter also reports how providers’ experience of the Work Programme has affected their intentions to engage in future DWP procurement. Chapter 5 makes a useful contribution to understanding how the commissioning model influences decisions on service delivery and also starts to make an assessment of whether the commissioning model is fit for purpose – a key objective of the commissioning evaluation.

The final chapter brings together the findings from this initial phase of the evaluation to draw out conclusions on the operation of the Work Programme commissioning model so far. It is important to bear in mind that this wave of the research took place at a relatively early stage of programme implementation, so that it may be too early to clearly separate transitional implementation issues from those that may be more systemic. As such, this final chapter also outlines the next steps for the evaluation and the issues that will be explored further in future waves.

# 2 Procurement of the Work Programme and the provider market

This chapter examines the procurement of the Work Programme, including provider views on the process of procurement and their experiences of Transfer of Undertakings (Protection of Employment) (TUPE). It explores the process of constructing supply chains and the reasons that some organisations chose to opt out of Work Programme procurement. Finally, the chapter considers the shape of the provider market after go-live. This chapter is based on interviews with Department for Work and Pensions (DWP) and Jobcentre Plus staff, prime contractors and subcontractors, a survey of subcontractors and DWP provider market data.

It is important to note that Work Programme procurement created diverse supply chains and engaged a wide range of organisations. It is therefore perhaps unsurprising that this research found a great deal of variety in practice and experiences across the supplier market. This makes it difficult to generalise about what Work Programme providers ‘think’ or ‘do’. However, where possible this chapter draws out patterns in views and behaviours and tries to explain these on the basis of observable characteristics such as provider ‘tier’.

## 2.1 Procurement process

The procurement of the Work Programme took place between July 2010 and June 2011. This was a two-stage process where potential providers first bid to join DWP’s Employment-Related Support Services (ERSS) Framework and then took part in ‘mini-competitions’ for Work Programme delivery within 18 contract package areas (CPAs). To qualify for the framework, potential providers 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 the financial strength to deliver primarily payment by results contracts (including a minimum £20 million per annum turnover).<sup>14</sup> The mini-competitions attracted 177 bids, with between nine and 17 bids in each CPA. Thirty of the 35 framework providers bid, 18 of which were successful. Many of these providers were successful in more than one CPA and there are two or three ‘prime contractors’ or ‘primes’ in each of the CPAs (see Appendix A for more detail).

Primes may deliver services directly to Work Programme participants (known as Prime Delivery Agents or Delivery Primes), or they may deliver no services themselves and instead use a network of subcontractors (Prime Managing Agents). Delivery primes are the most common in the current supplier landscape, making up 14 of the 18 Work Programme primes. The percentage of Work Programme referrals that ‘delivery primes’ directly support tends to range from 80 per cent to 60 per cent. All primes subcontract to Tier One providers that deliver end-to-end support and to which primes will often guarantee specific volumes of referrals. These referrals are typically assigned on a geographical basis or by participant characteristic or need, ex-offenders for example. There are also Tier Two providers that deliver specialist or discrete services on a spot-purchase basis (either direct to a prime or to a Tier One subcontractor). Definitions of what these tiers incorporate vary from prime to prime, and there may be additional suppliers beyond these tiers providing largely ad-hoc or specialist services.

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<sup>14</sup> Finn, D. (2012) *Subcontracting in public employment services: the design and delivery of ‘outcome based’ and ‘black box’ contracts*, European Commission.

### 2.1.1 Speed of procurement

The invitation to tender for the mini-competitions was published in December 2010 and the Programme went live on 1 June 2011. This was substantially quicker than the procurement of previous programmes.<sup>15</sup> Prime contractors commented on the speed of procurement and, in general, were positive about it. Good communication between providers and DWP, and the involvement of the Minister for Employment and senior officials were felt to have driven the speed of procurement. One prime, for example, said:

*'I've never actually been in a procurement where you had the senior officials and the Minister on the phone in a commissioning approach and I actually think that pace and momentum was quite powerful in terms of direction.'*

(Chief Executive, prime contractor)

The rapid procurement, in particular the time between the award of contracts and go-live, was also seen as a challenge because this was reduced to around one month, compared to the standard six months DWP had previously aimed towards. Particular issues with this included difficulties in securing staff and premises in areas where the prime had not delivered before. This was less of a problem for primes that were delivering in areas where they previously held Flexible New Deal (FND) contracts. Providers also noted that first year targets were set at the same level as proposed in their bids despite there being only ten months of delivery in the first year (1 June 2011 to 31 March 2012). Discussions with DWP Account and Performance Managers since the fieldwork was conducted have identified further difficulties associated with the speed of the procurement and the fact that policy was still being developed when contracts were being signed. The ongoing effects of these issues will be explored further in future research.

### 2.1.2 Transfer of Undertakings (Protection of Employment)

TUPE protects employees' terms and conditions of employment when a business is transferred from one owner to another. Employees of the previous owner when the business changes hands automatically become employees of the new employer on the same terms and conditions.<sup>16</sup> There are a number of conditions under which TUPE applies and does not apply which can be quite complex and are often open to interpretation. In the case of the Work Programme, FND contracts were terminated, but similar services would be delivered by other organisations, therefore providers had to consider TUPE during the procurement process. The implications of TUPE can be substantial and costly.

Primes interviewed for this research were split between those that considered (or received advice) that TUPE applied and those that did not. Of those that considered that TUPE applied, some took on this liability themselves or were careful to ensure that it was not a burden on their supply chain.

The survey of subcontractors found that around one-third (35 per cent) had some experience of TUPE during Work Programme procurement or implementation. Nearly one in five (19 per cent) subcontractors were required to take on staff under TUPE regulations, almost all of these were Tier One subcontractors (33 out of 35 respondent organisations). Most of these were aware of the TUPE commitment from the start of the procurement process or became aware in pre-bid discussions with primes. However seven of the 35 respondent organisations required to take on staff under TUPE became aware of this commitment only after bids were submitted to DWP. In general, Tier Two

<sup>15</sup> (2012) Department for Work and Pensions: *The introduction of the Work Programme*, National Audit Office.

<sup>16</sup> See [www.acas.org.uk](http://www.acas.org.uk) for further details about TUPE.

subcontractors did not have any experience of TUPE as they were told that it was not relevant to them.

The primes that considered TUPE applied found it a complex process that made the programme start-up more difficult. Primes reported that the period between award of contracts and go-live was short, which meant that they were under a great pressure to be ready for delivery and they felt that dealing with TUPE added to that pressure. For example, '*we were TUPEing out 400 people prior to the start date and TUPEing 150 people on day one.*' (Managing Director, prime contractor)

Subcontractors that were required to take on staff sometimes had similar experiences. One Tier One subcontractor was told by their prime that TUPE volumes were unclear, right up to go-live. This made planning for adequate staffing very difficult:

*'What that's meant is that we didn't have enough staff in place which meant we then were flooded with referrals which meant that all we were doing was attaching people. [As a result] delivering the quality journey that the organisation wants to do and obviously intends to do was severely impacted.'*

(Tier One end-to-end subcontractor)

One prime reported that TUPE meant that they had excess staff and they went on to use the assessment centre to decide which to retain. This was costly and in some cases meant that they lost loyal staff. Some primes reported that they were still dealing with TUPE issues up to nine months after go-live. For example where decisions made about which staff to retain had resulted in employment tribunal action.

The survey of subcontractors found that 22 of the 35 respondent organisations required to take on staff under TUPE regulations said that this had a negative impact on their organisation. For smaller Tier One subcontractors the financial implications of TUPE could be significant. Some incurred significant losses and others had to take out loans to cover the costs of incoming staff. Subcontractors appeared to have managed to maintain services to participants in spite of these difficulties as only three of the 35 subcontractors affected by TUPE said that it had significantly affected their ability to deliver. For example:

*'It didn't destroy us but once we got the contract I had to take out loans for forty thousand pounds in order to start the programme.'*

(Tier One subcontractor)

A number of prime and subcontractors felt that the Department could have played a stronger role over the issue of TUPE. Some primes felt that a statement from DWP about under which circumstances TUPE would apply would have eased some of these problems. Some subcontractors argued that if the Department had played a stronger role, this could have protected them from variable interpretations by primes. However, the Departmental approach is that it is the obligation of providers to obtain their own legal advice on TUPE as part of the process of bidding for and delivering a contract.

*'I would say in summary that the DWP's guidance on [TUPE] left the entire process open to [prime] provider interpretation and, therefore, each provider had their own view of what they actually did or didn't need to do and sometimes that view was designed more to suit their needs .... So we found some [prime] providers were very proactive, very cooperative and very open and transparent, making the process, much easier to work with and other providers were less, shall I say, cooperative and every provider had varying levels of knowledge on the process.'*

(Tier One end-to-end subcontractor)

### 2.1.3 Forming supply chains

During the mini-competitions, prime contractors were responsible for forming their own supply chains and identifying potential subcontractors. DWP did not specify sub-contracting arrangements but did require that: ‘the level of community involvement is commensurate with the needs of Work Programme participants’<sup>17</sup>; and that primes adhered to the Merlin Standard on treatment of their supply chains<sup>18</sup>. The former was commonly interpreted by primes as a requirement to create diverse supply chains and one prime felt that any such requirement was in conflict with the black box nature of the programme.

*‘One paradox I would say about the commissioning approach is you were commissioning on a black box basis but were very heavily steered to have a supply chain that was very varied and diverse and involved lots of subcontracting and that was, I think, a paradoxical set of messages when you are talking about black box.’*

(Chief Executive, prime contractor)

To construct their supply chains primes solicited Expressions of Interest (EOIs) from potential subcontractors, promoting tendering opportunities through industry networks, for example via their websites and by using road shows in CPAs where they intended to bid for contracts with DWP. However, this led to a larger volume of interest than primes expected and that some found difficult to manage. For subcontractors too there was a suggestion that the process was not as efficient as it could have been. The survey of current subcontractors found that it was common for subcontractors to explore subcontracting opportunities with a large number of prospective primes during the initial procurement. Around a third (34 per cent) were in discussions with ten or more prospective primes and nearly half (43 per cent) with between four and ten prospective primes. In line with this, more than half (57 per cent) submitted EOIs for six or more primes including 20 per cent who submitted 16 to 18.

The EOI process does not appear to have always met the information needs of primes as they felt that some of the EOIs submitted were ‘scattergun’ in approach and had not been tailored to them in particular. They found this off-putting:

*‘We put on our website an opportunity for organisations to send in their desire to be a partner of ours. And the thing that became clear and apparent to us is that an awful lot of these were just scattered approaches by a lot of them, and we didn’t want to necessarily develop relationships with organisations that had that strategy.’*

(Chief Executive, prime contractor)

For smaller subcontractors filling in large number of EOIs was particularly difficult due to limited staff capacity. They also found much of the information required by primes did not reflect the realities of their organisations. For example:

<sup>17</sup> The Work Programme Invitation to Tender Specification and Supporting Information <http://www.dwp.gov.uk/docs/work-prog-itt.pdf>

<sup>18</sup> The Merlin Standard has been developed as a joint exercise between the DWP and its providers operating in the welfare-to-work sector, to ensure adherence to the code of conduct within DWP’s Commissioning Strategy.

*'They had vast sections that you could not fill in because they were talking about much bigger organisations, they were calculated for organisations with a very large turnover, with hundreds of employees and the systems in place which went with it such as HR systems, IT departments and security systems. ... it was as if someone was writing to you about your semi detached in Lewisham or something and imagining it was Buckingham Palace and asking you how many servant quarters you have.'*

(Tier One end-to-end subcontractor)

In response to feedback from its members involved in Work Programme procurement the Employment-Related Services Association (ERSA), the trade association for the welfare-to-work sector, has been working with providers to streamline the process of constructing supply chains for future procurement exercises.<sup>19</sup>

In selecting subcontractors, a number of primes argued that some positive features of their processes could be taken on by the Department. These included site visits/observations, gaining information from partners 'on the ground' about how a provider operates, and looking in-depth at performance data. Primes looked at past performance and also, in some cases, at an organisation's management style and systems while hoping to achieve a range of size and sector.

In addition to soliciting EOIs, primes also directly approached organisations that they wanted to include in their supply chains. Sometimes this was as a result of research, including discussions with local stakeholders, and in other cases this was because they had worked with organisations previously. A number of the subcontractors that reported a positive experience had been directly approached by primes to join supply chains and so were not required to fill in forms or attend interviews.

Before issuing contracts, primes conducted due diligence checks, particularly on Tier One subcontractors. The depth of these checks varied between primes, with some including financial modelling to ensure that the subcontractor understood and could manage the payment terms, others merely checked the potential subcontractor's balance sheet to ensure that they had healthy reserves.

### 2.1.4 Evidence of 'bid candy'

There has been some concern, articulated in particular by voluntary, community and social enterprise (VCSE) sector umbrella organisations<sup>20</sup> that VCSE organisations were named in bids, but then did not become part of supply chains. This is known as 'bid candy' where an organisation is included in a bid to strengthen it but with no intention on the part of the main bidder to involve them in delivery in any substantial way.

The survey of subcontractors revealed some degree of attrition between the submission of successful bids and go-live. Only one-third of current subcontractors (32 per cent) reported that they were named in just one prime's successful bid. However, around a half of current subcontractors (51 per cent) held contracts with just one prime at go-live. It appears, therefore, that a number of subcontractors dropped out of supply chains before go-live despite going on to deliver some Work Programme contracts.

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<sup>19</sup> ERSA (2012) Ten Point Plan for Supply Chains <http://www.ersa.org.uk/hub/details/600>

<sup>20</sup> See, for example: Winyard, P. (2011) *The Work Programme: Initial concerns from Civil Society Organisations*, NCVO.

Nonetheless, in qualitative interviews there was little evidence that current subcontractors had been named in bids, but had not subsequently become part of a supply chain. A number of organisations had received very few referrals through the Work Programme but they did not tend to feel that this was because they were ‘bid candy’. In general they believed this was due to a fewer referrals of claimants requiring their support and/or lack of funding within the Work Programme.

Many of those that did report that they had been named in bids, but had not subsequently been involved in delivery, were Tier Two subcontractors for one prime in particular. Interviews with organisations that had been named in the bids of unsuccessful prime contractors revealed that many of these organisations never heard back from their potential prime post-tender. A small number of these organisations did believe that they had been bid candy. This had also been a concern for some organisations that chose not to bid.

### **2.1.5 Opting out of procurement**

The main reasons given by potential primes that successfully made it onto the framework, but did not then bid in the mini-competitions, were primarily financial concerns around the viability and the level of risk associated with the Work Programme. Some were apprehensive about the fact that it was the first time contracts had been awarded on this scale using this payment structure. Other concerns centred on: the high level of performance required to realise financial rewards; the fixed pricing structure which did not take inflation into account; and the expectations of discounting. As one prime that decided not to bid explained:

*‘When we came to evaluate it we looked at the financial risk against potential rewards ... The return for the risk for us wasn’t there, because the programme was an untested financial model.’*

(Chief Operating Officer, potential prime contractor)

Some new entrants felt less able to assess the financial viability of the programme as they did not have prior experience to draw on. Consequently, they reported needing bigger financial incentives to enter the market given the information provided by DWP on forecast referrals and finances. The release of performance information and feedback from current primes may provide the requisite information to facilitate future Work Programme involvement. However, these findings suggest a change of approach may be required to attract new players to the broader welfare-to-work market in future.

For potential subcontractors that decided not to bid, the most common concerns related to outcome-based payments and the level of up-front funding required to make their involvement financially viable and/or commercially attractive. As one organisation explained:

*‘It was a commercial judgment and because of the structure of the payments for a relatively small organisation ... we felt that we would have needed greater financial background support to ensure that we didn’t dig a big hole for ourselves in delivering this.’*

(Manager, potential subcontractor)

Some small and/or specialist organisations did not bid because they did not believe that the programme fitted well enough with their delivery model. This included specialist organisations such as those that worked with people with disabilities and health problems that did not feel the Work Programme was suitable for their organisation. For example, one specialist organisation was asked by a potential prime to widen the range of participants they worked with, but felt this would undermine their specialism. Other organisations decided not to seek to deliver the Work Programme as they only covered a small geographical area or local authority within the CPA.

It is possible for organisations to be both a prime and a subcontractor. Some primes act as subcontractors in other CPAs. However, most respondents in the survey of current subcontractors never bid to become prime contractors (83 per cent). The most common reason for that was that their organisation was not large enough (77 per cent). Other common reasons included: insufficient turnover and/or financial capability (48 per cent), concerns about financial risk or outcome-based funding (37 per cent), geographical coverage too limited (25 per cent) and that it would not fit with their company ethos or natural place in the market (20 per cent). Current subcontractors were split between those who would have liked to become primes (48 per cent) and those who were not interested in becoming a prime contractor (45 per cent). In general, the reasons for not bidding to become a prime were similar between these groups, but one key difference was that organisations that were not interested in becoming a prime contractor and did not bid were more likely to say that becoming a Work Programme prime would not fit with their company ethos or natural place in the market (29 per cent) compared to those that would have liked to bid but did not do so (9 per cent).

### 2.2 Current supplier market

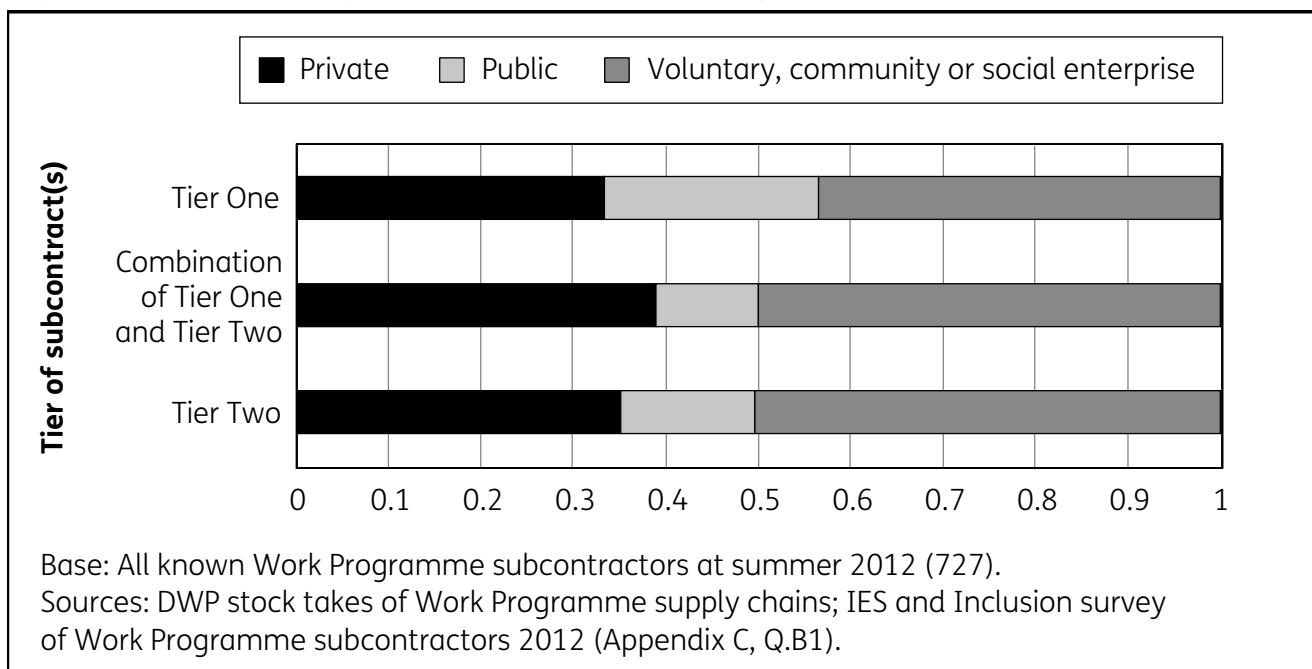
Information collected by DWP on the structure of Work Programme supply chains and responses to the survey of subcontractors<sup>21</sup> have been combined to assess the characteristics of the total Work Programme provider market as it looked in the summer of 2012.<sup>22</sup> At this time an estimated 734 organisations were part of Work Programme supply chains in one or more CPAs. This included 18 prime contractors, 14 of which were delivery primes, as opposed to managing agents. Eleven of these 14 organisations also delivered as subcontractors for other prime contractors, meaning that there were a total of 727 subcontractors delivering the Work Programme.

