



# Work Programme evaluation: Operation of the commissioning model, finance and programme delivery

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This report brings together and summarises the key evidence available from the 2013 and 2014 waves of the Work Programme evaluation relating to the commissioning model, finance and programme delivery, together with evidence from provider surveys from 2012, 2013 and 2014. The report explores the impact of the commissioning model on the provider market, the operation of the financial model and programme delivery. Findings from the 2012 commissioning and programme provision research were reported in Lane *et al.* (2013) and Newton *et al.* (2012) respectively. (A parallel report, Meager *et al.*, 2014, sets out the findings relating to Work Programme participants). As the findings from the evaluation build up, the Department for Work and Pensions (DWP) is able to use the evidence to improve programme performance and influence the design and management of future programmes. A note of recent DWP activity related to the findings in this report is provided in the notes (see the main report, page 25).

The report draws on qualitative interviews, conducted in 2013 and 2014, with Work Programme prime providers<sup>1</sup>, selected subcontractors and providers outside supply chains, DWP and Jobcentre Plus staff, together

<sup>1</sup> The Department directly contracts with prime providers. Prime providers, in turn, both deliver and / or commission and manage a supply chain of sub-contracted providers to deliver the Work Programme (main report, Section 3.1)

with national surveys of providers and an analysis of Work Programme provider market data (Chapter 3).

## Provider market structure

The Work Programme is delivered by 18 prime providers who were awarded 40 separate contracts to deliver services in 18 large Contract Package Areas across England, Scotland and Wales<sup>2</sup>. To help determine whether the Work Programme commissioning model<sup>3</sup> has led to the development of an effective quasi-market, the research explored the changing structure and characteristics of the Work Programme provider market (Chapter 3). The overall number of Work Programme providers has fallen, with a decrease from 831 in 2013 to 806 in 2014. In addition to this a number of subcontractors reported that they had received no referrals so the number of providers actively delivering the programme is likely to be fewer than DWP supply chain data suggests.

<sup>2</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/253680/cpa-preferred-bidders.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/253680/cpa-preferred-bidders.pdf)

<sup>3</sup> Key elements of the model include a prime-provider approach with minimum service prescription, large scale, longer contracts and ongoing performance competition. The funding element emphasises sustained outcomes and utilises a differential payment approach (main report, Section 1.2).

Two different models of prime provider delivery practice have developed. The first model comprises a **prime managing agent** that provides no direct services but sub-contracts all Work Programme activities through a supply chain of contractors.

The other model is that of a **prime delivery agent** that combines direct delivery, of varying levels, and subcontracting with a supply chain.

Prime providers reported a range of factors which affect their decisions to outsource provision. Managing agent prime providers noted their organisational expertise in outsourcing. Some also suggested this approach facilitated a more detached focus on performance which was not influenced by in-house delivery pressures. In contrast to this some prime delivery agents suggested that it was important that they delivered a proportion of the service themselves to ensure a thorough understanding of the programme. They reported that this facilitated their role in supporting practice development and performance improvement. There was, however, a suggestion from a small number of subcontractors that the decisions made by some prime delivery agents related to outsourcing and market share shifting were influenced by a desire to protect their own market share (and related income).

Analysis of Work Programme attachment data found that the provider market is not 'concentrated' by conventional measures (for example, it is considerably less concentrated than the UK supermarket sector or domestic UK electricity and gas supply market). At prime provider level, using attachment data from June 2011 to March 2014, the top four prime providers delivered around 54 per cent of the Work Programme. The market could therefore be described as an unconcentrated, competitive oligopoly, which has remained fairly stable over time, with a slight increase in concentration following the implementation of market share shift in August 2013.

Analysis of prime provider and Tier 1 subcontractor<sup>4</sup> referral data showed a clearer increase in market concentration over time, with an inconsistent pattern across contract package areas (CPAs). The overall increases in market concentration could be linked with changes in the supply chains of particular prime providers. This, alongside previous experience from Britain and Australia, suggests that in order to offer an ongoing assessment of the effectiveness of the Work Programme market it will be important to continue to monitor the market concentration, the number and composition of providers and their market share. The analysis of referral data also indicates a need to consider these factors at both national and CPA level.

