

Welfare to work commissioning – Wave Two provider survey

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Introduction

The Department for Work and Pension's (DWP's) Commissioning Strategy (February 2008) marked the beginning of a new approach to commissioning employment programmes. DWP aims to work more strategically with providers through offering longer contracts and flexibility to tailor service delivery in return for a substantial increase in the number of sustainable job outcomes. Prime providers, who manage and develop their own supply chains, will deliver these larger contracts being paid on the basis of outcomes. These commissioning principles were developed further with the introduction of the Framework for Employment-Related Services (June 2010).

Flexible New Deal (FND) was the first programme designed, commissioned and implemented under the Commissioning Strategy. It was delivered within 14 contract package areas terminating in summer 2011 with the introduction of the Work Programme commissioned under the Framework.

Research objectives

Within this context, DWP undertook research to establish welfare to work providers' reactions to the Commissioning Strategy along with any emerging effects of the Strategy through focusing on FND. The main objectives of the research were to:

- monitor how new 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 providers and subcontractors; and

- provide feedback to inform the ongoing implementation of the new commissioning principles.

Key findings

This research provides an assessment of DWP's commissioning principles from the providers' perspective during the live running of a programme.

After a year of delivering FND, the commissioning principles, in general, are still positively viewed by prime providers but subcontractors have become less positive. Prime providers welcome the introduction of longer, larger contracts enabling them to invest in developing their infrastructure and service offering, and providing them with the flexibility to innovate in service delivery and tailor services towards individuals. However, while subcontractors acknowledge benefits of the commissioning principles – such as focusing on specialised services and offering tailored services – concern has grown regarding the commercial viability of contracts like FND.

There has been substantial movement in FND supply chains during live running of the contract, with subcontractors moving in and out of supply chains. Subsequently, the profile of the market has changed, with the dominance of the private (45 per cent) and third sectors (44 per cent) at the expense of the public sector (11 per cent) along with a decrease in the proportion of larger organisations within supply chains. Overall, the number of providers has increased, mainly through the entry of specialist providers delivering smaller valued contracts.

A range of delivery models continue to exist under FND but typically prime providers manage the contract and use varying levels of end-to-end

providers, along with a wide range of specialist subcontractors, for delivery. The level of outsourcing is dependent on the prime provider's delivery model along with the geographical profile of the contract package area, and the area's existing infrastructure. After one year of delivery, supply chains remain short with the vast majority of subcontractors contracting directly with a prime provider.

Prime providers have responded positively to the risk/reward balance of the FND contract with subcontractors taking longer to acclimatise to the new funding environment. While prime providers have adapted their payment schedules and terms to reflect the nature of subcontractor provision (i.e. end-to-end or specialist) subcontractors' financial concerns remain and are linked to the level, type and quality of referrals.

Methodology

The research covered five types of providers with the sample drawn from a database of providers operating within the FND area along with any new entrants identified during the survey. The providers interviewed included: i) FND prime providers, ii) FND subcontractors, iii) providers who left FND bids or supply chains iv) providers who did not bid and v) providers who were unsuccessful in their bid to deliver FND.

There were three stages to the research:

- **provider baseline survey** which gave an overview of the welfare to work market at September 2009, prior to the introduction of the commissioning principles;
- **Wave One provider survey** which examined how the commissioning principles, through the implementation of FND, had initially impacted upon providers and what lessons could be learned; and
- **Wave Two provider survey** conducted in winter 2010/11 which examined how DWP's commissioning principles had impacted upon providers after one year of FND service provision.

Depth telephone interviews were conducted with prime providers and a quantitative telephone survey was completed with all other providers. Interviews focused on:

- the impact of the commissioning principles on the welfare to work market;

- relationships between prime contractors and their subcontractors;
- the impact on providers' commercial strategy; and
- management of delivery by DWP and providers.

In addition, data collected by DWP from prime providers on FND supply chains was examined to inform the analysis of market structure and supply chain movement.

Market structure

Change in market structure: When comparing the FND market before and after the implementation of the commissioning principles, there has been a shift in the sectoral breakdown of FND providers with the dominance of the private (45 per cent) and third sectors (44 per cent) at the expense of the public sector (11 per cent). Subcontractors hold one-third of the contract value with private sector organisations tending to deliver larger contracts on average than third or public sector organisations. Subcontractors left and entered FND supply chains during live running but overall there was a growth in the number of providers. This growth is linked to specialist providers delivering smaller valued contracts. Subcontractors who left FND supply chains did so because they found FND unattractive, both financially and in terms of risk.