Information collected on the provider market includes the supply chain tier that organisations belong to, limited to Tier One and Tier Two suppliers. According to this information, almost a quarter (24 per cent) of subcontractors held Tier One contracts, around two-thirds (68 per cent) held Tier Two contracts, and the remaining seven per cent held a combination of Tier One and two contracts across different supply chains.

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<sup>21</sup> All prime contractors were interviewed within the qualitative research compared to only a subset of subcontractors. The survey focused on subcontractors to ensure good coverage of the market.

<sup>22</sup> Work Programme prime differ in the degree to which they keep DWP informed of changes to their supply chains. Therefore there is likely to be a degree of inaccuracy in this data.

**Figure 2.1 Work Programme subcontractors by sector and tier**

Fifteen of the 18 prime contractors are private sector organisations, with one VCSE sector organisation, one public sector organisation and one mixed private/VCSE organisation. Almost half (49 per cent) of all Work Programme subcontractors were VCSEs. Just over one-third (35 per cent) came from the private sector, with the remaining 16 per cent coming from the public sector. As shown in Figure 2.1, the public sector makes up a larger proportion of Tier One than Tier Two, while the voluntary sector makes up a slightly smaller proportion. This overall sectoral breakdown is very similar to the composition of the subcontractor market under the FND in August 2010.<sup>23</sup>

The majority (72 per cent) of Work Programme subcontractors held only one subcontract with one prime contractor, with the remainder supplying in multiple CPAs and/or for multiple prime contractors. The survey of subcontractors found that nearly two-thirds (64 per cent) were part of supply chains in only one CPA, and 93 per cent were in five CPAs or fewer.

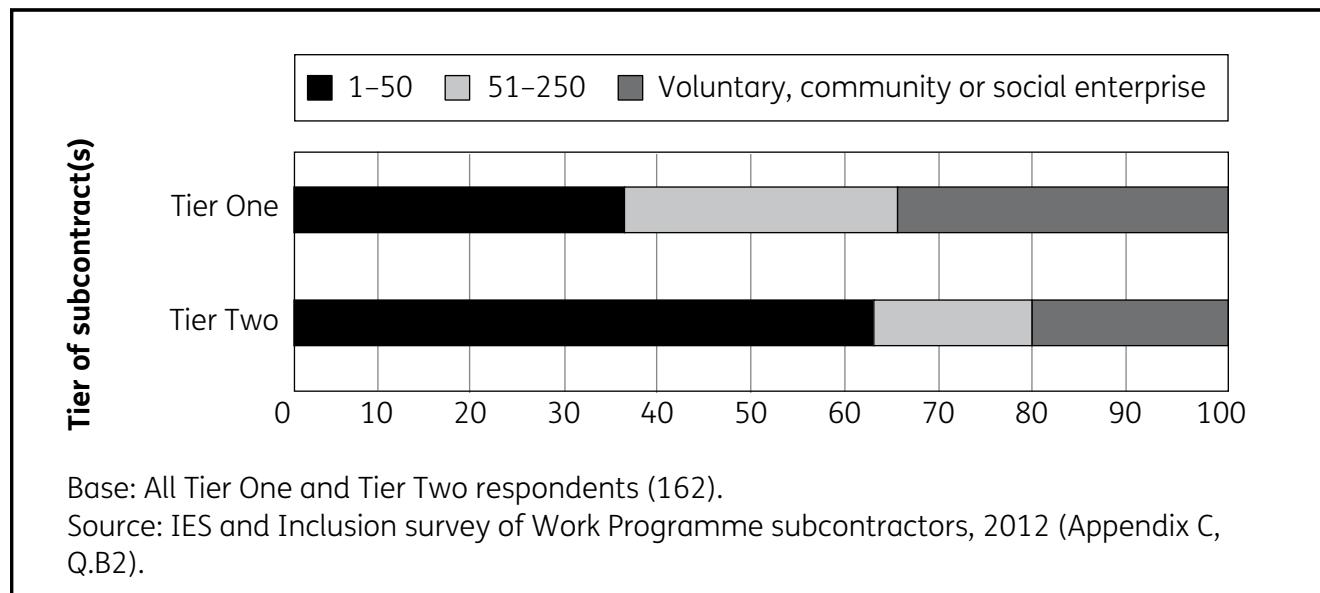
Public sector organisations were more likely to hold only one subcontract than organisations from other sectors, possibly due to the fact that many of these were local authorities and therefore limited geographically to just one CPA. There is no noticeable variation in the number of subcontracts held across private sector organisations and VCSEs. Tier One organisations were more likely to hold multiple subcontracts than Tier Two organisations, with 31 per cent of Tier One organisations holding multiple contracts in comparison to 20 per cent of Tier Two suppliers.

<sup>23</sup> In August 2010, 11 per cent of FND subcontractors were public sector, 45 per cent were private sector and 44 per cent were VCSE organisations. See Armstrong, D., Cummings, C., Jones, K. and McConville, E. (2011) *Welfare to Work Commissioning: Wave Two Provider Survey*, DWP Research Report 757. These figures differ slightly from the Work Programme sectoral breakdown, but differences are not statistically significant.

### 2.2.1 Characteristics of Work Programme supply chains

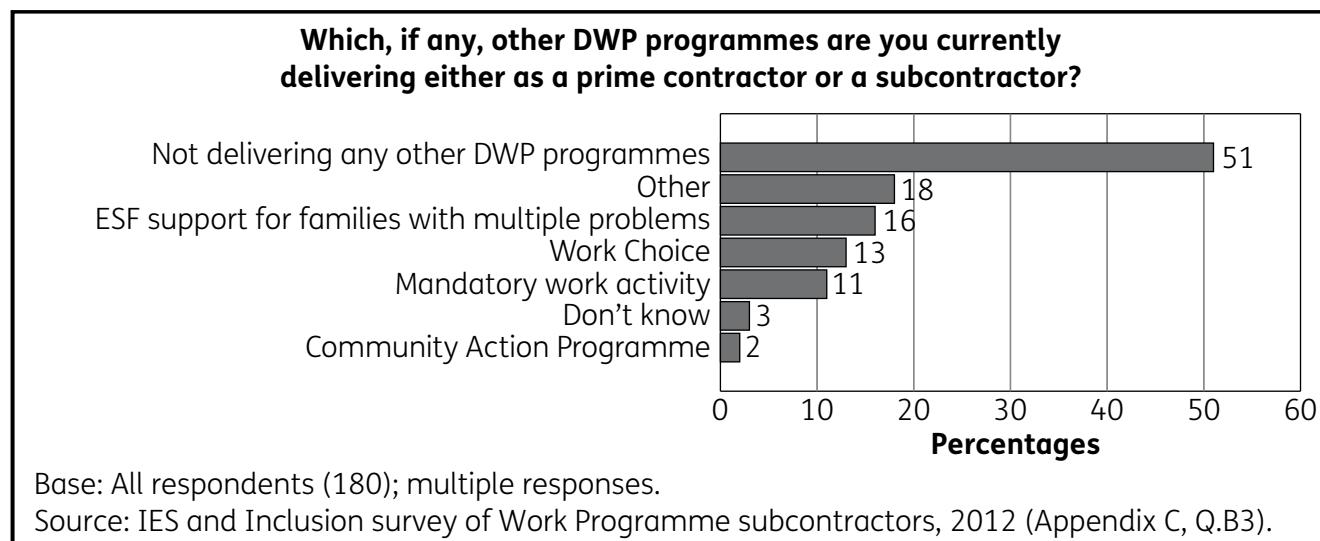
The survey of current subcontractors found that almost half (49 per cent) were small organisations, with 50 employees or fewer in the UK. Twenty-two per cent were medium-sized enterprises (between 51 and 250 employees), and the remaining 29 per cent were large organisations with over 250 employees. Public sector subcontractors tended to be larger than either private sector suppliers or VCSEs: 90 per cent of public sector suppliers employed more than 50 members of staff in the UK, compared to 42 per cent of private sector organisations and 45 per cent of VCSEs. Tier One suppliers were more likely to be medium or large organisations, as shown in Figure 2.2.

**Figure 2.2 Work Programme subcontractors by tier and number of UK staff**



Around half (51 per cent) of Work Programme subcontractors were not delivering any other DWP programmes either as a prime or subcontractor, as shown in Figure 2.3. Those that were delivering other programmes for DWP were most frequently delivering European Social Fund (ESF) support for Families with Multiple Problems, Work Choice and ‘other’ programmes, which included the Jobcentre Plus Support Contract, the New Enterprise Allowance and Youth Contract provision.

**Figure 2.3 Work Programme subcontractors delivering other DWP programmes**



A small minority (14 per cent) of subcontractors relied on the Work Programme for more than half of their UK turnover, while at the other end of the spectrum 29 per cent of suppliers received none of their UK turnover from the Work Programme (meaning that they had no Work Programme referrals to date). A further 31 per cent took less than 10 per cent of turnover in the UK from the Work Programme. Tier One organisations drew larger proportions of their UK turnover from the Work Programme than Tier Two organisations, and private sector organisations were much more likely to derive a majority of their UK turnover from the Work Programme than voluntary and community sector organisations and social enterprises (31 per cent compared to 10 per cent). Of those subcontractors also delivering other programmes for DWP, fewer than one in five (19 per cent) drew more than half of their UK turnover from DWP programmes (inclusive of the Work Programme), and more than one-third (35 per cent) took less than ten per cent of their turnover in the UK from DWP-funded activities. This overall picture suggests that the vast majority of Work Programme subcontractors operated within diverse revenue streams and that neither the Work Programme in particular nor DWP-funded provision in general dominated their business.

## 2.3 Summary

The procurement of the Work Programme took place between July 2010 and June 2011. It was a two-stage process where potential providers first bid to join DWP's Employment Related Support Services Framework. Thirty providers then chose to take part in 'mini-competitions' for Work Programme delivery within 18 contract package areas. Those potential primes that chose not to bid primarily cited concerns about financial risk as their rationale. These included the untested nature of payment-by-results on this scale; the high level of performance required to realise financial rewards; the fixed pricing structure which did not take inflation into account; and the expectations of discounting.

To construct their supply chains, primes actively solicited EOIs from potential subcontractors. It was common for subcontractors to submit large numbers of EOIs. Providers have identified ways in which this process could be streamlined for future procurement including standardised EOI templates. ERSA, the welfare-to-work trade body, is working to address these issues.

Eighteen prime contractors and their supply chains were successful, many in more than one CPA. Some primes are acting as subcontractors in other CPAs. Where potential subcontractors made a decision not to bid, this was largely due to concerns about outcome-based payments and the level of up-front funding required to make their involvement financially viable and/or commercially attractive. Despite revealing a degree of attrition from supply chains between bids and go-live, this research found relatively little evidence to support the idea that subcontractors had been named in proposals purely as 'bid-candy'.

The Work Programme procurement process was substantially quicker than procurement of previous programmes. This rapid process, in particular the time between the award of contracts and go-live, was also seen as a challenge by providers. Particular issues included difficulties in securing staff and premises in areas where the prime had not delivered before. For some providers, TUPE was a major and complex issue that added to this challenge.

Analysis of DWP provider data revealed that there were 727 subcontractors delivering the Work Programme in summer 2012. Almost one-quarter (24 per cent) of these held Tier One contracts, around two-thirds (68 per cent) held Tier Two contracts, with the remainder acting as both Tier One and Two contractors across different supply chains. The survey of Work Programme subcontractors revealed that the vast majority have diverse revenue streams and that neither the Work Programme nor DWP-funded provision in general dominated their business.

# 3 DWP contract management

This chapter discusses Department for Work and Pensions (DWP) management of Work Programme contracts including relationship and performance management. It is based on interviews with DWP Account and Performance Managers as well as Partnership and Third Party Provision Managers in Jobcentre Plus. It also includes material from qualitative interviews with prime and subcontractors and a survey of subcontractors.

Again, providers and supply chains are diverse and it can be difficult to generalise about what Work Programme providers ‘think’ or ‘do’. Relationship management in particular can be strongly affected by individual personalities and ways of working. However, where possible this chapter draws out patterns in views and behaviours and tries to explain these on the basis of provider characteristics.

## 3.1 Relationship management

Work Programme providers have contact with a range of DWP and Jobcentre Plus including:

- **Account Managers** act as lead interface with Work Programme providers. Their role is to engage with providers at senior board level to drive performance, innovation and value for money for DWP. Each prime has one Account Manager who manages their relationship across all the DWP contracts that the prime holds.
- **Performance Managers** work with providers at an operational delivery level to manage performance against contracts. Performance Managers collate and analyse management information, and provide advice and support relating to performance and delivery, to ensure consistency of approach and implementation, and to support management of underperformance. The Performance Managers interviewed for this research tended to be responsible for one or sometimes two Work Programme contracts. Senior Performance Managers were responsible for more than one contract, and often managed contracts in more than one programme within a geographical area, for example, both contracts for the Work Programme and for Support for Troubled Families.
- **Compliance Monitoring Officers** undertake compliance visits to Work Programme providers and produce reports to ensure that providers meet contractual and regulatory requirements across their supply chain.
- **Third Party Provision Managers** are responsible for ensuring that local contracted and non-contracted provision meets the needs of all customers and contributes towards local Jobcentre Plus performance.
- **Provider Assurance Teams** conduct a series of reviews with Work Programme providers to test and assure their systems. The purpose of this is to protect public funds and data and ensure that value for money has been obtained.

Some previous evaluations of the DWP commissioning model have identified a lack of clarity between the Account Manager, Performance Manager and Third Party Provision Manager roles.<sup>24</sup> In this study, however, staff in these roles were easily able to articulate the difference between them. One exception to this was that some Senior Performance Managers felt that there was a lack of clarity between their role and that of Account Managers.

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<sup>24</sup> See, for example: Thompson, A. et al. (2011) *Work Choice Evaluation: Commissioning and transition of clients to the Programme*, In-house research report no. 6, DWP.

### 3.1.1 DWP-prime contractor relations

Overall, primes reported good relationships with central DWP staff particularly with senior officials and Account Managers. Primes found these relationships constructive and supportive. For example, one prime had felt that the Department had been understanding and helpful around some particular issues they had experienced:

*'Because of some of the issues around the supply chain that I have had I've had a lot of support from DWP ... they've been very supportive and you know we keep the communication alive with them and I think that helps.'*

(Manager, prime contractor)

This was in line with the perspectives of Account Managers, who reported close working relationships with primes, with frequent (sometimes daily) contact. Account Managers reported that they had contact with a number of different people within primes, most often senior managers such as Chief Executives, Chief Operating Officers and Finance Directors. Some primes had created a role to mirror the DWP Account Manager function and, in these cases, this was the Account Manager's main contact.

A number of primes mentioned meetings of the Work Programme National Provider Partnership Forum<sup>25</sup> as a positive means of communicating with DWP. This was seen as useful for airing views and gaining feedback. However, some primes felt that the forum meetings were too public for some issues and that they did not offer the opportunity to have frank discussions. Primes would have welcomed the opportunity to have another, more confidential way of communicating with the Department.

Performance Managers described good working relationships with primes. Where Performance Managers managed more than one prime, they sometimes described a better relationship with one prime than another. This was usually thought to be down to the personalities involved rather than the organisations. In some cases, Performance Managers had worked with the same individuals under previous contracts, and this was seen to lead to a good relationship:

*'[Our relationship is] very good. We've just worked with them for years! Well there have been different companies and things but, no, it's a good relationship and they work well with the local Jobcentres. They are happy to share information with us and are quite honest with us as well, so that's good.'*

(DWP Performance Manager)

Primes were split between those that felt that relationships with Performance Managers were working well and those that reported difficulties. Primes in the same contract package area (CPA) reported different relationships with the same Performance Manager and primes working in a number of CPAs appeared to have different relationships with Performance Managers in each one. This suggests that individual personalities and preferences had an important impact on perceptions of performance management. A common theme in good relationships appeared to relate to a Performance Manager's ability to challenge poor performance in a supportive way. Providers characterised this as the ability to actively manage performance without giving them 'a telling off':

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<sup>25</sup> The Work Programme Partnership Forum acts as an interface between DWP and providers at senior management level, to allow experiences of delivery of the programme to be shared and for emerging policy which may impact on delivery to be discussed. <http://www.dwp.gov.uk/policy/welfare-reform/the-work-programme/the-work-programme-partnership/>

*'Yes, I think so. I think everybody we work with [in DWP] generally has been very supportive and supporting us to improve further so I wouldn't say oh my god it's fantastic and they're really driving us forward at a pace but neither would I say we never see them and we don't feel the impact.'*

(Manager, prime contractor)

In qualitative interviews providers often made a distinction between working with DWP in terms of central Account or Performance Managers and working with operational Jobcentre Plus staff. At an operational level, primes largely reported good working relationships with Jobcentre Plus, often pointing to initiatives such as warm handovers<sup>26</sup> and good links between frontline provider staff and those in Jobcentre Plus. This was in line with the experiences of Jobcentre Plus staff, who reported generally good relationships with primes, with good practice including having a named lead in each organisation and provider engagement meetings. Both primes and Jobcentre Plus staff reported that relationships had often improved over time and that relationships varied between individuals and across CPAs. For example:

*'Our experience with [prime 1] and [prime 2] is completely different. We've had real difficulty in engagement with [prime 2]. They've not really wanted to know about joining up agendas and the dialogues that we've had with [prime 1] we have had great difficulty in replicating with [prime 2].'*

(Jobcentre Plus Local Partnership Manager)

These positive views contrast with the results of the programme strand of this evaluation which found no clear evidence of warm handovers between Jobcentre Plus and Work Programme providers and also identified difficulties in relationships between the two types of organisation. This is perhaps because the types of staff interviewed for the two evaluation strands were different. The interviewees in this strand were very senior staff in primes, subcontractor managers, and Jobcentre Plus Third Party Provision Managers. Interviews for the programme evaluation were intentionally weighted towards Jobcentre Plus staff including personal advisers and adviser managers, and frontline provider staff. The difference in views may suggest that relationships are more positive at the strategic than at the operational level. It may also suggest that senior provider managers are not fully aware of how the delivery model set out in contracts (featuring the aspiration of 'warm handovers') is operating in practice.

Primes reported having contact with a number of individuals and functions within the Department and Jobcentre Plus. Some primes found this difficult and would have preferred a more limited set of stakeholders. Having so many contacts made it difficult to know who to ask different questions or give information to and resulted in duplication of communication. However, other primes felt that working with different functions within the Department was reasonable and that engaging different Departmental stakeholders was important. They key seemed to be knowing who to engage around which issue:

*'you have to work in a multi-tiered way – you can't just talk to one person because you're missing out ... essentially DWP, Jobcentre Plus are stakeholders so you need to make sure you engage the right stakeholders for the activity you're completing'.*

(Chief Executive, prime contractor)

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<sup>26</sup> A 'warm handover' involves a three-way initial meeting (preferably face-to-face) between Jobcentre Plus, the Work Programme provider and the individual participant held around the time of referral.