Generalist end-to-end providers dominate Work Programme delivery, and the majority of these deliver all support in-house with low levels of onward referral to specialist support, particularly where this involved formal contracting arrangements. An increase in onward referrals was only reported in the signposting of participants to providers outside supply chains. With around half of subcontractors being small organisations, the impact on the organisation of not receiving referrals can be significant and had resulted in some subcontractors choosing to leave their supply chains. There were also cases of prime providers terminating contracts or coming to mutual agreements for subcontractors to exit a supply chain as a result of underperformance.

In general there was little evidence of market entry into supply chains, with few new providers brought in to replace existing ones, or to provide additional services. Instead, in cases of market exit, prime providers were redistributing referrals from a leaving provider to existing supply chain members or taking the work in-house. There was, however, some evidence of market entry via acquisition and merger at the prime provider level.

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<sup>4</sup> Definitions of Tier 1 subcontractors vary from prime provider to prime provider although they are generally responsible for delivering end-to-end services to participants.

## **Contract and performance management**

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. As the Work Programme was contracted using a prime provider model, DWP's role in contract and performance management was focused at the prime provider level. As the contract has progressed, there were developments and changes to the performance management processes and systems used by DWP to manage Work Programme provider performance and contracts (Chapter 4). A restructure occurred in 2013 and, as part of this, there were changes made to some contract and performance management roles, including a move to a 100 per cent focus on the Work Programme contract for Performance Managers. The new structure and roles were still bedding in at the time of the 2014 research, and at this time some DWP staff felt that the split between DWP commercial and performance management staff was not helpful in getting the best out of providers.

A new performance management regime was introduced from summer 2013 which included more intensive processes for lower performing providers. Some DWP Performance Managers welcomed the changes and felt that they had the potential to make prime providers focus more on improvement activities. However, some DWP Performance Managers questioned whether the new regime was too intensive and/or prescriptive. There appeared to be an underlying tension felt by some DWP staff between offering flexibility to providers to deliver services as they see best and driving up performance by prescribing delivery methods that have been found to be effective. There were some indications in 2013 that the DWP performance management approach was becoming more prescriptive. Nonetheless, most staff also described having positive relationships with

prime providers, underpinned by regular, open communication.

## **Black box contracting**

One of the key elements of the DWP commissioning model was minimum service prescription by the Department (Chapter 5). This was termed the 'black box' approach, the aim of which was to allow providers considerable flexibility in deciding what interventions would best help participants into sustainable employment. However, as part of their bids, prime providers were required to specify the minimum service standards (later renamed customer service standards) that they would offer to programme participants. The research revealed a range of views on what the 'black box' model means in theory and practice. DWP Performance Managers felt the 'black box' had applied during contracting since providers were required to meet minimum performance and customer delivery standards once in contract. However, many providers believed they would have the freedom to flex delivery during live running to meet participant needs. Prime providers were able to choose how much prescription to apply to their subcontractors' provision and, in both the 2013 and 2014 research, there was variation found in the level of prescription applied by different prime providers (Chapter 4). Where subcontractors were afforded delivery flexibility, this was viewed positively by the subcontractors. There was some evidence that, like DWP performance management, some prime providers were becoming more prescriptive with subcontractors with an aim of driving performance improvement. However, subcontractor reports of the level of flexibility in service delivery they were given by their prime providers remained consistent across the waves of research.

## **Market share shift and contract termination**

A key performance management mechanism utilised by DWP was 'market share shift' (MSS) which gave DWP the flexibility to move five per cent of new referrals within each CPA from lower to higher performing prime providers. The first MSS occurred in summer 2013 and DWP staff interviewed in 2014 did not report any noticeable impact of this on performance to date. Many prime providers also reported that MSS had lacked impact due to the relatively small percentage shift against the backdrop of falling referrals. Some DWP staff suggested that MSS and DWP's decision to terminate a contract due to underperformance had not negatively affected their relationship with prime providers, although some felt that it had potentially weakened previously positive relationships. In the early part of 2014 DWP reviewed the performance of the bottom 25 per cent of Work Programme contracts and put them under an enhanced performance management regime. Notice of a contract termination was also given to one prime provider<sup>5</sup>. Views from prime providers on the contract termination were mixed. Some prime providers were supportive of DWP's decision to terminate a contract. However, other prime providers were confused as to why this particular contract had been chosen for termination, leading to some uncertainty and concern over how future contract termination decisions would be made. Overall views from prime providers on DWP's approach to contract and performance management varied, with some positive and some negative. Key issues raised by prime providers included a perceived lack of consistency and clarity in DWP's approach, although in the most recent 2014 research, some

<sup>5</sup> There is a 12-month notice period in relation to the notice of termination that was given to a prime provider in relation to one of their contracts. DWP has been conducting a procurement competition to identify a replacement provider. This aims to enable the Department to ensure continuity of service to the affected claimants currently being supported by the programme.

providers also noted that the DWP approach was developing positively and improving over time. The preface notes (see main report, page 25) provides an update on the DWP approach to performance management.

