DWP Department for Work and Pensions

The Commissioning Strategy: Provider survey on early implementation

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Introduction

Department for Work and Pensions' (DWP's) Commissioning Strategy (February 2008) seeks to fundamentally change the Department's relationship with providers of its welfare to work programmes. DWP aims to work more strategically with providers through offering larger, longer contracts and minimal prescription on service delivery whilst paying providers on the basis of the number of sustainable job outcomes achieved for the Department's customers. The Commissioning Strategy is based on a number of key components incorporating market structure and development, provider and DWP capabilities, performance management and customer experience.

Flexible New Deal (FND) Phase One is the first programme to have been designed, commissioned and implemented under the Commissioning Strategy. It is being delivered within 14 contract package areas under 24 contracts and will be terminated in June 2011 with the introduction of the Government's Work Programme.

Research objectives

Within this context, the Department undertook research to establish welfare to work providers' initial reactions to the Commissioning Strategy along with any emerging changes the Commissioning Strategy is having on providers through focusing on FND Phase One. The main objectives of the research are to:

- monitor how provision of welfare to work services changes with the introduction of the Commissioning Strategy in April 2009;
- assess the impact of the Commissioning Strategy on the market and operations of prime and sub-contractors; and
- provide feedback to inform the ongoing implementation of the Commissioning Strategy.

Key findings

This research provides a preliminary assessment of the Commissioning Strategy from the providers' perspective.

Overall, the Commissioning Strategy has been positively received by FND Phase One prime providers and sub-contractors. This is largely due to the:

- introduction of longer, larger contracts enabling prime providers to invest in developing their infrastructure and service offering;
- flexibility to innovate in service delivery and tailor services towards individuals; and
- opportunities for sub-contractors to provide specialist services.

The profile of the market has changed since the introduction of the Commissioning Strategy from the starting point of a relatively mature market, with three out of 24 prime provider contracts being awarded to new entrants and a number of organisations entering the market as FND Phase One sub-contractors.

Under FND Phase One, delivery models differ, but prime providers tend to manage the contract as a whole and use varying levels of end-to-end providers along with a wide range of specialist sub-contractors for provision delivery. At this stage of the research, supply chains appear to be short and demonstrate a significant amount of overlap.

The move to outcome-based funding was more positively received by prime providers than sub-contractors, many of whom expressed concerns about its impact. This has resulted in a number of prime providers adapting their payment systems and terms and conditions to reflect the nature of sub-contractor provision, i.e. end-to-end or specialist.

Methodology

The research covers four types of providers: prime providers and sub-contractors who are currently delivering FND Phase One, along with those providers who either did not bid or were unsuccessful in their bid for delivering FND Phase One.

There are three stages to the research:

- **Provider baseline survey** which provides an overview of the British welfare to work market at September 2009 prior to the introduction of the Commissioning Strategy.
- **Wave one provider survey** which examines how the Commissioning Strategy, through the implementation of FND, has impacted upon providers in Phase One areas and what lessons can be learned; and
- **Wave two provider survey** which will be conducted in autumn/winter 2010 and which will be used to assess how the Commissioning Strategy has impacted upon providers some months into implementation of FND Phase One.

The interviews focused on:

- the impact of the Commissioning Strategy on the market for welfare to work provision;
- relationships between prime contractors and their sub-contractors; and
- the impact on providers' commercial strategy.

Profile of the Provider Market Prior to the Commissioning Strategy

The research suggests that, at September 2009, the best estimate of the number of welfare to work providers in Great Britain was between 556 and 677, of which 447 to 568 provided welfare to work services on behalf of DWP.

This stage of the research focused primarily on DWP welfare to work providers as of September 2009. The profile of DWP's welfare to work market prior to the implementation of the Commissioning Strategy reflects a mature market with a low level of market entrants; the majority of DWP providers surveyed had delivered DWP contracts for ten years or longer. With respect to market exit before the implementation of the Commissioning Strategy, the research also covered organisations that had previously provided DWP welfare to work services. The main reasons cited for exiting the DWP provider market were contractual in nature – either the size of contract areas were too large or the contractual requirements themselves were too demanding.

Almost half of DWP welfare to work providers were third sector organisations, largely charities and training organisations, with the remaining organisations split evenly between private and public sector. Approximately one-third of DWP providers surveyed would be considered small with revenues of less than £1m and less than 25 employees.

Market structure

Change in market structure: When comparing the market before and after the implementation of the Commissioning Strategy, there is no evidence of contraction in the market. An estimated 116-148 providers delivered the programmes that FND Phase One replaced, whilst 169 providers were known to deliver FND Phase One at the time of research.

Delivery models: the extent to which services are delivered 'in-house' by prime providers or are sub-contracted within the supply chain varies between FND Phase One providers. At one end of the spectrum one prime provider does not sub-contract any programme delivery, while at the other end, one prime provider acts as a managing agent sub-contracting all programme delivery. The research shows that sub-contractors are being used by prime providers for both end-to-end provision and specialist provision such as debt counselling or self-employment support.

Supply chains: FND Phase One prime providers have developed or enhanced their supply chains in direct response to the Commissioning Strategy. Supply chains are currently short, i.e. as of yet, sub-contractors do not typically out-source services to sub-contractors of their own. Interestingly significant overlaps exist between supply chains, with seven of the 14 FND Phase One prime providers also operating as sub-contractors and over one-fifth of sub-contactors delivering FND services for more than one prime provider. The research also found that development of supply chains continued following contract award with most prime providers reporting that some of their sub-contractors withdrew from supply chains at this stage.