### 3.1.2 DWP-subcontractor relations

The survey asked subcontractors about their contact with DWP during their delivery of the Work Programme. Almost nine in ten (87 per cent) subcontractors surveyed reported that they had no direct contact. This was reflected in qualitative interviews where almost all subcontractors reported that all communication with DWP was channelled through their prime. This shows that policy is being implemented as intended; only primes are supposed to have any contact with DWP. However, the survey of subcontractors found that around two-thirds (69 per cent) would have liked some direct contact with DWP, with around the remaining third (30 per cent) either not wanting direct contact or being unsure if they wanted direct contact with DWP. There did not appear to be any clear correlation between provider tier, sector or supply chain with desire for direct DWP contact.

In qualitative interviews the desire for direct contact appeared to result from a preference to receive information directly from DWP rather than through an intermediary which sometimes led to delays and miscommunication. However, a smaller number of subcontractors did not see the lack of direct contact as a problem or saw it as positive. One subcontractor, for example, felt that their influence with the Department was stronger because their success was communicated via their prime. On their own they would be too small to be noticed by DWP:

*'I think it has actually helped in some respects. If you talk about strategic level you know with [prime contractor] and the other primes that operate in the area you know they have got a stronger voice with DWP than we could ever have or any of the other small organisations and so I actually think there could be some benefits there.'*

(Tier One end-to-end subcontractor)

The experiences of subcontractors of working with Jobcentre Plus differed from those of primes, with subcontractors reporting a wide range of contact and quality in relationships. Some subcontractors had no direct contact with Jobcentre Plus and found this restrictive, while others did not think this had an impact on their delivery. For example:

*'I don't think we're suffering from a lack of contact. I know some providers have felt there's a restriction because they can't speak directly to Jobcentre Plus, but [prime] have provided us with information that we've requested in terms of the customer and their CV and their background and that sort of thing, so there isn't anything I feel that Jobcentre Plus would tell us that [prime] isn't telling us.'*

(Tier One subcontractor)

*'In the old days we would use Jobcentres for meetings, so we would talk to advisers on the ground. [Now] we're totally discouraged from even talking to an adviser unless it's absolutely essential, which I think is ludicrous. I understand that they may have less staff and it's all to do with time pressures but it's supposed to be a partnership, everyone working together and it seems to be discouraging people to work together and it's becoming a bit more of an us versus them which I hate.'*

(Tier One subcontractor)

These mixed views were also found amongst Jobcentre Plus staff who were split between those that thought contact with subcontractors was inappropriate and had managed this out and those who thought some engagement with subcontractors was important and had been developing it. For example:

*'What we've been trying to do is to say look, I know initially we should only deal with primes but you have a relationship with the local subs because operationally it's them that know the customer.'*

(Jobcentre Plus Third Party Provision Manager)

*'The only thing we had to make clear and we had a little bit of, not a problem, but it's a number of subcontractors and they would get my number from somewhere and I would have to say "no, I'm sorry, you are actually managed by [prime]" or "you're managed by [prime], not by me, you need to speak to them".'*

(Jobcentre Plus Third Party Provision Manager)

Given the findings from the programme strand evaluation that a lack of effective communication between providers and Jobcentre Plus was a source of difficulties at several different stages of the programme (i.e. referral, handover and sanctions activity), we will seek to explore engagement with providers in future research with Jobcentre Plus staff.

### 3.2 Performance management

International evidence<sup>27</sup> suggests that performance managers in similar employment programmes have tended to conceive of their role as either monitoring and contract management or encouraging and supporting good practice. In interviews for this report, DWP Performance Managers and Senior Performance Managers did not describe their role in terms of encouraging good practice until prompted. However, once prompted they were able to give examples of where they did this.

Contact was frequent between Performance Managers and primes, in some cases daily, but more commonly weekly or fortnightly. Performance Managers told us that their main formal mechanism for managing performance was to hold monthly contract performance reviews with primes. These involved a range of relevant staff, often including Third Party Provision Managers or other Jobcentre Plus staff who were able to raise local, operational issues. At the time of the research, Performance Managers were working on transferring primes from Performance Improvement Plans (PIP), which were initiated at the start of contracts, to Performance Development Plans (PDP) for live running. While similar in content, PIPs will in future be reserved for primes that are underperforming. PDPs are smaller documents than PIPs and focus more on performance issues; PIPs included premises, staff and other resource issues.

Performance Managers do not directly monitor the quality of provision. Compliance Monitoring Officers (CMO) visit providers to ensure that minimum service delivery standards are being met and this should include the quality of provision. Where primes have given less detailed minimum service standards, performance teams have found it difficult to manage primes against them. This will be discussed further in Chapter 5.

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<sup>27</sup> For example see 'Introductory paper on the measurement of quality services for Job Services Australia Providers', Department of Education, Employment and Workplace Relations, April 2012.

In terms of the data that Performance Managers access to monitor providers' performance, the key source is the Work Programme referrals and attachments from DWP's Provider Referrals and Payments (PRaP) system. Because customers are randomly referred to a prime contractor it is possible to directly compare performance between providers. In general, Performance Managers were happy with the data received through PRaP, however, several felt it would be useful to have access to live data as lags of up to a month can make it hard to reconcile PRaP data with more up-to-date provider data.

*'There are two sets of MI. There's a set that appears on the intranet and that's always a month behind which is not helpful when you go to a performance review because you're saying 'you've done this' and they'll say 'yes but what about this' and you can't disprove that necessarily.'*

(DWP Performance Manager)

Some Performance Managers also felt that it would be beneficial to receive DWP assured data on job entries and sustainment. At present, they rely on primes to provide this data, as DWP data is not available quickly enough for performance reviews. Additional data comes from the Provider Assurance Teams (PAT) who review and test the effectiveness of a prime's internal control systems. Information from PAT includes details of governance, financial procedures (and counter fraud), arrangements with subcontractors and data security. They also review providers' systems for starting, ending and moving participants through provision. Performance Managers were fairly evenly split between those who used findings from PAT assessments and those who did not. Some of those who did not use PAT reports would have liked greater access to them. For example:

*'The PAT information doesn't come through to us automatically. In the time I've been doing this job I've probably seen about two PAT reports ... I don't think it's a deliberate thing to keep it away from us but there needs to be a better kind of way of making sure that that information is seen by all parties that need to see it and we are one of those parties.'*

(DWP Senior Performance Manager)

Although not directly linked with performance management duties, a number of primes reported an increasing administrative burden around performance management, in particular around providing evidence for sustainment payments.<sup>28</sup> The invitation to tender for the Work Programme stated:

*'DWP will validate payments on a regular basis by conducting a series of pre and post payment checks. These checks will be performed at the optimum time to allow DWP systems to be updated. This will include an off benefit check for outcome payments in all cases which matches customer benefit records with the information held on PRaP. The off benefit check will be supplemented by a post payment check using Her Majesty's Revenue and Customs (HMRC) records and/or direct contact with the customer or employer on a sample basis.'<sup>29</sup>*

<sup>28</sup> Similar concerns around the administrative burden of performance management have been raised by providers in Australia. See, for example, Finn, D. (2008) *The British 'welfare market': lessons from contracting out welfare to Work Programmes in Australia and the Netherlands*, Joseph Rowntree Foundation.

<sup>29</sup> The Work Programme: Invitation to Tender, Specification and Supporting Information <http://www.dwp.gov.uk/docs/work-prog-itt.pdf>

In practice the HMRC checks are used only to validate job outcomes and providers have had to submit auditable contact with participants to claim sustainment payments. Most primes reported that this involved telephoning or visiting participants every four weeks, but that this could be difficult as many mainstream participants did not welcome ongoing appointments or phone calls once they were in work. Providers that raised this as an issue were particularly concerned that this would become a greater problem as the programme matured and greater numbers of participants were in work. For example:

*'Well we're being asked at the moment to verify those [sustainment claims] and it's a rather convoluted and laborious process ... but it's done at a cost and what providers are worried about is ... whatever the cost it is now, the cost is going to be ten times greater in a year's time.'*

(Manager, prime contractor)

However since the interviewees were completed this issue has been resolved (July 2012). DWP guidance states that to support the validity of sustained payments providers must be able to produce clear evidence that:

- they have agreed an ongoing support mechanism with the participant;
- the agreed support mechanism remains in place and available to participant regardless of whether they choose to access it;
- if appropriate, the provider has agreed with the individual that they are established in their job and that they do not need further contact with the provider unless circumstances change; and
- the participant agrees to notify the provider of any relevant change in their circumstances – e.g. they start a different job or leave their job.

### 3.3 Summary

The programme strand of this evaluation identified difficult relationships between Jobcentre Plus and Work Programme providers which in some cases had led to communication problems. However, this strand of the evaluation found that in general both providers and DWP and Jobcentre Plus viewed relationships as positive. The types of staff interviewed for this strand are slightly different focusing mainly on managers rather than frontline staff. This may suggest that relationships are more positive at a strategic level than on the frontline.

Views on relationships with DWP and Jobcentre Plus appear to vary between prime contractors and subcontractors. Findings suggest that there are strong working relationships between prime contractors and DWP, particularly between Account Managers and primes. Primes were also positive about relationships with Jobcentre Plus. By comparison most subcontractors reported that they had no direct contact with central DWP staff and varied levels of contact with Jobcentre Plus. This is because DWP policy intent is that all contact with DWP is through primes and not subcontractors. As a result some Jobcentre Plus offices regard engagement with Work Programme subcontractors as inappropriate, however, others still see it as important for the participant experience. Subcontractors' views on the need to engage with Jobcentre Plus were similarly mixed with some feeling that the best way to support the participant is through partnership working and others feeling that it is sufficient for primes to have relationships with Jobcentre Plus and pass information on.

A range of DWP staff are involved in performance management, including Performance Managers, Compliance Monitoring Officers and Provider Assurance Teams. Performance Managers described good working relationships with primes, although primes were split between those that felt that relationships with Performance Managers were working well and those that reported difficulties. From a provider perspective, the best relationships were those where Performance Managers were seen to be supportive as well as stringent. There is some evidence to suggest that Performance Managers would like real-time PRaP performance data to enable them to better monitor providers against contracts. Many primes reported frustration at requirements around evidencing sustainment outcomes, but this issue has been resolved since fieldwork for this report took place.

# 4 Supply chain management

This chapter discusses how prime contractors manage their supply chains. Primes are free to manage their supply chains as they wish but they must comply with the Merlin Standard which was designed to validate positive behaviour of prime contractors and supply chain partners in line with the Department for Work and Pensions' (DWP's) Code of Conduct.<sup>30</sup> All prime contractors were required to gain Merlin accreditation in order to be a DWP prime contractor or risk losing their contract. Merlin assessments took place in spring/summer 2012 and all prime contractors passed.

This chapter explores how primes structure their referral allocations, their payment terms and their performance management systems. It also explores relationships between primes and subcontractors (including the impact of Merlin) and describes how supply chains have changed since bids were submitted and during delivery. This chapter is based on qualitative interviews with prime and subcontractors and the survey of subcontractors.

## 4.1 Referrals and payment terms

### 4.1.1 Referrals

When a claimant becomes eligible for the Work Programme they are referred by Jobcentre Plus to the programme and randomly allocated to one of prime contractors operating in the local area. The Work Programme participant will then receive a letter or telephone call to invite them to meet with an end-to-end provider (either delivery prime or Tier One subcontractor).<sup>31</sup> Table 4.1 shows the different groups of benefit claimants that are referred to the Work Programme, their points of referral and whether this is on a mandatory or voluntary basis.

The referrals that a subcontractor receives from their prime are largely determined by geography i.e. the participant is located within their catchment area (38 per cent of subcontractors) or participants' need/participant group (36 per cent of subcontractors). Less than one-quarter (23 per cent) of subcontractors had a formal agreement in place to receive a set number or minimum volume of referrals across all of their contracts, and a further 12 per cent did on some contracts but not others. Tier One suppliers were much more likely to have such an agreement of minimum referrals than Tier Two suppliers. Of Tier One suppliers, 58 per cent had a set or minimum number of referrals on at least one contract, compared to just 17 per cent of Tier Two suppliers.

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<sup>30</sup> [www.merlinstandard.co.uk](http://www.merlinstandard.co.uk)

<sup>31</sup> Newton et al. (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, DWP Research Report 821, Sheffield: DWP, p.37.

**Table 4.1 Work Programme payment groups**

<b>Payment Group</b>	<b>Point of referral</b>	<b>Basis for referral</b>
1 JSA claimants aged 18–24	From 9 months on JSA	Mandatory
2 JSA claimants aged 25+	From 12 months on JSA	Mandatory
3 JSA ‘early access’ groups	From 3 months on JSA	Mandatory or voluntary depending on circumstance
4 JSA ex-IB	From 3 months on JSA	Mandatory
5 ESA volunteers	At any time from point of Work Capability Assessment	Voluntary
6 New ESA claimants	Mandatory when expected to be fit for work within 3 to 6 months. Voluntary from point of Work Capability Assessment <sup>32</sup> for specified participants.	Mandatory or voluntary depending on circumstance
7 ESA Ex-IB	Mandatory when expected to be fit for work within 3 to 6 months. Voluntary from point of Work Capability Assessment for participants with longer prognoses.	Mandatory or voluntary depending on circumstance
8 IB/IS (England only)	From benefit entitlement	Voluntary
9 JSA prison leavers*	From day one of release from prison	Mandatory

\* JSA prison leavers are outside the scope of this evaluation. A separate evaluation covers this payment group.

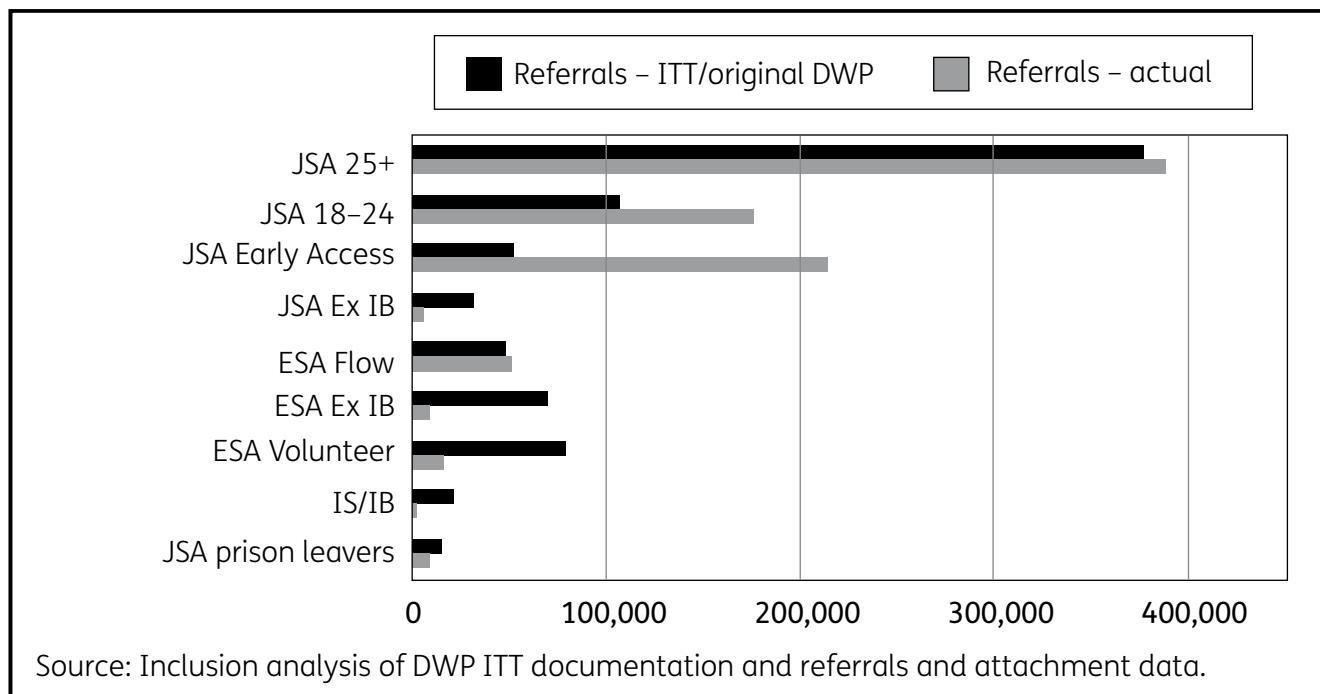
Interviews with Tier One providers found that many had received more referrals than they were expecting, but that fewer of these were in the Employment and Support Allowance (ESA) payment groups. This was in line with the overall patterns of referrals to the Work Programme. Over the first 13 months of the programme (June 2011 to July 2012) referrals were significantly different to the indicative volumes forecast by the Department in its 2010 Invitation to Tender.<sup>33</sup> Figure 4.1 shows how actual referrals over that period compare to the expected ‘flows’ set out in the Work Programme Invitation to Tender. In general, referrals of claimants in the first three Jobseeker’s Allowance (JSA) payment groups were far higher than expected (as we would expect during a recession) and far lower for other payment groups. In the early days of the programme ESA referrals in particular were considerably lower than anticipated.

The number of ESA claimants eligible for mandatory referral to the Work Programme was lower than forecast for a number of reasons, but primarily because fewer than expected claimants were placed in the Work Related Activity Group (WRAG) following their Work Capability Assessment (WCA). Of those in the WRAG, fewer than anticipated were given a shorter WCA prognosis (only those expected to be fit for work within three to six months have a mandatory referral to the Work Programme). The number of people from the ESA payment groups who volunteered to enter the Work Programme was also lower than expected.

<sup>32</sup> The WCA determines eligibility for the ESA, providing a functional assessment of whether someone can work; whether someone can work at some point with the right support; or whether someone cannot work and therefore needs unconditional State support.

<sup>33</sup> *Work Programme referrals and attachments: Inclusion analysis*, November 2012, [www.cesi.org.uk](http://www.cesi.org.uk)

**Figure 4.1 Work Programme referrals by payment group – ITT volumes compared with actual, June 2011 – July 2012**



Subcontractors reported that as a result of higher overall referral volumes they had taken on extra staff and premises. Many were worried that the profile of referrals was different to those that went into their financial forecasts at go-live.

*'We're having to get new premises because we're getting more customers than we thought we were getting. Now I'm worried whether we've done that and we don't need to. I think we've not noticed particularly the outcomes of not getting the extra ones that pay more yet, but I think as we go into future years obviously [lack of higher value referrals will be] detrimental to what we do in the budget if we don't get that client group.'*

(Tier One end-to-end subcontractor)

A very small number of Tier One subcontractors that were contracted to receive referrals on the basis of participant need were not receiving adequate numbers of referrals. As they had guaranteed volumes, their primes were referring other participants without the particular need in order to meet the volume expected. In these cases, the subcontractors had changed their staffing by hiring advisers with generalist rather than specialist experience and had made some specialist advisers redundant. This may signal the loss of specialist expertise that would be required should the composition of referrals change significantly again in future.

It was common for Tier Two subcontractors to have received no referrals or far fewer than they were expecting. For some, lower than expected volumes had led to cuts in staff and, in a small number of cases, to organisations having gone out of business. More commonly, Tier Two subcontractors had focused on other areas of business and many did not see themselves as 'Work Programme providers'. Where Tier Two providers were receiving adequate levels of referrals it was common to find that these providers were working hard to market their services to primes and Tier One providers:

*'it's quite difficult for each individual [prime] adviser to know about everything so one of the things that I've been trying to do and [the prime] have been understanding about it is to get to the actual business managers and sell our provision to them so that they can then promote it to their individual advisers.'*

(Tier 2 specialist subcontractor)

These Tier Two subcontractors tended to have business models based on freelance staff so that they could deal with the uncertain levels of referrals.