## **Supply chain contract and performance management**

Under the prime provider model, the responsibility for managing a supply chain of subcontractors lies with prime providers rather than DWP. The research identified that prime providers appeared to be using two different approaches to driving subcontractor performance – competition and collaboration – with the majority utilising both, but to different degrees. Whilst some subcontractors in the 2013 research suggested that competition tempered supply chain relationships and the willingness to share best practice, by 2014 this was not reported as a problem, with trust and relationships between subcontractors appearing to be further developing over time.

Overall there was a spread of opinion in both the 2013 and 2014 research as to whether subcontractors felt the monitoring and management of their performance by their prime provider was effective, though a greater percentage of subcontractors felt their prime providers' monitoring and management was effective in 2014, suggesting improvements over time.

## **Finance**

As noted above, providers and supply chains are diverse so it can be difficult to generalise about providers' views on specific issues such as the financial model and some provider views may appear contradictory. By 2014, however, it appeared that prime providers were broadly positive that finances were where they were expected to be, in terms of heavy upfront investment in delivery with later reward through sustainment payments (Chapter 6). A number of prime providers also felt that the peak of

profitability had passed, particularly as referral volumes were generally lower than anticipated due to a stronger than expected labour market and continued to drop towards the end of the programme. Many prime providers did express concerns about the impact of changing and falling referral volumes on the future financial viability of the programme. Deductions from outcome payments based on the extrapolation of errors that DWP identified in routine checks of a sample of providers claims was also a key issue for many prime providers. However, prime providers were largely positive about the commercial attractiveness of the contracts and intended to sustain or increase their involvement with the programme.

Around half of prime providers were exposing their supply chains to the same incentives and financial risks as their own contracts with DWP. However, there was also evidence that prime providers saw a need to offer modified versions of the outcome payment model to certain subcontractors. This tended to result from a desire to maintain or attract specialists within the supply chain, often linked to a need to improve performance for the Employment and Support Allowance (ESA) participant group.

In 2014 subcontractors were more positive about the financial model than in earlier years of programme, with nearly two-thirds of those surveyed expressing satisfaction with payment terms. This may suggest that subcontractors experiencing most financial difficulties had then left supply chains, which in turn made the programme more viable for remaining organisations in receipt of redistributed referrals. Providers' views on the commercial attractiveness of the Work Programme contract appeared to be related to their current experiences of financial viability. As noted above, prime providers were largely positive about prospects over the long term, but only a small proportion of subcontractors were positive about the commercial attractiveness of their contracts with the primes. However, this was not reflected

in subcontractors' intentions to remain involved with the programme with over two-thirds of subcontractors in 2014 indicating they would sustain or increase their involvement in the programme. For many of these subcontractors the provision of employment support was core to their business and thus they viewed involvement in the Work Programme or any successor programme as essential. Prime providers were also positive about their intentions to sustain or increase their involvement in both the Work Programme and other DWP programmes more widely. They did, however, perceive a need to review the Work Programme financial model, a view reflected both inside and outside supply chains. Specific issues raised included the construction of the differential pricing model and the complexity of the payment structure, as well as the administrative process for claiming and verifying outcome payments.

## **The differential payment model**

An 'outcome-based commissioning' approach encourages commissioners to focus on ends, not means, and is seen as a way of promoting improvements in public services. Payment-by-results (PbR) aligns funding arrangements with this outcomes focus, paying for services, at least in part, on the basis of the outcomes that they achieve. Existing evidence on PbR models suggests that wholly outcome-contingent contracts are often less suitable for clients with multiple barriers to employment. The reasons for this are that providers may concentrate effort and resources on those participants for whom they believe they can achieve an employment outcome most quickly and/or cheaply, and offer only minimal services to more costly-to-help participants. Attempting to address such concerns the Work Programme model includes a 'differential pricing' structure under which providers are paid at different rates for outcomes achieved by different target groups (with outcomes for 'harder-to-help' groups being paid at higher rates than those for groups closer to the labour market).