Market development and stewardship

Market entry and exit: the FND Phase One contracting process brought new entrants into the market at both the prime provider and sub-contractor level.

Development of alliances: significant effort and investment were made by all providers, both successful and unsuccessful, to develop suitable alliances and supply chains for the purposes of competing for FND Phase One contracts. Pre-existing relationships between providers were found to be important, though not the single determining factor, in the establishment of alliances, thus further supporting the fact that entry to the welfare to work market is open.

Code of Conduct: the Code of Conduct outlines best practice with respect to relationships between prime providers and sub-contractors. The research with FND sub-contractors found that, for many, the Code of Conduct has helped formalise relationships along with providing them with more security. However, some sub-contractors saw the Code of Conduct as leading to more administrative burden and increased financial costs.

Provider capabilities

Investment in capabilities: prime providers have invested significantly in acquiring or enhancing a range of capabilities, recognising that this was necessary for them to become an effective top tier provider. The largest areas of investments included: building an entirely new infrastructure (for two providers as they were new to the market); human resources, both in recruiting additional staff and in up-skilling existing staff; and upgrading and/or installing new IT/management information systems.

Commercial strategy

Commercial appraisal of the FND Phase One opportunity: The research found that there was considerable use of financial modelling to appraise the FND Phase One contract across all providers although the intensity and depth varied according to type. For example, prime providers used at least five financial modelling techniques (e.g. modelling case loads, length of time on provision, etc) in assessing the contract whilst many of the unsuccessful bidders tended to use only one. This depth of appraisal and its link to success appears to reflect the capability of each of the provider types and supports the aim of the Commissioning Strategy to promote a high performing supply chain, although this cannot be confirmed until results of implementation are substantiated.

Outcome-based funding: most prime providers have previous experience of outcome-based funding, but this is not the case for sub-contractors. Many prime providers reported that outcome-based funding was a significant issue underpinning contract negotiations with sub-contractors. Although prime providers did not feel that they could guarantee volumes to sub-contractors they did take into consideration the type of service their sub-contractors were providing. In other words, the nature of provision i.e. end-to-end provision or specialist provision tended to influence the contract terms between prime providers and sub-contractors, particularly with regards to payment.

Choice contract package areas: At the time of the research, customer choice – whereby a customer could select between two prime providers within their contract area – was not in operation. However, providers did not think that the planned introduction in April 2011 would have necessarily resulted in improved service delivery and greater customer choice. This was because, during the initial phase of the FND Phase One contract, the prime providers' percentage of customers is guaranteed and therefore competition between providers would be limited reducing its potential effectiveness to drive performance. With the termination of the FND Phase One contract in 2011 competition will no longer be introduced.

Performance management

Performance criteria: DWP's assessment of providers' performance will be primarily based on the level of sustainable job outcomes achieved. Prime providers understand the rationale for this change, and a number of providers reported that they find it reassuring to have a clear sight of performance expectations.

Performance monitoring systems: all prime providers and almost all sub-contractors reported having performance monitoring systems in place, some of which are very sophisticated. The systems generally enable them to capture both quantitative (job outcomes) and qualitative (customer experience) outcomes.

Sharing best practice: there is a significant level of sharing best practice within supply chains. However, prime providers are less willing to share best practice with their peers, although they are generally content to participate in DWP good practice workshops. But, given the degree of overlap between supply chains, the sharing of best practice may occur naturally as providers interact and work with different providers.

DWP capability

Developing commercial acumen: providers have identified a need for DWP staff, such as contract managers and account managers, to continue to improve their commercial acumen. As a means of addressing this, consideration should be given to the possibility of seconding Departmental staff to providers for a period of time, or vice versa.

Improving relationships between DWP and Jobcentre Plus: providers highlighted an apparent 'disconnect' between DWP and Jobcentre Plus which they felt was evidenced by a lack of clarity on roles and responsibilities. It is likely that the subsequent commencement of Provider Engagement Meetings (PEMs) – regular meetings between prime providers, Jobcentre Plus and DWP – will have gone some way to address this concern.

Customer experience

Improving customer experience: the key aspect of the Commissioning Strategy which all providers believe will positively affect customers' experience is the new flexibility providers have to tailor services and innovate as they see appropriate. However, some FND Phase One sub-contractors felt the Commissioning Strategy would not have a positive effect upon service delivery, generally because they believed that the Commissioning Strategy would result in them spending less time with customers.

Working with hardest to place customers: many prime providers and around half of sub-contractors indicated that they had adopted a new way of working to improve service delivery for this customer group. These new methods are directly related to the 'black box' approach and involve making these customers more competitive in the labour market and developing more robust employer relationships.

Providers' relationships with Jobcentre Plus: broadly the relationships between FND Phase One prime providers and Jobcentre Plus were reported by providers as being good, though variable by Jobcentre Plus office/district.

Providers' relationships with local stakeholders: prime providers have clearly sought to consult with relevant partner organisations during bid development but to a lesser extent on contract award.

Conclusions

The research was conducted at an early stage of the Commissioning Strategy's implementation. Notwithstanding this, the findings indicate that the FND Phase One providers have generally responded in a positive manner to the Commissioning Strategy. This has been evidenced through their approach to developing their supply chains, delivery models and investing in their capabilities and approaches to innovative and effective delivery. Wave two of the research, which is likely to be conducted In autumn/winter 2010, will seek to build upon and further assess the emerging impact of the Commissioning Strategy.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 866 9. Research Report 704. October 2010).

You can download the full report free from: http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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