#### 4.1.2 Payment terms

One of the features of a Payment by Results (PbR) model is that it transfers the risk of paying for services from the commissioner to the provider who only receives payment for successful outcomes. This research found that almost all Tier One subcontractors were paid on roughly the same outcomes basis as primes or a modified version of this model (such as a higher attachment fee or ongoing attachment fees once these finished for the prime). Primes typically deducted a 10 to 20 per cent 'management fee' from payments made to Tier One subcontractors. It seems that the risk in the outcome-based funding model is to a large extent being handed down the supply chain and shared by Tier One subcontractors. For example, a prime reported:

*'What has happened is the primes are flowing down essentially the risk, so you've taken a bid for a multi-million pound funding challenge and you cut it into tens of hundreds of thousand pound funding challenges and giving that funding challenge to the supply chain. Very honestly that's what's happened ... essentially the majority of the funding challenge, we're carrying a significant portion of it, but the subcontractors are carrying a proportion of it. So the funding challenge hasn't gone to the banks. The funding challenge has gone to the smaller investors.'*

(Managing Director, prime contractor)

Tier Two subcontractors were typically paid a set fee for a service or per referral. These up-front fees both protect Tier Two providers from bearing the risk of an outcome-based payment model, but may also lead to fewer referrals being made when primes and Tier Ones feel cash flow is tight.

Almost one-third (32 per cent) of subcontractors responding to the survey said that they sometimes take Work Programme referrals that are not funded through the Work Programme, for example, by providing services to participants referred by Work Programme prime contractors that the prime does not pay for. Anecdotal evidence suggests that these services are funded through other contracts held by the subcontractor, in some cases other DWP contracts. This will be explored further in the next wave of qualitative interviews.

### 4.2 Relationship management

All prime contractors had dedicated staff to manage the relationships with their supply chain, variously called Supply Chain Managers or Partnership Managers. Relationship management took a number of forms including regular face-to-face meetings, emails and newsletters, but varied through the supply chain. Face-to-face contact, for instance, tended only to happen with Tier One subcontractors. Some primes admitted that they had very little, if any, contact with Tier Two subcontractors that they had not yet made referrals to.

Research with subcontractors seems to bear out this differential relationship between tiers. Slightly more than half of subcontractors surveyed (52 per cent) reported a positive relationship with their prime or primes (six to ten on a scale), including seven per cent who said it was extremely positive (a score of ten out of ten). At the other end of the scale, 13 per cent reported an extremely negative relationship with their prime or primes. A positive relationship between prime and subcontractor is strongly correlated with the tier of the subcontractor: 82 per cent of Tier One subcontractors report a positive relationship compared to just 29 per cent of Tier Two subcontractors.

Interviews with Tier One providers found that they experienced positive relationships with their primes. Positive features of the relationship often centred on collaborative working, open communication and honesty: ‘I can’t speak too highly of them because they’re very supportive, right from day one, they haven’t got a blame culture, they have got a culture of identifying weaknesses and working with you on how we can address those issues.’ On the other hand, poor performance sometimes strained relationships between Tier One subcontractors and primes. This was due to pressure exerted on the subcontractor to improve performance.

Interviews with Tier Two subcontractors revealed that they often felt that their relationships with primes were problematic. This largely related to the infrequency of contact and lack of referrals: ‘*My frustration of the relationship I have is that, since the Work Programme, zero is happening and I know that we are just being given lip service and I know things aren’t happening, and that’s where my frustration lies.*’

### 4.2.1 The Merlin Standard

Most primes had recently undergone their Merlin assessment or were shortly about to at the time of interview. In July 2012 it was announced that all 18 primes had successfully passed their Merlin assessment. Eleven of the 18 providers were deemed to have achieved a ‘good’ score of 70 per cent or more; the other seven were assessed as performing to a ‘satisfactory’ level against the standard. None fell into the ‘excellent’ category, which requires a score of 85 per cent or higher. A score of 54 per cent or lower would be deemed ‘unsatisfactory’.<sup>34</sup>

Primes were divided in their opinion of the effectiveness of the Merlin Standard in promoting good supply chain development and management. Some primes were sceptical about the Merlin Standard, feeling that it was a ‘tick box’ exercise.

*‘Whilst I’m delighted that we have met the standard, I would not have been bothered had we not because, at the end of the day, the proof of the pudding is in the eating... and either are we providing and achieving what we need to? Yes. Are we dealing with organisations who are very happy with the relationships they have with us? Yes... and do we get good feedback from our clients, whichever of the end of end providers that they came to that they are satisfied... yes we do, and that certainly is more important than did I follow a list so that I can tick some boxes.’*

(Manager, prime contractor)

Conversely, other primes found that the Merlin Standard was a useful benchmark:

*‘quite demanding, but it’s good practice ... it’s a good guide to test anything you’re planning to do against.’*

(Performance Manager, prime contractor)

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<sup>34</sup> 26 July 2012, Third Sector Online ‘Work Programme prime contractors pass the Merlin Standard’.

The views of subcontractors are particularly important as the Merlin Standard is designed to help to protect these organisations. The survey of subcontractors found that two-thirds (67 per cent) had some experience of the Merlin Standard. Opinion among subcontractors appeared inconclusive in terms of the effectiveness of the Merlin Standard in promoting good supply chain development and management. Nearly half (47 per cent) of those that had some experience of it rated the Merlin Standard as ineffective (one to five on a scale), 31 per cent rated it as effective (six to ten on scale), and 23 per cent reported that they didn't know how effective it was or that it was too early to tell.

When interviewed almost all subcontractors were aware of the Merlin Standard, even if they had not taken part in an assessment. It was more common for Tier One subcontractors to have taken part in an assessment and also more common for this group to feel that the Merlin Standard was effective. Tier One subcontractors that had received large volumes of referrals (more than 10 per cent of referrals within a supply chain) appeared to be most positive about the Merlin Standard. For example:

*'On the whole I think it's been a really positive thing. I think it's made the industry develop its processes and there's no doubt that supply chain management across the industry in just the last two years has just moved on an unbelievable distance.'*

(Tier One end-to-end subcontractor)

In contrast, it was common for Tier Two subcontractors to feel that the Merlin Standard was ineffective. It is likely that this was because many Tier Two subcontractors were unhappy with their involvement in the Work Programme (as many had not received the referrals they expected) and therefore they did not feel that the Merlin Standard had protected them. For example:

*'If the purpose of it is to stop primes taking advantage of their subcontractors then it's clearly not working because, you know, organisations have earmarked money to work with the primes, they've been promised referrals and haven't had them so if that's not mucking about with your subcontractors I'm not quite sure what is, you know, so I'd say I'm not entirely convinced [Merlin] achieves the objective it sets out to achieve.'*

(Tier Two specialist subcontractor)

### 4.3 Performance management and improvement

Primes reported a wide range of activities to manage and support performance improvement among subcontractors which they differentiated from the process of encouraging or driving improvement. These activities were used almost exclusively with Tier One subcontractors and primes had dedicated staff for this purpose. Primes' Performance Managers would meet regularly with subcontractors, usually monthly or fortnightly to discuss performance. Where performance required improvement, subcontractors would receive warnings and offers of support. Some primes gave examples where contracts had eventually been removed due to poor performance. Most primes held detailed management information on subcontractor performance, in some cases down to the performance of individual advisers. Some primes reported that they could use this data to demand improvement or even removal of poor performing staff members.

Some primes used competition to drive performance within their supply chains. This could be publication of league tables showing subcontractor performance or through shifting market share away from poorer performers. Sometimes competition was applied at an individual staff level, with cash bonuses for best performing staff or teams. While not mutually exclusive from those using competition, other primes used a capacity-building approach to foster good practice. Several primes reported having offered help with management skills and processes; some even seconded staff into

subcontractors as ‘quasi managers’. Some primes encouraged sharing of good practice across their supply chains, either face-to-face or more commonly through online or telephone-based forums.

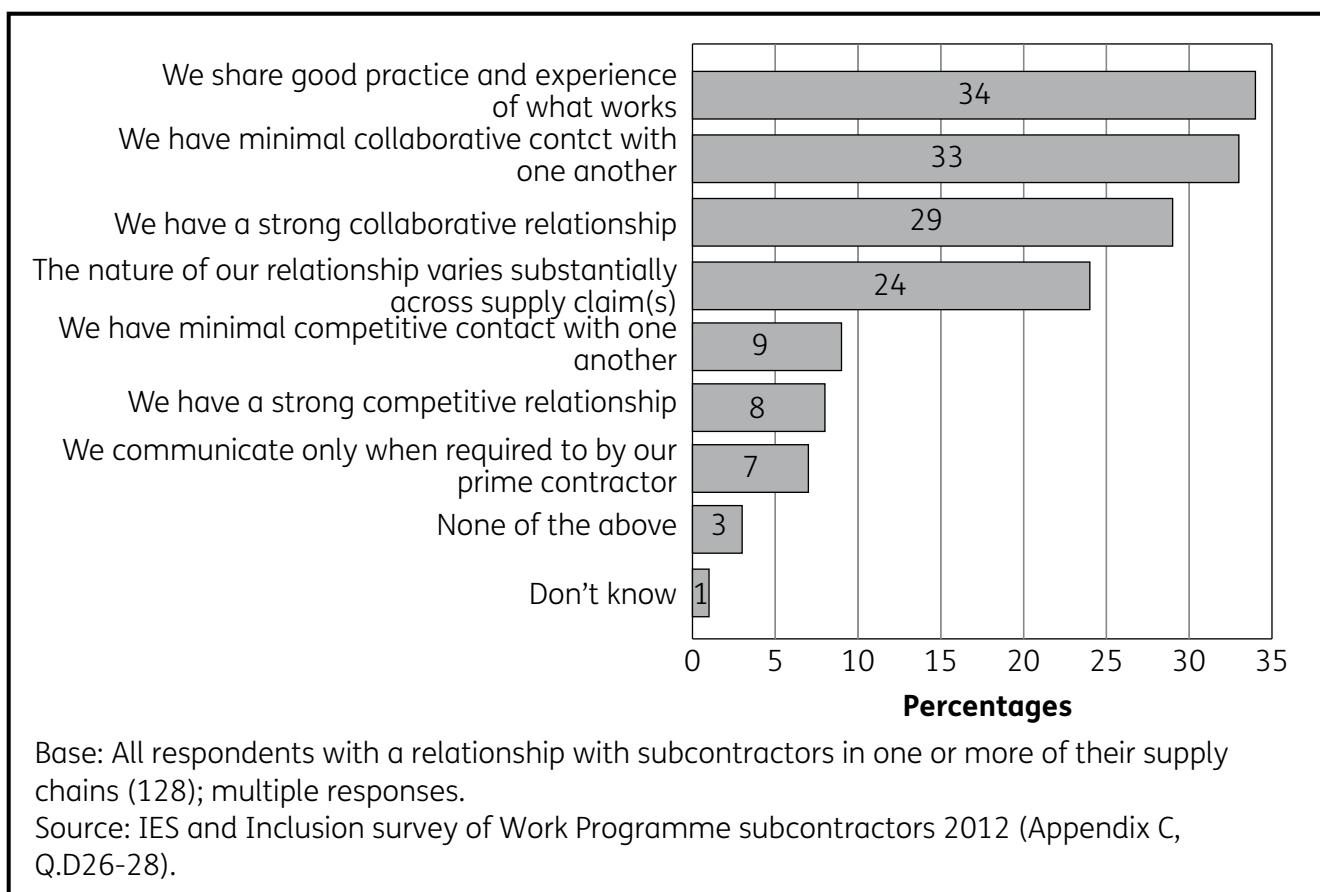
Subcontractors were also asked what they had done to develop and improve their staff. Tier One subcontractors were more likely than Tier Two to have had training provided by their prime, typically training on the management information system. The survey of subcontractors found that nearly three-quarters (73 per cent) had undertaken activities with staff since Work Programme go-live. All Tier One respondents reported having undertaken development activities with staff, which tended to focus on delivery skills. Two-thirds of Tier One subcontractors had provided training in IT systems (69 per cent); 60 per cent had undertaken training in assessment and/or early identification tools for participants; and 55 per cent had given training in dealing with more disadvantaged participants.

#### 4.3.1 Relationships between subcontractors

More than two-thirds (71 per cent) of subcontractors surveyed reported having some kind of relationship with other subcontractors in one or more of their supply chains. Tier One suppliers are more likely to have a relationship with other subcontractors; 87 per cent said they had such relationships in one or more supply chains. It was common for Tier Two subcontractors to have little, if any, contact with other subcontractors.

Figure 4.2 sets out in more detail the nature of these relationships and it is clear that collaboration is more common than competition. Twenty-nine per cent of organisations with a relationship with other subcontractors in one or more of their supply chains reported a strong collaborative relationship, while just eight per cent reported a strong competitive relationship.

**Figure 4.2 Nature of relationships between subcontractors**



One-third (34 per cent) of suppliers with a relationship with other subcontractors reported that they share good practice and experience of what works with these organisations. When interviewed, those sharing good practice did so on a monthly or quarterly basis. Some said that these opportunities had been given early in the contract but had since fallen away. Some subcontractors in competitive supply chains said that competition limited the degree to which they would share good practice or support other subcontractors.

## 4.4 Changes to supply chains

This research found a great deal of change across all supply chains, both between bids and go live and during live running. Changes to supply chains had occurred both at Tier One and Tier Two levels. A number of primes told us that some potential Tier One subcontractors decided not to sign contracts between the prime's bid being named successful and go-live in June 2011. In these cases primes reported that they either took on the extra volume of referrals themselves or allocated them to the remaining Tier One subcontractors in the supply chain.

Since the programme went live, the survey of subcontractors found that around one in ten (9 per cent) had left one or more supply chains.<sup>35</sup> In qualitative interviews, a small number of primes reported that Tier Two subcontractors had left supply chains because they had not yet received referrals. In these cases, the primes reported that they would find replacements if these were needed in the future. Roughly one in ten (11 per cent) subcontractors had joined one or more supply chains since the start of delivery. Where primes had brought in new subcontractors it tended to be as a replacement for Tier One services from poorly performing suppliers. At the time of the research, a number of primes were anticipating removing Tier One subcontractors for poor delivery and were actively seeking potential replacements. It is likely, therefore, that we will see more changes to supply chains in future waves of research.

### 4.4.1 Supply chain leavers

All of the organisations interviewed for this research that had left a Work Programme supply chain did so during initial contract negotiations after the prime contracts were awarded, rather than during live running. As with those potential providers that decided not to bid (see Chapter 2) subcontractors leaving before go-live did so because of concerns around the level of financial risk. Concerns were expressed around the outcome-based funding model, the terms and conditions offered by primes and about the implications of Transfer of Undertakings (Protection of Employment) Regulations (TUPE). Specific concerns about the funding model and terms and conditions were: primes offering too low volumes of referrals; primes offering payments that were perceived to be too low; and not being able to receive referrals from 'higher value' referral groups.

Concerns about TUPE for some providers centred on the notion of taking on new staff which was seen as unpalatable regardless of pay, pensions and staff quality. For others, the lack of detailed information about the staff they would be taking on was a concern. For most the issue was a combination of being informed about their specific TUPE responsibilities only at the last minute, and the belief that they were not in a position to take on additional staff. One organisation in a winning supply chain was made aware of the implications of the TUPE conditions only three weeks before the go-live date. They were already in the process of making redundancies at the time and therefore decided that withdrawing from the programme was preferable to taking on any TUPE'd staff.

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<sup>35</sup> These subcontractors were still delivering services in other supply chains at the time of the survey.

The research found one example of a subcontractor that was excluded from a supply chain by the prime after the contract was won. In this case there was no communication from the prime in the first instance and, when the subcontractor approached the prime, they were told there was not enough money in the contract to be able to include them in the supply chain. There was also one example where post-award discussions resulted in a mutual decision for the subcontractor to leave the supply chain.

### 4.4.2 Summary

The research found that whilst Jobcentre Plus randomly allocated Work Programme participants to one of the two or three prime contractors operating within each contract package area, prime contractors did not operate a random system when passing participants on to subcontractors within the supply chain. Allocation was done largely on the basis of geography, participant need and claimant characteristic (e.g. age). Most subcontractors did not have an agreement to receive a set or minimum number of referrals, although Tier One suppliers were much more likely to have such an agreement than Tier Two suppliers. It was common for Tier One subcontractors to report higher levels of referrals than expected while common for Tier Two subcontractors to report few if any referrals.

Almost all Tier One subcontractors were paid on roughly the same outcomes-based funding model as primes or on a modified version of this model. The risk in the outcome based funding model is therefore, to a large extent, being shared by Tier One subcontractors. Tier Two subcontractors tended to be paid a set fee for a service or per referral rather than on an outcome basis.

Primes reported using a range of performance management methods within supply chains, including data analysis, management support and competition, to drive performance improvement among subcontractors. Around half of subcontractors reported a positive relationship with their prime or primes. A positive relationship between prime and subcontractor was strongly correlated with the tier of the subcontractor, with Tier One subcontractors far more likely to report a positive relationship than Tier Two subcontractors. This is likely to be related to (dis)satisfaction with the level of referrals that these subcontractors were receiving.

Relationships between subcontractors tended to be characterised by collaboration rather than competition. Sharing good practice amongst primes and Tier One subcontractors and between subcontractors in supply chains appears to be relatively common. However, where primes had established competitive supply chains, the subcontractors reported that they were less inclined to share best practice.

Supply chains had undergone a number of changes since bids were submitted. Changes before go-live largely resulted from subcontractor concerns about financial viability, such as primes offering insufficient numbers of referrals, and TUPE issues. There was also change during live running with one in ten subcontractors currently delivering having left another supply chain. Evidence from primes suggests that we will see further supply chain changes as poor performing subcontractors are replaced.

# 5 Impact of the commissioning model

The Work Programme commissioning model contains a number of innovative features designed to lead to good quality provision for participants and a healthy provider market. At this early stage in the research it has not been possible to explore all of the principles of the Work Programme commissioning model in detail. However, this chapter makes a tentative attempt to explore how some of its key features, including the black box model and outcome-based funding, are working in practice. These findings are based on qualitative interviews with contractors and with DWP Account Managers and Performance Managers.

## 5.1 Minimum service prescription – the ‘black box’

‘Black box’ commissioning is intended to enable providers to develop delivery models based on effective interventions and to enable flexibility to change these if they are ineffective in practice. The invitation to tender stated that:

*‘Providers will have considerable freedom to determine what activities each customer will undertake in order to help them into, and to sustain, employment. Specialist delivery partners from the public, private and voluntary sectors are best placed to identify the best ways of getting people back to work, and will be allowed the freedom to do so without detailed prescription from central government. We will specify some minimum requirements (for example around data security) but these will be minimised. During implementation and when the Work Programme is in live running we will look for light touch methods to assure delivery of the proposals and standards, as set out in the bids and to minimise the burden on Providers.’<sup>36</sup>*

This research found evidence that providers had developed the delivery models in their bids based on their understanding of effective practice. This came from a range of sources. Several primes reported that they conducted evidence reviews of ‘what works’ both in previous UK programmes as well as internationally. Others reported that they consulted potential subcontractors on effective practice, in particular those with specialist expertise. Primes that had delivered provision in other countries often incorporated elements from that provision into their Work Programme delivery models. Where primes were operating as partnerships or were formed through mergers between different organisations, experiences from partner companies were pooled.

There was also evidence that primes were changing their delivery models in live running when it became apparent that initial assumptions proved to be ineffective or inappropriate. In-work support is one significant example of an area of delivery where many primes have changed their approach since go-live. Several primes told us that although their planned delivery model included face-to-face support for participants once they were in work, in practice many participants preferred only to be contacted by phone. For example:

<sup>36</sup> *The Work Programme: Invitation to Tender, Specification and Supporting Information*, DWP.