The research suggests that differential pricing has had little impact in driving provider behaviour in how they segmented customers and prioritised support. (Chapter 6). For example, the development of services for the ESA participant group appeared to be driven by factors other than the payment model, including more intensive performance management by DWP. Providers reported that a key reason that differential payment groups did not drive their customer segmentation and delivery, was the heterogeneity in levels of support need within and between payment groups. In practice they also felt it was not possible to manage delivery and performance against the complexity of the payment model. In addition to this providers suggested that in some cases the costs of support for those with greatest need exceeded the payments available. These findings on the lack of effect of differential pricing on segmentation were also reflected by those reported in the parallel Work Programme participant experience report, (Meager *et al.*, 2014). Both inside and outside the supply chain, providers suggested a need to review the Work Programme financial model. The preface notes (see main report, page 25) show that the Department will be reviewing the structure of the payment groups for future contracts

## Changes in referrals

The majority of providers in the 2013 and 2014 surveys reported a decline in referrals in the previous year (66 per cent and 76 per cent, respectively) (Chapter 7). Over 40 per cent in each year had seen a significant change in the mix of referrals. Both changes were particularly marked for end-to-end providers. The main compositional change was a growth in ESA participants and decline in Jobseeker's Allowance (JSA) participants<sup>6</sup>.

Lack of confidence, work motivation and work-related skills amongst job seekers were the most prevalent barriers reported by providers in 2013 and 2014. However, the change in the mix of referrals appeared, by 2014, to have increased the extent to which participants faced barriers due to health conditions and disabilities; criminal record or history of offending behaviour; and drug or alcohol problems.

These changes were reported as being financially detrimental for end-to-end providers, reducing income or requiring more staff, physical resources and outsourced services in order to respond to the change in the composition of demand. For non-end-to-end providers, the changes more often led to an increase rather than decrease in income because the demand for their services increased and they were paid for their services (and not be result).

## Support from Jobcentre Plus

Jobcentre Plus staff's most common contact with Work Programme participants was to monitor conditionality (Chapter 7). There was evidence of some continued ad hoc and light touch support to Work Programme participants.

There was some evidence that, between 2012 and 2013, relationships had strengthened between Jobcentre Plus and providers, although this varied by location and may depend on the willingness of those involved (i.e. Jobcentre Plus and provider staff) to collaborate. Where strengthened relationships were in evidence, examples were seen of co-location and information sharing which supported participants (including helping to engage hard-to-reach participants), providers and Jobcentre Plus staff in achieving their objectives.

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<sup>6</sup> A change in the Work Programme eligibility rules resulted in an increase in ESA claimants, whilst improvements in the economy may have reduced the number of JSA claimants.

## **Mandation, conditionality and sanctioning**

The use of mandate varied substantially across providers: its use, the activities mandated; the degree of Personal Adviser discretion over mandate; and whether and which payment groups were targeted (Chapter 8). Providers differed in their views over the usefulness of mandate.

Sanctioning policies (i.e. whether non-compliance was automatically referred for sanctioning or whether there was discretion) were determined by the prime providers, although providers (both branches of the prime provider, as well as subcontractors) did not always comply with these policies. Changes in sanctioning policies and processes had resulted in more referrals for sanctioning by 2013, an increase which continued at a slower rate into 2014. The changes appeared to include some shift towards automatic referral for sanctioning for non-compliance, as well as improved processes, both due to in-house changes and due to the introduction of Provider Direct. However, there was tentative evidence that automatic referral of non-compliance resulted in more cases of cancelled or overturned sanctions. Providers varied in their beliefs about the effectiveness of sanctions, some seeing it as improving and others as reducing commitment. Providers' satisfaction with the sanctioning process had improved by 2014, albeit slightly.

## **Employer engagement**

Most providers, particularly end-to-end providers, were involved in employer engagement activities (approximately four out of five) (Chapter 9). Vacancy identification was most common. Support to employers recruiting participants from disadvantaged groups or requiring adaptations to enter work were also common.

The organisation of employer engagement varied: centralised by the prime provider for its supply chain; centralised by the provider for its

own provision; and dispersed to local offices, with dedicated employer engagement staff or Personal Advisers.

Collaboration with other providers for employer engagement was common (particularly for end-to-end providers), taking the form of sharing vacancies. Collaboration with Jobcentre Plus was also common and was seen, by both Jobcentre Plus staff and providers, as in the interests of Work Programme participants. Again, the nature of collaboration was largely in sharing vacancies, although there was some indication that vacancy information more often went from Jobcentre Plus to providers rather than vice-versa. The quality of collaboration varied and there may be a need for some Jobcentre Plus areas to take a more positive approach to collaboration.

