

# Ad hoc analysis of Flexible New Deal costs

January 2012

# Background

The figures presented here show expenditure to 31st December 2011 on the Flexible New Deal employment programme (FND). They include all expenditure on the programme paid to 'prime providers' who delivered the programme on behalf of DWP apart from the contractually obliged exit costs which will be incurred as a result of the early termination of FND contracts. DWP are currently in negotiation with FND prime providers regarding the amount payable, and as such the expenditure isn't included here.

FND began in October 2009 in around half of Great Britain. It provided personalised employment support for up to 12 months (with the option of a six month extension) to jobseekers who had been unemployed for 12 months, with some jobseekers entering FND earlier. The 24 FND contracts were delivered by a mixture of Private, Public and Voluntary and Community sector organisations and were intended to last for 5 years, but they were terminated in 2011 to make way for the new Work Programme.

- No new referrals to FND were accepted from 1st June 2011;
- All existing participants left the programme by 1st September 2011;
- DWP stopped accepting claims for Job Outcome payments on 2<sup>nd</sup> September 2011.

# Methodology

Prime Providers who delivered FND were funded through the following three categories of payment:

- *Service Fee* – a guaranteed monthly payment to contribute to the costs of contract delivery (although the exact amount payable was subject to starter volumes remaining within a certain agreed range).
- *Short Job Outcome Payment* – payable when an FND participant enters employment of at least 16 hours per week for a continuous period of 13 weeks which started either before, or within 6 weeks of the day that the participant left FND.
- *Sustained Job Outcome Payment* – payable when an FND participant enters employment of at least 16 hours per week for a period of 26 out of 30 weeks (with breaks in employment totalling no more than 4 weeks) which started either before, or within 6 weeks of the day that the participant left FND.

Short and Sustained job outcomes can each be paid only once for an individual spell on FND, and the vast majority (approximately 97%) of Sustained Job Outcome payments are for participants who have already achieved a Short Job Outcome.

## Flexible New Deal Costs - January 2012

Further information on the definitions used for Flexible New Deal can be found via the following link:

[http://research.dwp.gov.uk/asd/asd1/ddfnd/fnd\\_info\\_nov2010.pdf](http://research.dwp.gov.uk/asd/asd1/ddfnd/fnd_info_nov2010.pdf)

The analysis in this paper breaks down expenditure on FND recorded on the DWP Operational Management Accounts to 31<sup>st</sup> December 2011 by the three categories of payment. It should be noted that no more expenditure will be incurred against these three categories. However, costs will be incurred as a result of the early termination of FND contracts. DWP are currently in negotiation with prime providers regarding the amount payable, and as such the expenditure isn't included here. The exit settlements will include some compensation for lost earnings from Job Outcome payments owing to the decision to divert existing participants from FND on 1<sup>st</sup> September 2011 and cease job outcome claims on 2<sup>nd</sup> September. These 'deemed' Job Outcomes are not included in the statistics.

## Results

Table 1: Flexible New Deal costs by category of payment (rounded to nearest £1m) (correct as of 31/12/2011)

<b>Flexible New Deal expenditure</b>	
Service Fee	£626m
Short Job Outcomes (13 wk duration, 16 hrs per week)	£105m
Sustained Job Outcomes (26/30 wks, 16 hrs per week)	£39m
<b>Total</b>	<b>£770m</b>

Source: Department for Work and Pensions Operational Management Accounts (31/12/11)

Note: Figures do not include the contractually obliged exit costs incurred for terminating the programme early as DWP are still in negotiation with providers over the level of compensation.

Table 2: Flexible New Deal Job Outcome Statistics (rounded to nearest 10)

<b>Flexible New Deal performance (Oct-09 - Oct-11)</b>	
Programme Starts (excluding starts from re-referrals)	407,690
Short Job Outcomes (13 wk duration, 16 hrs per week)	75,250
Sustained Job Outcomes (26/30 wks, 16 hrs per week)	49,740

Source: Delivery Directorate performance report (November 2011)

(<http://research.dwp.gov.uk/asd/index.php?page=ddfnd>)

Note: Sustained Job Outcomes usually follow a Short Job Outcome for the same participant (for approximately 97% of sustained outcomes - Provider Referral and Payment System Management Information – Jan-11)

## Notes

- FND lasted up to 12 months (with the option of a 6 month extension in certain circumstances). When the programme ended on 1<sup>st</sup> September, participants who may already have spent a number of months with their FND provider were diverted off the programme. These participants may have since gone on to achieve job outcomes, but any achieved after 2<sup>nd</sup> September 2011 were not recorded and hence do not appear in these figures. The ongoing contract exit negotiations are in part to agree a level of compensation for these lost earnings.
- Flexible New Deal contracts were tendered with a fixed contract price set over a five year period, and the amounts payable for Service Fee and Job Outcome payments were calculated in the following way:
  - Service Fee represented 40% of the overall contract price.
  - Unit prices for Short Job Outcomes were calculated by dividing 40% of the overall contract price by the number of Short Job Outcomes offered by providers through the competitive tender process.
  - Unit prices for Sustained Job Outcomes were calculated by dividing 20% of the overall contract price by the offered number of sustained jobs.
- The intention was for providers to be paid in the ratio of 20:50:30 for Service Fee, Short Job Outcomes, and Sustained Job Outcomes. The ratio was changed to 40:40:20 owing to the recession of 2009, with the intention to move back to 20:50:30 later in the contract period. Due to the early termination of the FND contracts, this reversion was never realised.
- The actual spend shows the majority of expenditure for FND was on service fees despite only representing 40% of the overall contract price in the funding model. The main reasons for this are:
  - Service Fees are paid up front, but Job Outcomes can take a long time to achieve, hence a relatively higher proportion of Job Outcomes would have been expected in later years of FND.
  - Unemployment peaked at a lower than expected level following the 2009 recession, resulting in fewer starts to FND than expected, and hence fewer Job Outcomes.
  - Providers converted a lower proportion of starters into Job Outcomes than they had anticipated at the outset.

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