*'Some customers still have their support of their guide work coach but the vast majority are now being supported through the call centre because what we found is customers actually don't want you to go out and visit them, actually they don't want to come into the centre and visit you once they're in work ... we found our work coaches were doing lots of phone calls, and that clearly doesn't make sense either so the call centre have now picked that up and that's going very well.'*

(Head of Operations, prime contractor)

Other primes reported that many participants did not want any contact at all once they were in work. In response to this, some providers were testing approaches such as incentives for staying in touch, but so far had not found a solution to this problem. For example:

*'People will go; "do you know what, we don't want you contacting us", and we're getting it already. We've had customers who've said if you contact me again I'll take you to court for harassment ... we sent out an incentive letter to say we'll help you with your first month's expenses, just to really try and solidify that relationship, and we had a very low response really, ten per cent of what we sent out, and it wasn't an insignificant amount of money that we said we'd help them with, you know.'*

(Manager, Tier One end-to-end subcontractor)

### **5.1.1 Managing the black box**

Providers highlighted the importance of ongoing flexibility in delivery so that delivery models could innovate and adapt, and react to local conditions. However, interviews with DWP staff revealed differing views on the scope to flex provision significantly beyond the models described in providers' contracts.

Most primes felt that the intention of the contracts was for providers to have significant flexibility to change delivery and be responsive to what works or does not work. One prime that was a new entrant to the welfare to work sphere explained that the ability to be flexible and innovate was what had attracted them to bid for the contract. However, primes felt that they received contradictory messages from DWP about whether the black box applied only at procurement or whether primes still had flexibility during delivery. For example, one prime perceived the black box model as one where they would be constantly evolving their practices, but had subsequently found they were asked to submit contract variations and get approval for things they thought were within their discretion:

*'We were surprised in that we had a listing through recently of areas where we'd made some changes, or are going to make changes, or are in the process of making changes where they said we had to go through deed of variation to the contract so that is not our understanding ... To us the whole idea is about innovate, move quickly, learn and progress, imposing that criteria it's actually trying to impose the values of the civil service bureaucracy on something that you want to be innovative.'*

(Chief Executive, prime contractor)

Other primes believed that the black box only applied at procurement, but that there was enough flexibility to make some changes to delivery over the course of the contracts. For example:

*'I mean I do buy that it was black box until procurement. I mean once you've promised something in a tender, you have to deliver it, I mean I think that's fine, you know, we ought to hold organisations to that, but by the same token ... the secret is not to get it right in kind of like a vacuum in isolation, the secret is to keep changing it when you've got it wrong, to improve it and improve it and improve it, and actually DWP have been pretty good on that with us.'*

(Director, prime contractor)

When interviewed, Performance Managers were consistent in expressing the belief that black box applied only to procurement and that once contracts were awarded providers must adhere to the terms of their contracts:

*'Black box I think was ok in the tendering round, but I do think that now some providers still try to use the black box approach which of course, once they're in delivery, black box doesn't really apply any longer, black box was only part of the procurement process as I understand it.'*

(DWP Performance Manager)

A differing interpretation of black box between providers and Performance Managers is one issue, but a further concern relates to inconsistencies in the messages that provider received from officials within DWP. Primes reported that they were receiving messages from senior officials and Account Managers that encouraged them to reflect and be flexible in delivery, while Performance Managers would inform them that they must deliver in accordance with their bids. It was common for primes to feel frustrated by these apparently conflicting messages.

Account Managers interviewed for this research reported that providers could be flexible with their delivery, subject to informing the Department and/or contract variations:

*'They presented ideas for delivery in the contract but it is still a black box, so like I say they will just manage a client once that client comes through the door how they see fit. So they can change, if a person's circumstances change they can change their delivery model to fit that customer.'*

(DWP Account Manager)

Primes reported inconsistencies around which elements of their delivery they had complete flexibility to change, which elements they merely needed to inform DWP of and which elements needed contract variations. Some Performance Managers acknowledged the different understandings of black box within the Department. For example:

*'I think there needs to be a clear understanding of what is meant by black box and I think that's an internal DWP thing as well. There seems to be an opinion that black box is well you can do whatever you want, rather than, you know, you are free to put down a delivery model of your own design, but once you've written it down that is what it is and that's what we're going to measure you against and I think there's people within DWP who don't understand that and I think there's people within Jobcentre Plus who've struggled with that as well.'*

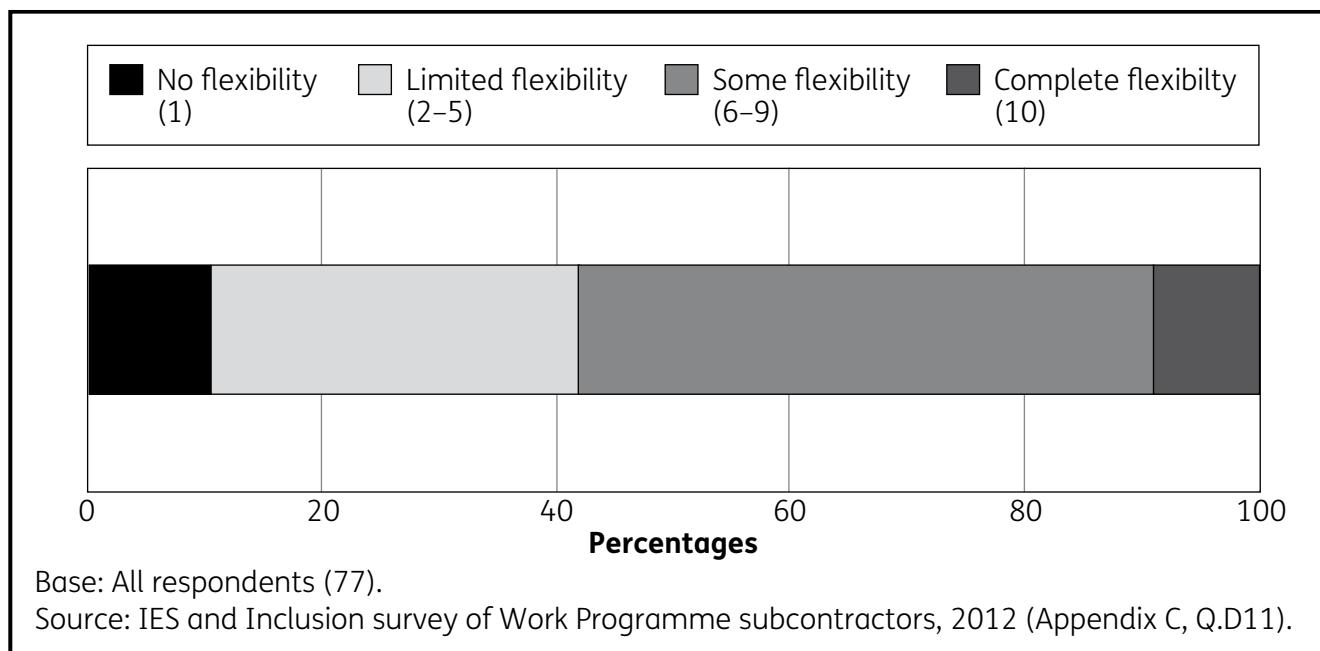
(DWP Performance Manager)

### 5.1.2 Black box within supply chains

Previous research on the DWP commissioning strategy found that subcontractors identified benefits from minimum service prescription such as the ability to focus on providing specialised services and offering better tailored services to participants.<sup>37</sup> These benefits depend on delivery flexibilities being passed down from primes to subcontractors.

Subcontractors surveyed were asked how much flexibility they were given in terms of their delivery model and the systems they used. The degree of flexibility was rated on a scale where ten was complete flexibility and one was complete prescription. Figure 5.1 shows that more than half (52 per cent) reported that they were given some flexibility, including seven per cent who had complete flexibility. However, just over a third (37 per cent) reported that they had little flexibility by their prime in terms of their delivery models and systems they used, including nine per cent who had no flexibility at all.

**Figure 5.1 Level of flexibility given to subcontractors by primes**



This variety in practice was reflected in qualitative interviews where the extent to which subcontractors reported having flexibility varied a great deal between tiers and within tiers between providers. Tier Two providers and those providing discrete services, such as training or workshops, tended to have more control and flexibility in how they delivered their services. Amongst Tier One providers, the whole spectrum of flexibility was represented from total prescription to complete freedom. It was common for more flexible primes to pass down the minimum service delivery standards, but allow subcontractors freedom beyond those. For example:

*'They're keen on the outcomes really, so they're pretty focused on the end results rather than how it's done. As the prime they are monitoring things like quality and feedback from clients and training for the adviser team, that kind of thing, but specifically how we deliver, no they don't try and influence that.'*

(Tier One end-to-end subcontractor)

<sup>37</sup> Armstrong, D. et al. (2011) *Welfare to work commissioning – Wave Two provider survey*, Research Report 757, Department for Work and Pensions.

*'No it's [the delivery model] very much driven by the prime with things that we were not aware of when we were signing up for it... for example we must do two days motivational training. They are much more prescriptive out of the three primes we've got.'*

(Tier One end-to-end subcontractor)

Previous evaluations<sup>38</sup> have raised the prescription of Management Information (MI) systems by primes as an issue for subcontractors. This does not currently appear to be an issue for Tier Two subcontractors and many of those providing discrete services did not have to use the prime's MI system. However, all Tier One end-to-end providers interviewed were required to use their prime's MI system. Views on the burden of this requirement varied, often depending on whether the subcontractor had to meet the cost of using a new system. Some subcontractors that provided training or healthcare services used two MI systems. Some of these providers felt that the duplication was frustrating and would have preferred to use only their own system.

Few subcontractors reported in qualitative interviews that they had made changes to their delivery model during live running. As discussed earlier, it was rare for Tier Two subcontractors to have received any referrals and they had, therefore, not spent time modifying their offer to primes. Tier One subcontractors had likewise made few changes. Changes that had occurred included:

- the split of tasks between prime and subcontractor shifting, for example initial assessment moving from subcontractor back to the prime;
- redeployment of staff to adviser work from employer engagement due to higher than expected volumes;
- the introduction of face-to-face meetings to validate job outcomes;
- delivering more group than one-to-one sessions due to higher than expected volumes;
- working with different groups of participants, for example non-offenders, those not seeking self-employment.

## 5.2 Outcome payment model

The original intent for the Work Programme was that it would be attractive to large, well-capitalised prime contractors who would be awarded long-term and larger contracts which would provide the conditions for investment in resources and delivery. These providers would be able to afford to bear the up-front costs of delivery in the expectation of profitability later in the contract term.<sup>39</sup> However, the reality has been that many primes were finding the up-front costs hard to bear. One prime reported that they were using their reserves to fund provision and were; '*haemorrhaging cash like it's going out of fashion.*' (Chief Executive, prime contractor)

Primes reported that they had designed their delivery models based on the modelling of likely performance among different payment groups (see Table 4.1) and the expected flow of referrals. When, in practice, the flow of referrals differed from forecasts primes reported that had affected their financial position. In addition, primes reported that alternative sources of finance were hard to come by, either from banks or social finance organisations. For example:

<sup>38</sup> Armstrong, D. et al. (2011) *Welfare to work commissioning – Wave Two provider survey*, Research Report 757, Department for Work and Pensions.

<sup>39</sup> (2011) *The Work Programme*, DWP, p10.

*'One of the things that we expected we would need to do for parts of our delivery would be to make sure we've got appropriate finance in place and that's been a real issue, with banks not willing to lend and I've heard it from other Work Programme providers as well, not willing to lend to the Work Programme.'*

(Chief Executive, prime contractor)

As discussed in Chapter 3, most Tier One end-to-end providers had the payment model passed down to them from the prime, minus a management fee. Although most were aware of these terms from the start, a number admitted that they were struggling to balance their finances under this model. Some were funding their provision through attachment fees and acknowledged that this was not sustainable. For example:

*'As you have no money coming in except from attachments you have an unsustainable model because you can only pay this month's staff on the basis of last month's attachments. For example if [prime] said 'you are contracted for fewer than you have already got and we will not give you any attachments until it comes up that we should give you more', we would immediately be unable to deliver. It means also that we can only pay for staff properly if we get more attachments than we can handle.'*

(Tier One end-to-end)

The financial difficulties that providers reported may simply reflect the first year of delivery and their position will improve over time as referrals and outcomes flow through. As greater information comes out about the Work Programme willingness to invest may also change. However, the economic climate is also likely to continue to be an important factor with slower than forecast economic growth affecting providers' ability to obtain job outcome payments. These issues and how they interact to impact on performance will be explored in detail in the next wave of research. It will be particularly important to explore providers' responses to the phasing out of attachment payments.

### 5.2.1 Impact on delivery

Some providers interviewed felt the payment model had the potential to enable them to deliver good quality services to participants but that the interaction between the payment model, the economic climate (prompting increased total referrals) and the differing referral profile (fewer 'high value' referrals<sup>40</sup>) had forced them to change the services they delivered – potentially to a reduced quality.

Although greater Jobseeker's Allowance (JSA) referrals brought increased revenue from attachment fees it also created pressure on services only recently put in place. For example, one provider had increased adviser caseloads from around 60 to around 180. This meant that much support was provided online or in group sessions, with one-to-one support used only where necessary.

*'Group interventions are arguably cheaper to deliver but the primary driver is actually the number of people that you've got in there ... when you're dealing with very large numbers of people you need sort of mass ways of handling them.'*

(Manager, prime contractor)

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<sup>40</sup> Higher numbered payment groups attract higher job outcome payments and higher sustainment payments. This is to reflect the higher cost of provision for these groups as well as the higher risk for the provider of investing resources in groups from whom they may be less likely to obtain job outcomes.

The need to deliver services for larger numbers than anticipated, with fewer higher-rate attachment payments for Employment and Support Allowance (ESA) referrals, led some providers to say they did not have the funding to provide the level of support they wanted. Particular issues reported as resulting from a lack of funding included an inability to pay for interpreters and for participant transport in rural areas. Some subcontractors felt this also had an impact on their ability to meet the needs of particular groups of participants:

*'We're very limited in the amount of time that we can allocate to each individual because the funding isn't there. And we try and provide as much added value in the programme as we can possibly afford. So, for example, things like basic skills support, it's very expensive to provide that. We do try and provide it as best we can but not to the level that would really make a difference to the customer.'*

(Tier One end-to-end subcontractor)

However, by contrast some providers felt that they were having successes with groups they had not dealt with before. For example:

*'In all the years we've done this, we've not seen these clients come through before ... [but] we are starting to get some of those [ESA] people into work, so actually that's quite positive.'*

(Tier One end-to-end subcontractor)

Overall, these findings support those of the programme evaluation strand which identified a lack of 'substantive personalisation' demonstrated by the reluctance by providers to make referrals to specialist provision, often on the grounds of cost.<sup>41</sup> In interviews for both evaluation strands providers largely explained this as a result of the difficult economic climate. With the earlier Flexible New Deal (FND) evaluation also finding little evidence of personalisation (despite providers welcoming the increased flexibility)<sup>42</sup> further research is required to understand how economic conditions and the scarcity of funds affects willingness to invest in specialist support.

### 5.2.2 Differential pricing

Differential pricing is intended to act as a safeguard against providers 'parking' those who are harder to help (and for whom they are less likely to receive an outcome payment) and 'creaming' those who are closest to the labour market (and who may have found work on their own). Figure 5.2 sets out the claimant groups and how payments are structured.

<sup>41</sup> Newton et al. (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, DWP Research Report 821, p7.

<sup>42</sup> Adams, L., Oldfield, K., Riley, C., Vegeris, S., Husain, F., Bertram, C., Davidson, R. and Vowden, K. (2011) *Jobseekers Regime and Flexible New Deal Evaluation: Findings from longitudinal customer surveys and qualitative research*, DWP Research Report 767.

As discussed, the prime contractors used the payment groups to model likely performance and devise an overall budget for their delivery models. However, the evaluation has so far found little evidence that primes have used differential pricing to target different types of support to different payment groups. As reported in the programme evaluation report all the providers use assessment tools to determine the needs of participants, but none of the assessment tools used by providers in study areas considered the participant's payment group.<sup>43</sup>

In this (commissioning) strand of the evaluation all the primes reported that they assigned support based on their assessment of participant need rather than by payment group. Some felt that benefit status was not the most appropriate means of segmenting payment groups. In particular, it was argued that some JSA claimants needed more intensive support than some ESA claimants. As one prime said '*differential pricing absolutely makes sense but the benefit types as a categorisation are actually a quite poor way of segmenting client needs.*' (Chief Operating Officer, prime contractor)

Some primes also suggested that the payment differences were not large enough to drive behaviour and that if providers were working with participants in higher payments groups it was not for reasons of financial reward. For example, one managing agent prime said:

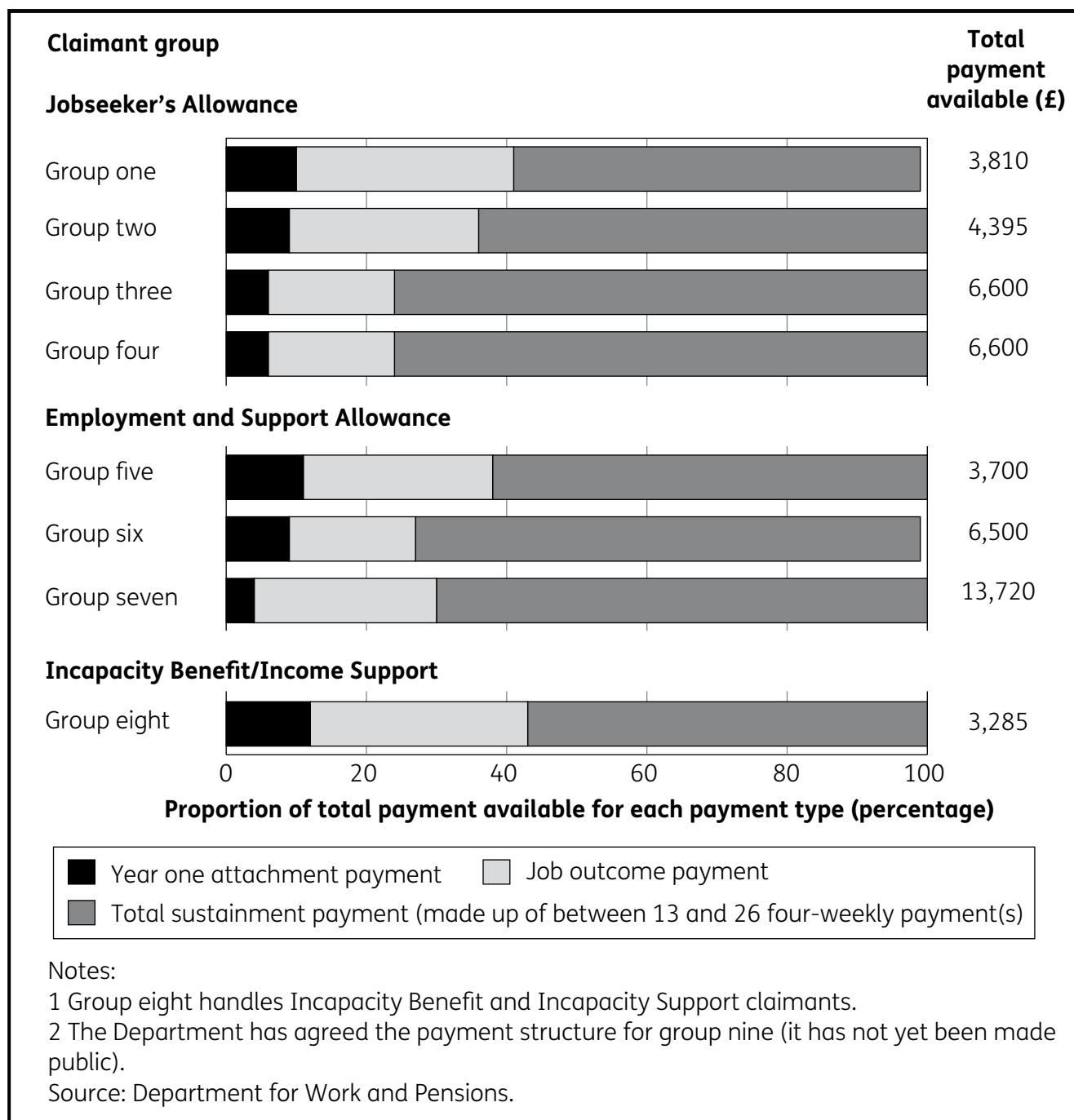
*'I say the jury's still out - my experience to date is that it's working [to ensure support for the most disadvantaged] but actually it's working because I've got a team of nine people in there that are making sure ... that our providers are providing those services and working with the hardest to help. Other than that my kind of gut feel is that I am sceptical whether actually the differential in pricing is sufficient to work with all customer groups.'*

(Chief Executive, prime contractor)

There is a range of issues that may have affected the operation of differential pricing. It may be a fundamental issue that payment rates are insufficient to cover the costs of provision for some groups (and provide a return on investment). It may be that providers are less willing to take risks in the current financial climate and/or that payments which would have previously been sufficient to reward risk are no longer attractive. Alternatively it may simply be that during early implementation providers were struggling to keep up with demand leaving little time for a more structured response to needs. Time and further research will reveal more.