## **Support provided to participants**

### **Overview of changes in support**

Support had been changing over the course of the Work Programme (Chapter 10). The main changes between 2012 and 2014 were in the nature and extent of provision for ESA participants; a switch towards a work-first approach; changes in participant contact; co-locating with Jobcentre Plus and with probation; an increase in employer engagement activities; and changes to in-work support. By 2014 there was also evidence of some shift of support towards the ESA group covered by DWP performance targets as well as towards those most job ready. The implication is that, to some extent, those participants deemed less job ready and those not in the three DWP performance target payment groups may receive less support.

Many of the changes were in response to the change in the composition of referrals and did not affect the level of support individuals received. However, others were driven by financial pressures (to achieve outcome payments or to reduce costs) and by Performance Improvement Plans. Whilst some of

these changes sought to increase outcomes and meet performance targets, they also appeared to reduce assistance to some of those least likely to enter and remain in employment.

## **Initial engagement, identifying support needs and action planning**

The way that support needs were identified has been changing. There was evidence of a move towards greater personalisation and increased use of assessment experts. Innovation included the trialling of 'client engagement advisors' to focus on participants in their first four weeks. The increase in ESA referrals had led to an increase in the average time for assessment.

## **Personal Advisers**

Changes in Personal Adviser support include increased frequency of contact with participants and greater continuity of Personal Adviser. Innovations included a move towards specialist advisers, particularly for ESA participants, and linking frequency of contact more closely to need.

## **Training**

The percentage of participants receiving vocational or work-related skills training appeared to have changed little since the first wave of the evaluation. However, the qualitative research suggested a decrease in training for the more job-ready. There seemed to be a move towards providing training in-house, particularly to support the least job-ready ESA participants. Providers sought to use training which incurred no cost to the Work Programme. However, awareness varied by provider and access varied across the country, leading to differences in the provision. Financial considerations, including the PbR incentives, featured strongly in the training support decision and appeared to reduce the use of externally paid-for training and increase in-house training.

## **In-work support**

In-work support was provided by most end-to-end and some non-end-to-end providers. It tended to be delivered by telephone, provided either by a dedicated in-work support team or by the pre-employment Personal Advisers. The trend for dedicated in-work teams identified by Newton *et al.* (2012) appeared to have continued, with providers reporting improved retention stemming from such teams.

Although fewer than one-third of providers considered most of their participants required in-work support, nearly all (83 per cent) offered it to all participants in 2013. Providers offered the same support to all or based frequency of contact on assessed risk.

The nature of in-work support changed in the first three years of the programme. Between 2012 and 2013 the proportion of providers offering financial or benefits advice, help and advice on ensuring work was compatible with a health condition or disability and in-work mentoring had increased and there was more emphasis on helping participants in work to look for new jobs, particularly in locations with a high incidence of temporary employment. By 2014, the percentage offering each of these forms of support had declined, although the percentage for each remained higher than in 2012.

In 2013, around one-third of participants in work appeared to opt out of in-work support, with providers believing they saw it as a nuisance, stigmatising or participants having thought they would leave the Work Programme on gaining a job.

## **Providers' views on programme provision**

By 2013 there had been an increase in the percentage of providers who believed the Work Programme to be broadly effective. The weight of opinion among end-to-end providers was towards the view that it was effective, whereas non-end-to-end providers were less positive.

## **Jobcentre Plus managers' views of the Work Programme**

Jobcentre Plus managers' views on the effectiveness of the Work Programme tended to be fairly negative. There were calls for increased collaboration between providers and Jobcentre Plus to increase support to participants, and the ironing out of some issues such as clearer identification of who should offer support when participants moved CPAs and referral problems associated with prison leavers.

## **Outcomes**

Based on end-to-end providers' reports, by 2013, the percentage of participants entering work appeared to have increased compared to the previous evaluation wave (Chapter 10). On average, end-to-end providers estimated that 50 to 59 per cent of their participants would return to Jobcentre Plus for support at the end of their two years on the Work Programme.

Jobcentre Plus reported that the quality of exit reports varied greatly. Jobcentre staff believed it would be useful to receive exit reports which gave a full history of the support received and information about the attitudes and motivation of returners.

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