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<sup>43</sup> Newton *et al.* (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, DWP Research Report 821, p.47.

**Figure 5.2 Claimant group payment structures**

### 5.3 Minimum service delivery standards and performance management

Along with differential pricing, robust performance management is a mechanism by which commissioners can ensure that black box provision meets participant needs (and limit the scope for creaming and parking). As discussed in Chapter 3, Performance Managers hold monthly performance reviews with primes. At these reviews Performance Managers use evidence collected by Compliance Monitoring Officers to determine whether providers are delivering the minimum service delivery standards they promised in their bids. However, this research found that minimum

service standards varied widely between primes. This has been raised as a possible weakness of the commissioning model.<sup>44</sup>

Performance Managers reported that minimum service delivery standards were insufficiently well-defined as to be monitored effectively:

*'Some of the minimum service standards you can't really quantify them and measure them. For example, because the providers have been able to sort of put their own minimum service standards in place, one of them is, you know, "everyone will be made to feel welcome." Well [CMOs are] not really going to be able to make a judgement on that ....'*

(DWP Performance Manager)

Some primes that had included detailed minimum service standards in their bids stated that they felt this put them at a disadvantage compared with primes who submitted minimal information on minimum standards. For example:

*'I mean I know, for example, there are a number of providers that have got maybe two or three minimum standards and I've got something like 15 and maybe that was naivety on our point, maybe we should have been a bit more flexible, but we were looking at what we really believed was the best thing, rather than what was the easiest thing to do.'*

(Manager, prime contractor)

### 5.4 Impact on the supplier market

The Work Programme attracted new entrants to the employment services provider market, both at prime and subcontractor levels. Small specialist providers have been included in many supply chains, often as Tier Two suppliers.

However, the survey found that the majority of subcontractors felt that the commissioning model had a negative impact on their organisation. Respondents were asked to rate the impact of the commissioning approach on a scale of one to ten, where one was negative and ten positive. Over two-thirds of subcontractors identified negative impacts (one to five on scale). Seventy-one per cent of subcontractors felt it had impacted negatively on their ability to deliver services, 73 per cent perceived a negative impact on their participant caseloads and 83 per cent on their financial turnover.

In qualitative interviews, it was common for Tier Two subcontractors to feel that the Work Programme had a negative impact because they had received few or no referrals. For example:

*'I think the Work Programme has had a negative impact on our organisation and I think it has had a negative financial impact and also a negative impact in terms of perceptions of how much we would want to be involved with outcome-based contracts, longer contracts, those kind of things because of how long it took to set things up and how few referrals, how poor most of our relationships are with the prime contractors.'*

(Tier Two specialist subcontractor)

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<sup>44</sup> For a discussion of this see: House of Commons oral evidence taken before the Public Accounts Committee: the introduction of the Work Programme, Wednesday 8 February 2012 and (2012) *Preventing fraud in contracted employment programmes*, National Audit Office.

Not all Tier Two subcontractors felt that the Programme had a negative impact on their organisation. Some were more positive and had plans to expand their involvement, particularly those that had adapted their business model to deal with the uncertainty around volume of referrals. For example:

*'In a sense it's only being so small that's allowed us to operate, I think because we've got such low overheads and we only have to pay people if something's happening that it's possible to do it, I think if you had high overheads it would be very difficult, so what I think will happen with us is we've done a certain volume this year and we'll do a bigger volume next year and hopefully after a while people will want to book us in on a regular basis but at the moment it's pretty much bit by bit.'*

(Tier Two specialist subcontractor)

Tier One subcontractors in qualitative interviews were less likely to say that the Programme had a negative impact on their organisation. Many, however, were still concerned about the financial viability of their contract. For example: 'it isn't a significant earner for us and there is a challenge in terms of can we cover our costs and make it viable' (Tier One specialist subcontractor)

Some Tier One specialist providers were providing generalist support in order to receive a guaranteed volume of referrals. These providers commented on the change to their delivery model as an impact of the programme. For example:

*'We had to change our model. We soon realised that if we carried on offering only that in the Work Programme, we'd end up as a Tier Three supplier on a call off basis and get nothing. So we did change our model to be end-to-end ... It's much easier to go from a specialist to a generalist because you've got all those extra bits there, so it's easy to deal with what I call normal customers because you've been used to dealing with ones that aren't, that have got lots of problems. Then for people who can only work with the mainstream, it's difficult for them to suddenly include people that have got severe, chaotic lifestyles, etc. So it has changed our model and it means we've gone in end-to-end, rather than being specialist.'*

(Tier One specialist subcontractor)

Whether these organisations are able to maintain specialist staff and expertise will be important for the diversity of the employment services provider market. The evaluation of the commissioning of the 'Work Choice' specialist disability programme<sup>45</sup> also raises questions about the commissioning model's ability to maintain a diverse market of specialist providers. The impact of the commissioning model on the provider market will be a key theme for future research.

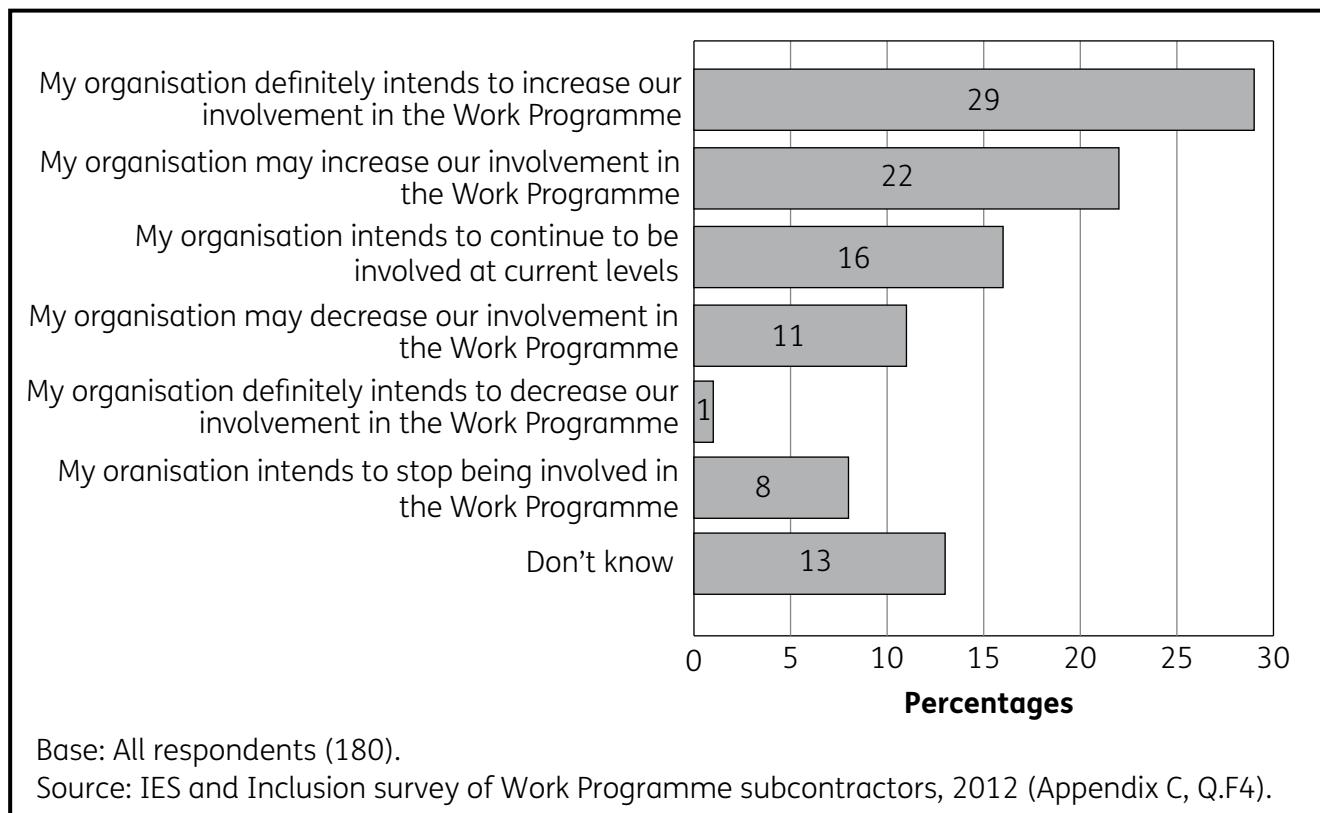
### 5.4.1 Future intentions

Despite the issues raised with the commissioning model, providers at both prime and subcontractor level said that they intended to remain involved within the Work Programme. When surveyed, around two-thirds (67 per cent) of subcontractors intended to continue to be involved either at current or increased levels, as shown in Figure 5.3. This intent to remain involved was more prevalent among private and public sector organisations (77 per cent) than among Voluntary and Community Sector organisations and Social Enterprises (60 per cent).

<sup>45</sup> The evaluation of Work Choice is due to be published in spring 2013.

It is significant that one-fifth of all subcontractors (20 per cent) reported that they intended to decrease or end their involvement in the Work Programme. Of those saying that they would end their involvement with the Work Programme, all but one were Tier Two suppliers. These findings were echoed in qualitative interviews.

**Figure 5.3 Subcontractors' future intentions regarding the Work Programme**



Almost all primes reported that they were keen to expand their involvement in DWP-funded welfare-to-work provision more generally. Some had already gone on to win contracts such as Support for Troubled Families and Mandatory Work Activity. Those primes that were new to the UK welfare-to-work market suggested that they were keen to expand their involvement in the future.

Work Programme subcontractors were also positive or at least open-minded regarding their involvement in future DWP-commissioned welfare-to-work provision. Around half (51 per cent) reported that they will definitely seek to be involved in future DWP programmes, and a further 44 per cent said that they may seek to be involved depending on the specific terms and requirements. Few respondents said that they wouldn't seek to be involved at all. Private and public sector organisations were more likely to report that they will definitely seek to be involved in future DWP programmes (61 per cent) than voluntary, community and social enterprise (VCSE) sectors (43 per cent). There did not appear to be any variation in intentions by Work Programme supply chain tier.

## 5.5 Summary

The indications from this early stage of the evaluation and the transitional phase of the Work Programme are that black box commissioning has encouraged primes to make use of evidence and good practice from previous programmes to design their delivery models. There is also evidence that providers are adapting their delivery models in line with changing participant needs. However, at the time of the research there did not appear to be a common understanding between the providers and DWP, and even within DWP, about the circumstances under which delivery models and minimum service delivery standards could be changed post-procurement and how this should be handled.

There was also evidence to suggest that differential pricing was not driving provider behaviour as intended; the funding model was not sufficiently encouraging providers to support those from the high-price payment groups. However, it is possible that the high referral volumes and pressures of rapid programme start-up overrode the signals of the differential pricing system. A robust performance management system is a powerful tool to influence provider behaviour, but findings suggest that this influence was weakened by the difficulties that performance managers experienced with minimum service delivery standards. Influences on provider behaviour will continue to be explored in future waves of the research.

The use of large, long contracts with clear financial incentives for the Work Programme was intended to provide the conditions for providers to invest in resources and delivery. Some primes reported that they were experiencing difficulties in bearing the up-front costs and that alternative sources of finance were more difficult to acquire than expected. These may be transitional issues as sustainment payments feed through, but were largely viewed as the result of the difficult economic climate. In spite of reporting financial difficulties, both primes and subcontractors expressed intentions to remain involved with the Work Programme and with DWP-contracted provision more generally. Many even appear keen to expand their involvement in this type of provision.

# 6 Conclusions and implications

This final chapter brings together the findings from this initial phase of the evaluation to draw out conclusions on the operation of the Work Programme commissioning model so far. It is important to note that the data on which these conclusions are based cover the initial phases of Work Programme implementation. The research found evidence that many issues and problems emerging were being tackled and some resolved through the usual processes of contract management and dialogue between the Department and providers. Later stages of the evaluation will be able to test the extent to which some of the issues identified at this stage of the research were transitional or whether they reflect more systemic issues that have to be balanced against the advantages of the Work Programme commissioning and contracting model.

## 6.1 Speed of procurement

Just six months after the change of government and the termination of Flexible New Deal (FND) contracts, the Department published the Invitation to Tender for the Work Programme. It was only a further six months later, on 1 June 2011, that the Work Programme went live. This is substantially quicker than the equivalent process for previous employment programmes such as FND which took 14 months from the Invitation to Tender to go-live.<sup>46</sup> This speed represents the achievement of a political decision to fast-track Work Programme procurement and the strong involvement of Ministers and senior officials was seen as a key driver in meeting these challenging timeframes.

There is some evidence to suggest that the timeframes between contract award and go-live may have created issues for providers in the early stages of delivery. Some primes that were new to the market or that were delivering in new areas took time to secure staff and premises and manage higher than expected referrals. For those providers subject to Transfer of Undertakings (Protection of Employment) (TUPE) conditions, tight timescales added to the complexity of this process and reduced the time available for programme set-up. This was felt to have impacted on some providers' ability to deliver quality support to participants in the early stages. Future waves of the research will explore whether rapid procurement has had any longer-lasting consequences, including on the Department's ability to manage provider performance.

## 6.2 Involvement of the voluntary sector

The early commitments given by Ministers to voluntary organisations that they would have an integral role to play in the Work Programme, especially in meeting the needs of the most disadvantaged participants were welcomed by the sector. They reinforced earlier commitments given by Ministers in the previous Government which had been reflected in the 'Code of Conduct' in the Department's Commissioning Strategy and the development of the Merlin Standard. Findings from the evaluation suggest that these messages and the impact of competition on the provisional supply chains developed by prime contractors raised expectations amongst voluntary and community sector organisations and social enterprises (VCSEs) that were not met in practice.

Primes competing within each contract package area (CPA) encouraged potential subcontractors to submit Expressions of Interest (EOIs) to become part of their supply chains. Bidding is a fundamental part of any procurement process and inevitably not all EOIs or tender discussions come to fruition.

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<sup>46</sup> DWP (May, 2008) *flexible New Deal presentation to potential providers*  
<http://www.dwp.gov.uk/docs/fnd-presentation-slides.ppt>

However, this evaluation found that writing EOIs and responding to business information requests from primes (some of which would go on to be unsuccessful) was particularly resource-intensive for many of the smaller VCSEs. There are lessons that future prime contractors can take from this evaluation around how to manage down expectations of potential subcontractors and to avoid encouraging speculative submissions. These included a more structured EOI process. The Department is unlikely to wish to specify how supply chains should be constructed in future, but it does have a role in supporting work to streamline processes for smaller bidders and to build capacity amongst VCS umbrella bodies to advise on procurement issues.

Most of the VCSE organisations involved in Work Programme supply chains are acting as Tier Two providers specialising in support for particular customer groups. It has been widely reported in the media that VCSE sector organisations have not received the expected level of referrals from the Work Programme.<sup>47</sup> This evaluation has found little evidence to suggest this is because primes simply used VCSE organisations as ‘bid candy’ during procurement with little intention of passing on referrals. Subcontractors themselves expressed the view that financial pressures facing providers and the lower than anticipated volume of Employment and Support Allowance (ESA) claimants has led to fewer referrals being made to Tier Two subcontractors. However, there will be further research to explore when and why specialist provision is used in the Work Programme and in particular how the financial model (dis)encourages it.

### 6.3 Managing the black box

The research identified some confusion around whether black box commissioning referred only to the freedom of providers to develop their initial model of delivery in their bids or whether it applies throughout lifetime of the programme/contract. The latter view, which is held by most providers, appears more in line with the spirit of minimum prescription; enabling providers to adapt their delivery and support within the lifetime of the contract in order to respond quickly to the changing demands of participants and of the labour market. This contrasted with the views of some DWP performance staff who saw their role as managing providers against the delivery commitments they made up-front in their bids. These divergent understandings appeared to result from a division within the Department itself, between senior officials who tended towards a ‘full flexibility’ approach, and those involved in managing contracts on a day-to-day basis who were keen to ensure providers delivered what they committed to in their bids.

These findings suggest that clarity is required on exactly how the black box concept should be operationalised and managed. Once there is clear and consistent understanding within the Department, the policy and systems for agreeing changes to services and minimum service delivery standard should be communicated to the providers. Some level of cultural change may be required for officials with a background in ‘traditional’ contract management to manage more fluid black box contracts. The evaluation will track this issue in subsequent phases of research.

### 6.4 Agreeing and adapting minimum service standards

Minimum service delivery standards were proposed by prime contractors in their bids, then subsequently agreed and built into contracts to ensure that providers deliver a service that is consistent with the delivery model for which their bid was selected and to ensure that a minimum

<sup>47</sup> For example: 29 March 2012, BBC Radio 4, ‘Charities leaving work programme claim payments too low’; 4 October 2012, BBC news, ‘work programme under fire as charities shut down’; 4 October 2012, the guardian, ‘Charities face financial problems over government’s back-to-work scheme’; 4 October 2012, The Times ‘Charities warn government over Work Programme’.

standard of service is provided to all participants. Within the black box model they are a key lever, alongside the minimum performance levels, that DWP can use to hold providers to account. However, Performance Managers felt that some minimum service delivery standards were insufficiently specific, measurable or meaningful to enable them to hold providers to account. Although it was always agreed that providers could change their minimum service delivery standards, the policy intent was that they still needed to be consistent with the delivery model for which their bid was selected. In some cases, changes were made which, in the opinion of DWP officials, were not consistent with the provider's delivery model. Furthermore, providers did not always consult their Account Manager to agree changes. This may suggest a need in future procurement to provide clearer expectations or guidance before minimum service delivery standards are agreed. It also reinforces the need for urgent decisions on the extent to which 'black box' applies within live running and how flexible providers are permitted to be in their amendments to delivery.

### 6.5 Differential pricing

Providers generally understood the rationale for having different payments for different groups and were positive about the potential of this model. They stated that they had used differential pricing, along with data on expected flows by customer group, during the procurement process to develop their delivery models for bids. However, to date, both the commissioning and programme delivery strands of this evaluation have found little evidence to show that differential pricing has encouraged providers to invest significantly in supporting harder to help participants, even where they fall into a higher payment group. Whilst it is still too early to form any firm conclusions, the evidence from the commissioning focused research supports the suggestion from the programme delivery strand<sup>48</sup> that providers may be engaging in creaming and parking, despite the differential payment regime.

Interviews with providers identify two main reasons why differential pricing may not currently be working as anticipated. Firstly, to be able to achieve a job outcome for an individual, an assessment must consider their skills, motivation, work history, health and other factors affecting their 'stability' and resilience.<sup>49</sup> These factors will have a big impact on their likelihood of achieving a sustained outcome, but may or may not bear any relation to their payment group classification. Secondly, providers have suggested that the differences between payment amounts between groups may not be large enough to fully compensate for the increased costs of working with some of those who are harder to help.

It is important to note that the influence of differential pricing may have been affected by the rapid programme start-up and the higher than expected overall volumes of referrals. Meeting tighter budgets and greater demands for support is likely to have been the immediate concern in the early phase of the Programme. Changes in the providers' behaviour may be observed as they reach steady state and are able to focus more on the long term, and once the attachment fee reduces to zero (after the first three years of the programme) and payments are purely based on outcomes. How this develops will be a key theme for future research.

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<sup>48</sup> Newton et al. (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, DWP Research Report 821, Sheffield: DWP, p.124

<sup>49</sup> Newton et al. (2012) *Work Programme evaluation: Findings from the first phase of qualitative research on programme delivery*, DWP Research Report 821, Sheffield: DWP.

## 6.6 Impact of the economic climate

The Work Programme was commissioned at a time of economic difficulty and it is to be expected that, when agreeing contracts, both providers and DWP accounted for this within their financial and operational expectations. However, there is evidence that the scale of economic difficulty was not anticipated when contracts were signed and that this has impacted on programme performance. Following the November 2011 Office for Budget Responsibility (OBR) forecasts, DWP released new estimates for Work Programme in which volumes were up from 2.5 to 3.3 million.

These higher than anticipated Work Programme referrals presented a much bigger challenge for Work Programme providers. In the short term, income from attachment fees increased, but in the longer term, job outcomes and sustainment payments were harder to gain. Findings suggest that providers have found it difficult to raise significant levels of alternative investment to boost resources and fund delivery. Interviews with organisations across the supply chains suggest that prime contractors and Tier One organisations have instead been using their reserves, existing overdraft facilities or small bank loans to provide the up-front investment required. It will be a priority for future stages of this evaluation to assess the ability of the Work Programme commissioning model to adapt and drive performance during a period of flat or negative economic growth.

Providers reported that increased volumes at a time when they were in the early phases of operation created pressure on physical resources leading to increased use of group sessions and online support. Providers also stated that financial constraints led them to tightly control initial costs of provision, which is likely to have limited the supply of higher-cost ‘added value’ or innovative support. This is supported by evidence from the programme evaluation strand which found that traditional and lower cost approaches to employment support such as job search, CV preparation and interview were most commonly used. However, earlier evaluations of the FND, which took place in a more favourable economic climate, also found little evidence of personalisation.<sup>50</sup> Further waves of the evaluation will explore in detail the factors affecting providers’ willingness and capacity to invest in greater personalisation of support.

## 6.7 Contribution of this report and next steps

This report has presented early and preliminary findings from the first year of the Work Programme’s implementation. The evaluation continues over the next two years and the research drawn together here will be supported and reinforced by further interviews with DWP and Jobcentre Plus staff, prime contractors and subcontractors, and unsuccessful bidders, non-bidders and supply chain leavers. There will also be annual online surveys of subcontractors. In combination, these elements will provide the basis for a fuller, more robust assessment of the commissioning model.

The current research provides a valuable account of the procurement process and the impact of the commissioning model so far. In terms of the objectives that have been set out for this strand of the evaluation the report has made a useful contribution to the body of evidence that will form the final assessment of the Work Programme commissioning model. Some critical themes have begun to emerge in this wave of research and will be explored in more detail in later waves:

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<sup>50</sup> Adams et al. (2011) *Jobseekers Regime and Flexible New Deal Evaluation: Findings from longitudinal customer surveys and qualitative research*, DWP Research Report 767.

**Market structure – quasi-markets and market contraction.** The baseline data gathered on market structure suggests that Work Programme supply chains were often shorter in practice than was expressed in bids. Tier Two organisations commonly reported few or no referrals with most delivery being done by delivery primes or Tier One end-to-ends. This may have implications for the broader provider market that must be explored in future. The impact of being outside the main form of government contracted employment provision will also be important to investigate further with those organisations opting out of the Work Programme or leaving supply chains.

**DWP and provider capabilities** – The research suggests fundamental differences in practice and understanding around the scope of providers to flex their delivery models in response to participant needs and changing demands. Future waves will look at how the Department balances its performance management role with the spirit of innovation and flexibility within the black box. It must also explore how providers work in partnership with Jobcentre Plus and DWP to manage performance within their own supply chains.

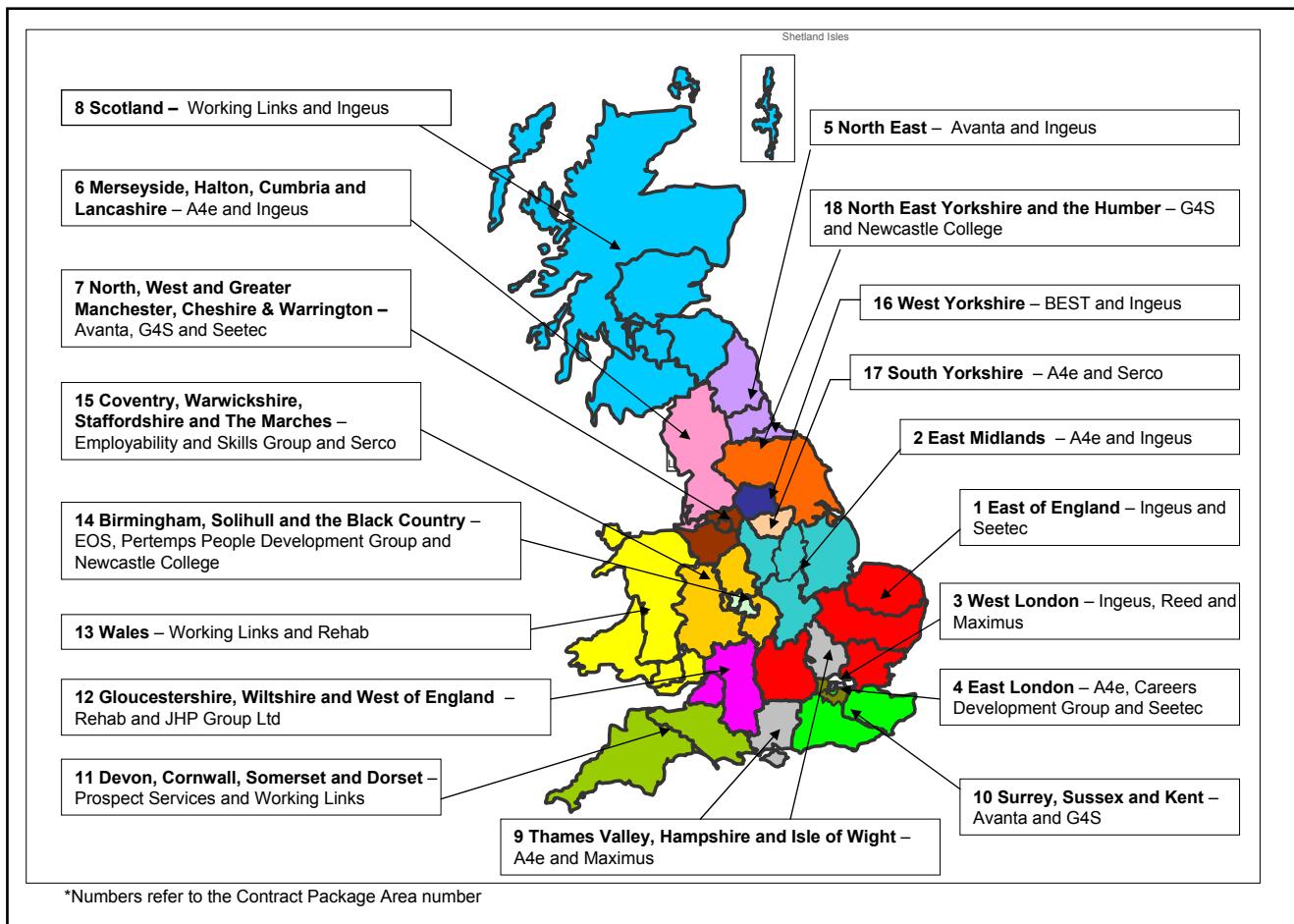
**Influences on delivery** – There are indications that the mechanisms by which the Department can drive provider behaviour – differential pricing and minimum service delivery standards – are not currently operating as intended. Further research from both the commissioning and programme strands will be required to understand whether this is a transitional or systematic issue.

**Fit for purpose of the commissioning model** – Providers reported that pressures on funding had a negative impact on their ability to deliver personalised support to participants. The financial model underpinning the programme is a key focus for future research including the incentives for primes to invest in specialist provision, how providers prepare for and respond to the phasing out of attachment fees and market share shift. It will be important to try to unpack the different factors affecting Work Programme performance to identify whether there are underlying issues with the model itself or whether other factors are at play.

The next report will be published in summer 2013 and will integrate interim findings from all strands with the first of a series of customer surveys and with two waves of customer qualitative longitudinal and cross-sectional research.

# Appendix A

## Work Programme contract package areas and providers<sup>51</sup>



<sup>51</sup> <http://www.dwp.gov.uk/docs/cpa-preferred-bidders.pdf>

# Appendix B

## Methodology

The commissioning strand of the Work Programme evaluation comprises a number of waves of fieldwork as described in the introductory chapter. The findings in this report cover the first two fieldwork waves, more specifically:

- Qualitative interviews with 47 organisations outside supply chains<sup>52</sup>, November 2011 to January 2012.
- Qualitative interviews with director/senior manager level staff in all prime contractors and managers in 120 subcontractors, April to June 2012.
- Qualitative interviews with 25 Department for Work and Pensions (DWP) and Jobcentre Plus staff including Account Managers, Senior Performance Managers, Performance Managers, Third Party Provision Managers and Partnership Managers, April to June 2012.
- An online survey of Work Programme subcontractors, 200 responses, 34 per cent response rate, July to August 2012. This is a reasonable response rate for an online survey with this target population.

Interviews with organisations outside supply chains were held as soon as possible after the evaluation began, in case organisations ceased to exist or key staff moved on. In future waves of research fieldwork with organisations outside Work Programme supply chains will take place at the same time as fieldwork with organisations within supply chains.

### B.1 Sampling of subcontractors for qualitative research

Qualitative research with subcontractors took place in the six contract package areas that were selected as case study areas for the programme strand of the evaluation. These were selected to ensure that a range of types of supply chains, provider markets and local labour markets were represented.

In each contract package area (CPA) 20 provider interviews were conducted to cover a minimum of:

- One Tier One end-to-end with large amounts of delivery (10 per cent < or highest in supply chain if none have this much in sample)
- Two Tier One end-to-end with small amounts of delivery (10 per cent >)
- Four Tier Two specialists
- Four Tier Two short course, training, job brokerage or other non-specialist provision
- One Prime in other CPA (if present in sample)
- One new to supply chain (where this could be identified)
- Four private sector providers
- Two public sector providers

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<sup>52</sup> This included organisations that chose not to bid, those who bid and were not successful and those who left supply chains post contract award.

- Six voluntary sector providers
- Four providers in each supply chain in the CPA

Each interview could count for more than one quota (e.g. a subcontractor could be a private sector, Tier Two specialist and therefore counted towards both of those quotas). The overall breakdown of achieved interviews against key criteria is as follows:

**Table B.1 Profile of organisations involved in the qualitative research**

Category		Interviews achieved
Sector	Private	40
	Public	15
	VCSE	65
Supply chain role	Tier One end-to-end with large amounts of delivery >10 per cent	12
	Tier One end-to-end with small amounts of delivery <10 per cent	25
	Tier Two non-specialist (short course, training etc.)	29
	Tier Two specialist	54
Prime in a different CPA	Yes	8
	No	112
Received referrals	Yes	66
	No	54

## B.2 Subcontractor survey

All prime contractors were interviewed within the qualitative research compared to only a subset of subcontractors. The survey focused on subcontractors to ensure good coverage of the market. The qualitative research with primes covered most of the key survey questions so, to minimise response burden, they were not asked to also complete a survey.

The Work Programme commissioning survey was sent to 769 organisations thought to be subcontracting on the Programme at the time of its distribution (July to August 2012), drawing on information supplied by DWP on the structure of Work Programme supply chains. At this point the total number of subcontractors was estimated at 792; however, no contact details could be found for 23 of these. In addition, 119 of the 769 organisations the survey was sent to had invalid contact details or had the survey rejected by internal servers. Following survey completion and comparison of this new information with data held by the DWP, it is now estimated that there were 727 organisations subcontracting on the Programme at the time of the survey.

Of the 650 surveyed organisations with valid contact details, 42 reported that they were not involved in the Work Programme, and more recent data from the Department suggested that a further 40 were no longer subcontractors on the Programme. This left 568 organisations that were both eligible for, and received, the survey. Responses were obtained from 180 of these, giving an overall response rate of 32 per cent. Response rates for online surveys vary greatly according to the quality of the sample, the level of respondent engagement with the subject matter, the frequency of survey reminders and incentives for completion. The sample and the contact information it contains were

known to be somewhat out of date at the time of survey distribution, and we also know that a sizeable proportion of those organisations that did respond have not yet actually had any referrals via the Work Programme and are therefore not particularly engaged with the subject matter. With this in mind, 32 per cent appears to be a reasonable rate of response.

# Appendix C

## Raw survey data

A1: Which of these statements best describes your involvement with the Work Programme?	Count
My organisation is currently a subcontractor in one or more Work Programme supply chains (even if you have not yet had any referrals), and is not delivering as a prime contractor in any supply chains	174
My organisation is currently delivering the Work Programme as a prime contractor only, and is not delivering as a subcontractor in any supply chains	2
My organisation is currently delivering the Work Programme as a prime contractor, but is also currently a subcontractor in other supply chains	6
My organisation is not in any Work Programme supply chains	18
<b>Total</b>	<b>200</b>

Base: 200

B1: What sector does your organisation operate in?	Count
Private	45
Public	29
Voluntary, community, or social enterprise	105
Don't know	1
<b>Total</b>	<b>180</b>

Base: 180

B2: How many members of staff does your organisation employ in the UK?	Count
1 – 5	21
6 – 20	33
21 – 50	34
51 – 100	24
101 – 250	16
251 – 500	15
501 – 1,000	14
1,001 – 5,000	16
More than 5,000	7
<b>Total</b>	<b>180</b>

Base: 180

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<b>B3: Which, if any, other DWP programmes are you currently delivering either as a prime contractor or a subcontractor?</b>	<b>Count</b>
Work Choice	23
European Social Fund support for families with multiple problems	29
Mandatory work activity	19
Community Action Programme	3
Not delivering any other DWP programmes	92
Don't know	5
Other	33

Base: 180 (multiple responses)

<b>B4: Approximately what proportion of your UK turnover is related to DWP programmes (including the Work Programme)?</b>	<b>Count</b>
None	5
1% – 9%	24
10% – 19%	10
20% – 29%	9
30% – 39%	15
40% – 49%	2
50% – 59%	2
60% – 69%	4
70% – 79%	2
80% – 89%	5
90% – 99%	2
All	1
Don't know	2
<b>Total</b>	<b>83</b>

Base: 83

<b>B5/B6: Approximately what proportion of your UK turnover is related to the Work Programme?</b>	<b>Count</b>
None	52
1% – 9%	55
10% – 19%	16
20% – 29%	7
30% – 39%	14
40% – 49%	2
50% – 59%	4
60% – 69%	8
70% – 79%	3
80% – 89%	6
90% – 99%	4
All	1
Don't know	8
<b>Total</b>	<b>180</b>

Base: 180

<b>C1: Did you pursue opportunities to become a Work Programme prime contractor (for example, by bidding for the Framework for the Provision of Employment-Related Support Services in autumn 2010)?</b>	<b>Count</b>
Yes	28
No	145
Don't know	1
<b>Total</b>	<b>174</b>

Base: 174

<b>C2: What were the reasons for not pursuing opportunities to become a prime contractor?</b>	<b>Count</b>
Organisation not large enough to deliver as a prime contractor	112
Insufficient turnover and/or financial capability	69
Geographical coverage too limited	36
No experience or a bad experience of managing supply chains	11
Concerns about financial risk or outcome-based funding	53
Concerns about TUPE (Transfer of Undertakings (Protection of Employment)) costs or other liabilities	0
Did not fit with company ethos or natural place in the market	29
Wasn't aware of the opportunity until deadlines had passed	2
Don't know	2
Other	3

Base: 145 (multiple responses)

<b>C3: Which of these statements best describes your attitude to becoming a prime contractor at the time the Work Programme was commissioned?</b>	<b>Count</b>
My organisation would have liked to be a prime contractor, but was unable to do so due to its size, turnover or geographical coverage	70
My organisation would have liked to be a prime contractor, but was not aware of the opportunity until deadlines had passed	1
My organisation would have liked to be a prime contractor, but did not pursue opportunities to do so for other reasons	7
My organisation was not interested in becoming a prime contractor	65
Don't know	2
<b>Total</b>	<b>145</b>

Base: 145

<b>C4: Did you explore subcontracting opportunities during the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Yes	168
No	7
Don't know	5
<b>Total</b>	<b>180</b>

Base: 180

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<b>C5.a: During the initial procurement of the Work Programme in early 2011, in how many contract package areas (CPAs) did you explore subcontracting opportunities?</b>		<b>Count</b>
1		79
2		24
3		16
4 – 5		14
6 – 10		11
11 – 15		4
16 – 18		14
Don't know		6
<b>Total</b>		<b>168</b>

Base: 168

<b>C5.b: During the initial procurement of the Work Programme in early 2011, in how many CPAs did you submit Expressions of Interest to prospective primes?</b>		<b>Count</b>
1		74
2		25
3		15
4 – 5		19
6 – 10		11
11 – 15		5
16 – 18		12
Don't know		7
<b>Total</b>		<b>168</b>

Base: 168

<b>C5.c: During the initial procurement of the Work Programme in early 2011, to the best of your knowledge, in how many CPAs were you accepted onto prospective primes' supply chains as part of their bids to DWP?</b>		<b>Count</b>
1		67
2		28
3		16
4 – 5		16
6 – 10		18
11 – 15		3
16 – 18		5
Don't know		15
<b>Total</b>		<b>168</b>

Base: 168

<b>C5.d: During the initial procurement of the Work Programme in early 2011, in how many CPAs were your prime(s)' bids to DWP successful?</b>		<b>Count</b>
1		63
2		30
3		15
4 – 5		10
6 – 10		11
11 – 15		1
16 – 18		3
Don't know		35
<b>Total</b>		<b>168</b>

Base: 168

<b>C5.e: In how many CPAs were you a Work Programme subcontractor when the programme went live in June 2011?</b>		<b>Count</b>
1		105
2		23
3		10
4 – 5		10
6 – 10		5
11 – 15		0
16 – 18		0
Don't know		15
<b>Total</b>		<b>168</b>

Base: 168

<b>C6.a: During the initial procurement of the Work Programme in early 2011, with how many prospective primes did you explore subcontracting opportunities?</b>		<b>Count</b>
1		11
2		9
3		14
4 – 5		31
6 – 10		42
11 – 15		16
16 – 18		40
Don't know		5
<b>Total</b>		<b>168</b>

Base: 168

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<b>C6.b: During the initial procurement of the Work Programme in early 2011, how many prospective primes did you submit Expressions of Interest to?</b>	<b>Count</b>
1	11
2	8
3	16
4 – 5	34
6 – 10	41
11 – 15	21
16 – 18	34
Don't know	3
<b>Total</b>	<b>168</b>

Base: 168

<b>C6.c: During the initial procurement of the Work Programme in early 2011, to the best of your knowledge, how many prospective primes accepted you onto their supply chains as part of one or more of their bids to DWP?</b>	<b>Count</b>
1	26
2	13
3	23
4 – 5	39
6 – 10	47
11 – 15	11
16 – 18	2
Don't know	7
<b>Total</b>	<b>168</b>

Base: 168

<b>C6.d: During the initial procurement of the Work Programme in early 2011, how many of your prospective primes were successful in their bids to DWP?</b>	<b>Count</b>
1	54
2	51
3	24
4 – 5	15
6 – 10	9
11 – 15	0
16 – 18	2
Don't know	13
<b>Total</b>	<b>168</b>

Base: 168

<b>C6.e: For how many primes were you a Work Programme subcontractor when the programme went live in June 2011?</b>	<b>Count</b>
1	86
2	47
3	13
4 – 5	5
6 – 10	5
11 – 15	0
16 – 18	0
Don't know	12
<b>Total</b>	<b>168</b>

Base: 168

<b>C7. Have you explored any (further) subcontracting opportunities since the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Yes	91
No	89
<b>Total</b>	<b>180</b>

Base: 180

<b>C8: How many CPAs have you explored subcontracting opportunities in since the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
1	45
More than 1	40
Don't know	6
<b>Total</b>	<b>91</b>

Base: 91

<b>C9: With how many primes have you explored subcontracting opportunities since the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
1	31
More than 1	56
Don't know	4
<b>Total</b>	<b>91</b>

Base: 91

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<b>C10: Overall, how effective were communications with prime(s) during the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
1 – extremely ineffective	11
2	14
3	22
4	27
5	25
6	23
7	18
8	21
9	1
10 – extremely effective	5
Don't know	1
<b>Total</b>	<b>168</b>

Base: 168

<b>C11: To what extent did communications differ between different primes during the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Communications varied substantially	87
Communications varied to some extent	45
Communications were roughly the same amongst all primes	18
Don't know	2
<b>Total</b>	<b>152</b>

Base: 152

<b>C12: Overall, how did communications with primes develop over the course of the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Communications got better over the course of the procurement exercise	36
Communications stayed roughly the same over the course of the procurement exercise	97
Communications got worse over the course of the procurement exercise	33
Don't know	2
<b>Total</b>	<b>168</b>

Base: 168

<b>C13: How did communications with primes in subsequent Work Programme procurement exercises differ from communications with primes during the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Communications were better in subsequent procurement exercises	26
Communications were roughly the same in subsequent procurement exercises	39
Communications were worse in subsequent procurement exercises	12
Don't know	10
<b>Total</b>	<b>87</b>

Base: 87

<b>C14: Did you have any communications with DWP during the initial procurement of the Work Programme in early 2011?</b>		<b>Count</b>
Yes		27
No		130
Don't know		11
<b>Total</b>		<b>168</b>

Base: 168

<b>C15.a: How effective were communications with DWP, in terms of clarity, during the initial procurement of the Work Programme in early 2011?</b>		<b>Count</b>
1 – extremely ineffective		2
2		3
3		1
4		2
5		6
6		2
7		6
8		4
9		0
10 – extremely effective		0
Don't know		1
<b>Total</b>		<b>27</b>

Base: 27

<b>C15.b: How effective were communications with DWP, in terms of detail, during the initial procurement of the Work Programme in early 2011?</b>		<b>Count</b>
1 – extremely ineffective		2
2		2
3		3
4		1
5		8
6		2
7		6
8		2
9		0
10 – extremely effective		0
Don't know		1
<b>Total</b>		<b>27</b>

Base: 27

<b>C15.c: How effective were communications with DWP, in terms of timeliness, during the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
1 – extremely ineffective	2
2	2
3	4
4	2
5	7
6	3
7	4
8	2
9	0
10 – extremely effective	0
Don't know	1
<b>Total</b>	<b>27</b>

Base: 27

<b>C16: Overall, how did communications with DWP develop over the course of the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Communications got better over the course of the procurement exercise	4
Communications stayed roughly the same over the course of the procurement exercise	21
Communications got worse over the course of the procurement exercise	1
Don't know	1
<b>Total</b>	<b>27</b>

Base: 27

<b>C17: Did you have any experience of TUPE (Transfer of Undertakings (Protection of Employment)) during the initial procurement of the Work Programme in early 2011?</b>	<b>Count</b>
Yes	58
No	109
Don't know	1
<b>Total</b>	<b>168</b>

Base: 168

<b>C18: Were you required to take on staff under TUPE?</b>	<b>Count</b>
Yes	35
No	22
Don't know	1
<b>Total</b>	<b>58</b>

Base: 58

<b>C19: When did you become aware of TUPE commitments?</b>	<b>Count</b>
My organisation was aware from the start of the procurement exercise	24
My organisation became aware in our discussion with prime(s) prior to their bids being submitted to DWP	4
My organisation became aware after bid submission	7
<b>Total</b>	<b>35</b>

Base: 35

<b>C20: What impact did TUPE commitments have on your organisation?</b>	<b>Count</b>
TUPE commitments had a positive impact on my organisation	8
TUPE commitments had a negative impact on my organisation, but did not affect our delivery of the Work Programme	19
TUPE commitments had a negative impact on my organisation, and a negative impact on our delivery of the Work Programme (e.g. my organisation left Work Programme supply chains or decreased provision as a result of TUPE commitments)	3
TUPE commitments had no impact on my organisation	3
Other	2
<b>Total</b>	<b>35</b>

Base:35

<b>D1: In how many contract package areas (CPAs) are you currently part of Work Programme supply chains (even if you have not yet had any referrals)?</b>	<b>Count</b>
1	116
2	27
3	12
4 – 5	13
6 – 10	7
11 – 15	2
16 – 18	1
Don't know	2
<b>Total</b>	<b>180</b>

Base: 180

<b>D2: How many primes' supply chains are you currently a part of (even if you have not yet had any referrals)?</b>	<b>Count</b>
1	91
2	52
3	17
4 – 5	11
6 – 10	6
11 – 15	0
16 – 18	1
Don't know	2
<b>Total</b>	<b>180</b>

Base: 180

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<b>D3: On how many Work Programme contracts are you currently a subcontractor (even if you have not yet had any referrals)?</b>	<b>Count</b>
0	2
1	100
2	40
3	17
4 – 5	11
6 – 10	5
11 – 15	1
16 – 20	0
21 – 40	1
Don't know	3
<b>Total</b>	<b>180</b>

Base: 180

<b>D4: Has your Work Programme role changed in any of the following ways since the start of delivery?</b>	<b>Count</b>
My organisation has left one or more supply chains	16
My organisation has joined one or more supply chains	20
My organisation has stopped using one or more subcontractors	5
My organisation has started using one or more subcontractors	8
None of the above	132
Don't know	4

Base: 180 (multiple responses)

<b>D5-D8: Do you have an agreement with your prime contractor to receive a set number or minimum number of referrals?</b>	<b>Count</b>
Yes	41
No	117
Varies depending on prime and/or CPA	22
<b>Total</b>	<b>180</b>

Base: 180

<b>D9-D10: How are the referrals you receive determined by your prime contractor(s)</b>	<b>Count</b>
Based on participant need or participant group	64
Based on geography	69
Based on the time at which they are referred to the prime contractor	16
Randomly	23
Don't know	38
Other	17

Base: 180 (multiple responses)

<b>D11-D12: How much flexibility are you given by your prime contractors in terms of your delivery model and the systems you use for provision?</b>	<b>Count</b>
1 – no flexibility	8
2	2
3	7
4	3
5	12
6	8
7	13
8	15
9	2
10 – complete flexibility	7
Don't know	10
<b>Total</b>	<b>87</b>

Base: 87

<b>D13-D14: On what basis are you paid by your prime contractor for the services you provide as part of the Work Programme?</b>	<b>Count</b>
On roughly the same outcome-based funding model as primes are paid by DWP	34
On a modified outcome-based funding model (e.g. including additional service fees)	16
Through service fees only	25
Don't know	12
<b>Total</b>	<b>87</b>

Base: 87

<b>D15.a: To what extent does your Work Programme delivery differ across your different Work Programme contracts according to the basis upon which you are paid by your prime contractor(s)?</b>	<b>Count</b>
1 – no difference at all	27
2	5
3	7
4	4
5	5
6	2
7	6
8	5
9	0
10 – completely different	14
Don't know	20
<b>Total</b>	<b>95</b>

Base: 95

<b>D15.b: To what extent does your Work Programme delivery differ across your different Work Programme contracts, according to the level of flexibility you are given by your prime contractor(s) in terms of your delivery model and the systems you use for provision?</b>		<b>Count</b>
1 – no difference at all		19
2		4
3		5
4		8
5		10
6		4
7		9
8		6
9		1
10 – completely different		9
Don't know		20
<b>Total</b>		<b>95</b>

<b>D15.c: To what extent does your Work Programme delivery differ across your different Work Programme contracts according to the type of service you provide?</b>		<b>Count</b>
1 – no difference at all		33
2		4
3		5
4		5
5		8
6		1
7		7
8		3
9		0
10 – completely different		11
Don't know		18
<b>Total</b>		<b>95</b>

Base: 95

<b>D15.d: To what extent does your Work Programme delivery differ across your different Work Programme contracts according to the type of customers you support?</b>		<b>Count</b>
1 – no difference at all		47
2		6
3		3
4		5
5		2
6		2
7		2
8		2
9		2
10 – completely different		5
Don't know		19
<b>Total</b>		<b>95</b>

Base: 95

<b>D16: Do you ever take Work Programme referrals that are not funded through the Work Programme, for example, by providing services to customers referred by Work Programme prime contractors that the prime does not pay you for?</b>	<b>Count</b>
Yes	58
No	115
Don't know	7
<b>Total</b>	<b>180</b>

Base: 180

<b>D17: Since the beginning of Work Programme delivery, have you undertaken any activities with your staff aimed to develop their capacity and/or improve Work Programme delivery?</b>	<b>Count</b>
Yes	132
No	44
Don't know	4
<b>Total</b>	<b>180</b>

Base: 180

<b>D18: What activities to develop staff capacity and/or improve Work Programme delivery have you undertaken since the beginning of Work Programme delivery?</b>	<b>Count</b>
Training in IT systems	91
Management training	48
Training in dealing with more disadvantaged participants	72
Training in assessment and/or early identification tools	79
Don't know	1
Other	34

Base: 132 (multiple responses)

<b>D19-D20: Overall, how would you describe your relationship with your prime contractor(s)?</b>	<b>Count</b>
1 – extremely negative	24
2	12
3	14
4	8
5	23
6	12
7	28
8	26
9	16
10 – extremely positive	12
Don't know	5
<b>Total</b>	<b>180</b>

Base: 180

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<b>D21: To what extent do your relationships with prime contractors differ between primes?</b>		<b>Count</b>
There is substantial variance between primes		37
There is some variance between primes		27
The relationship is roughly the same across primes		18
Don't know		5
<b>Total</b>		<b>87</b>

Base: 87

<b>D22: Have you had any experience of the Merlin Standard (the standard of behaviour to which prime contractors are expected to adhere in their relationship with their subcontractors)?</b>		<b>Count</b>
Yes		120
No		52
Don't know		8
<b>Total</b>		<b>180</b>

Base: 180

<b>D23: What has your experience of the Merlin Standard been?</b>		<b>Count</b>
Interviewed in Merlin Pilot Assessment		16
Interviewed in Merlin Standard Assessment (took place between March and June 2012)		61
Registered on the website		10
Awaiting inspection		0
Considering seeking the standard		25
Don't know		10
Other		20

Base: 120 (multiple responses)

<b>D24: Overall, how effective do you think the Merlin Standard is in promoting effective supply chain development and management?</b>		<b>Count</b>
1 – extremely ineffective		17
2		5
3		17
4		8
5		9
6		7
7		17
8		11
9		0
10 – extremely effective		2
Don't know		10
Too early to tell		17
<b>Total</b>		<b>120</b>

Base: 120

<b>D25: Do you have a relationship with other subcontractors in your supply chain?</b>		<b>Count</b>
Yes		60
No		22
Don't know		3
<b>Total</b>		<b>85</b>

Base: 87

<b>D26: Do you have a relationship with other subcontractors in your supply chains?</b>		<b>Count</b>
Yes, in all supply chains		80
In some supply chains but not in others		48
No, not in any supply chains		49
Don't know		3
<b>Total</b>		<b>180</b>

Base: 180

<b>D27-D28: Which of the following statements describe your relationship with other subcontractors in your supply chains?</b>		<b>Count</b>
We have a strong collaborative relationship		37
We have minimal collaborative contact with one another		42
We have a strong competitive relationship		10
We have minimal competitive contact with one another		11
We share good practice and experience of what works		44
We communicate only when required to by our prime contractor		9
The nature of our relationship with other subcontractors varies substantially across supply chains		31
None of the above		4
Don't know		1

Base: 128 (multiple responses)

<b>D29. Which of the following local partners do you have non-contractual relationships with as part of your delivery of the Work Programme?</b>		<b>Count</b>
Local authorities		81
Jobcentre Plus offices		116
Local Enterprise Partnerships		43
Voluntary and community sector organisations and social enterprises		114
Employers		117
No relationships with local partners		24
Don't know		6
Other		12

Base: 180 (multiple responses)

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<b>E1: Do you have any direct contact with DWP in relation to your delivery of the Work Programme?</b>	<b>Count</b>
Yes	22
No	156
Don't know	2
<b>Total</b>	<b>180</b>

Base: 180

<b>E2: What form(s) of direct contact do you have with DWP in relation to your delivery of the Work Programme, and why?</b>	
Multiple text responses.	

<b>E3: Would you prefer to have some direct contact with DWP in relation to your delivery of the Work Programme?</b>	<b>Count</b>
Yes	108
No	24
Don't know	24
<b>Total</b>	<b>156</b>

Base: 156

<b>E4: Would you prefer to have more direct contact with DWP in relation to your delivery of the Work Programme?</b>	<b>Count</b>
Yes	17
No	4
Don't know	3
<b>Total</b>	<b>24</b>

Base: 156

<b>E5.a: Overall, what impact does working via a prime contractor model (rather than directly to DWP) have on your organisation's financial turnover?</b>	<b>Count</b>
1 – extremely negative impact	49
2	23
3	32
4	13
5	22
6	5
7	4
8	1
9	0
10 – extremely positive impact	0
Don't know	31
<b>Total</b>	<b>180</b>

Base: 180

<b>E5.b: Overall, what impact does working via a prime contractor model (rather than directly to DWP) have on your organisation's efficiency?</b>	<b>Count</b>
1 – extremely negative impact	32
2	11
3	24
4	18
5	37
6	10
7	10
8	4
9	1
10 – extremely positive impact	1
Don't know	32
<b>Total</b>	<b>180</b>

Base: 180

<b>E5.c: Overall, what impact does working via a prime contractor model (rather than directly to DWP) have on your organisation's customer caseloads?</b>	<b>Count</b>
1 – extremely negative impact	40
2	14
3	19
4	16
5	28
6	8
7	11
8	7
9	0
10 – extremely positive impact	0
Don't know	37
<b>Total</b>	<b>180</b>

Base: 180

<b>E5.d: Overall, what impact does working via a prime contractor model (rather than directly to DWP) have on your organisation's ability to deliver services?</b>	<b>Count</b>
1 – extremely negative impact	39
2	3
3	25
4	13
5	41
6	11
7	8
8	4
9	3
10 – extremely positive impact	1
Don't know	32
<b>Total</b>	<b>180</b>

Base: 180

## 82 Appendices – Raw survey data

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<b>F1.a: Overall, what impact do you think the commissioning approach behind the Work Programme has had on your organisation's financial turnover?</b>	<b>Count</b>
1 – extremely negative impact	56
2	23
3	32
4	18
5	20
6	5
7	2
8	4
9	0
10 – extremely positive impact	0
Don't know	20
<b>Total</b>	<b>180</b>

Base: 180

<b>F1.b: Overall, what impact do you think the commissioning approach behind the Work Programme has had on your organisation's efficiency?</b>	<b>Count</b>
1 – extremely negative impact	33
2	13
3	24
4	20
5	44
6	8
7	6
8	7
9	0
10 – extremely positive impact	1
Don't know	24
<b>Total</b>	<b>180</b>

Base: 180

<b>F1.c: Overall, what impact do you think the commissioning approach behind the Work Programme has had on your organisation's customer caseloads?</b>	<b>Count</b>
1 – extremely negative impact	39
2	13
3	26
4	14
5	39
6	7
7	9
8	8
9	0
10 – extremely positive impact	0
Don't know	25
<b>Total</b>	<b>180</b>

Base: 180

<b>F1.d: Overall, what impact do you think the commissioning approach behind the Work Programme has had on your organisation's ability to deliver services?</b>	<b>Count</b>
1 – extremely negative impact	41
2	13
3	22
4	13
5	39
6	8
7	8
8	6
9	3
10 – extremely positive impact	1
Don't know	26
<b>Total</b>	<b>180</b>

Base: 180

<b>F2: Have you sought to change your business model or capacity to better meet DWP's commissioning principles (e.g. larger, longer contracts; a prime contractor model; outcome-based funding; and more limited prescription from DWP)?</b>	<b>Count</b>
Yes	86
No	82
Don't know	12
<b>Total</b>	<b>180</b>

Base: 180

<b>F3: Please provide details of the way(s) in which you have sought to change your business model or capacity to better meet DWP's commissioning principles</b>	
Multiple text responses	

<b>F4: What are your future intentions with regard to the Work Programme?</b>	<b>Count</b>
My organisation definitely intends to increase our involvement in the Work Programme	53
My organisation may increase our involvement in the Work Programme	39
My organisation intends to continue to be involved in the Work Programme at current levels	29
My organisation may decrease our involvement in the Work Programme	20
My organisation definitely intends to decrease our involvement in the Work Programme	1
My organisation intends to stop being involved in the Work Programme	14
Don't know	24
<b>Total</b>	<b>180</b>

Base: 180

<b>F5: Why are these your future intentions with regards to the Work Programme?</b>	
Multiple text responses.	

<b>F6: What are your future intentions with regard to other DWP-commissioned welfare to work provision?</b>	<b>Count</b>
My organisation will definitely seek to be involved in future DWP programmes	91
My organisation may seek to be involved in future DWP programmes, depending on the specific terms and requirements	80
My organisation won't seek to be involved in future DWP programmes	2
Don't know	7
<b>Total</b>	<b>180</b>

Base: 180

<b>F7: Why are these your future intentions with regards to other DWP-commissioned welfare to work provision?</b>	
Multiple text responses.	

<b>F8: If you have any other comments regarding the overall commissioning approach behind the Work Programme, please provide them below</b>	
Multiple text responses.	

This report presents qualitative and quantitative research findings from the first phase of commissioning-focused research as part of an evaluation of the Work Programme, which was introduced across England, Scotland and Wales in June 2011.

The qualitative fieldwork was conducted in six of the eighteen Work Programme contract package areas, between late 2011 and summer 2012. This involved in-depth interviews with Department for Work and Pensions (DWP) and Jobcentre Plus staff, and service providers inside and outside of the supply chain. The quantitative research involved a national online survey of Work Programme subcontractors. Together, the research examines the initial procurement process and the effects of the financial models and incentives used by DWP and prime providers to maximise performance.

This is the second in a series of evaluation reports aiming to understand experiences of the Work Programme from the point of view of claimants, Jobcentre Plus staff and provider staff, and to establish the extent to which the programme leads to additional employment outcomes. This research is part of a comprehensive evaluation of the Work Programme, commissioned in 2011 to provide an independent assessment of delivery and claimants' experiences and outcomes. Crucially, as an evaluation of a minimum prescription programme, the research focuses on how the Department's commissioning approach impacts on the provider market and influences service design and delivery.

If you would like to know more about DWP research, please email:  
[Socialresearch@dwp.gsi.gov.uk](mailto:Socialresearch@dwp.gsi.gov.uk)



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