Delivery models: The extent to which services are delivered 'in-house' by prime providers or are subcontracted within the supply chain varies between FND providers and contract package areas. At one end of the spectrum one prime provider does not subcontract any programme delivery, while at the other end, one prime provider subcontracts the majority of programme delivery. Prime providers are using subcontractors for end-to-end provision, specialist provision or to deliver a specific part of FND, for example, mandatory work-related activities. Specialist services, such as drug and alcohol advice and ethnic minority mentoring, are subcontracted out on almost all occasions.

Supply chains: There has been movement in and out of supply chains as subcontractors leave some supply chains and join others or leave FND altogether and new providers come into the marketplace. However, supply chains remain short 12 months into delivering FND, i.e. subcontractors typically do not outsource services to subcontractors of their own. There continues to be overlap between supply chains

with seven of the 14 prime providers operating as subcontractors and 15 per cent of subcontractors delivering FND for more than one prime provider.

Role of the prime provider: Prime providers generally see their role in delivering FND as a managing role providing support to their main subcontractors as necessary. While many subcontractors recognise that the role of the prime provider is valuable in delivering FND the move to an indirect relationship with DWP has not yet gained widespread support, as over half of subcontractors would still prefer to contract directly with DWP.

Market development and stewardship

Management of subcontractors: Prime providers have continued to invest considerably in developing and managing their FND supply chains. These investments have included adapting subcontractors' contractual and payment terms to align with the nature of support provided or the size of the organisation, to building capacity and sharing best practice throughout the supply chain. Performance management of the supply chain was taken very seriously by all prime providers with all conducting regular performance reviews and most experiencing, in their opinion, some level of underperformance within their supply chain. Competition plays a role in some supply chains in driving performance, but, in others, quality performance is driven by an ethos of collaboration and sharing of best practice.

Delivery partners outside FND supply chains: The majority of FND providers have actively pursued working with a range of delivery partners outside their supply chains as they believed this approach led to improved customer service. Organisations and services accessed by providers were varied and included, for example, employers, community groups, housing organisations and those organisations delivering help and guidance to groups such as drug addicts.

Merlin Standard: The Merlin Standard was developed to support the Code of Conduct, by further defining and guiding the development of excellent subcontractual relationships, via a co-regulation approach with welfare to work providers. This research, which was conducted during the pilot stage of the Merlin Standard, has shown that prime providers are generally supportive of the Standard, with some process or operational-related suggestions for improvement. Subcontractors are

less clear about what the Standard is and what it is trying to achieve.

DWP capability

Working in partnership with prime providers: Prime providers, in general, have observed improvements to DWP's capability since the implementation of FND. In particular, they have welcomed the introduction of the new roles and functions within DWP, such as the Account Manager role, which have helped move relationships to a more strategic level. In contrast, and perhaps because of their indirect relationship with DWP through the top tier model, subcontractors continue to have mixed views regarding improvements to DWP's overall capability. The key areas cited concerned improving processes on customer referrals and communications, as well as improving knowledge of the marketplace and subcontractors' needs.

Improving the efficiency and accuracy of the referrals process: Provider Referrals and Payment (PRaP), the system used to manage referrals and payments to providers, was viewed by prime providers to have significantly improved since the start of FND. However, all FND providers would like to see the functionality of the PRaP system and the accuracy of referrals improved further.

Provider capabilities

Provider investments: Both prime providers and subcontractors have continued to make substantial investments to deliver the FND contract, with the most significant investments made involving the development and maintenance of IT systems, the refurbishment of premises and on-going recruitment and training. The key challenge for providers has been the impact of the constrained jobs market. In response to this, significant time and resources have been committed to developing and sustaining relationships with local employers.

The impact of the 'black box' on service provision: Prime providers have widely welcomed the reduced prescription underpinning the black box approach and have used this as a basis for improving their service delivery and customer journeys. Providers reported some examples of innovative service delivery, such as the development of novel diagnostic approaches, however, examples of real innovation were limited. Prime providers would like

to have further autonomy in delivering contracts such as FND, particularly regarding prescription such as fortnightly customer appointments.

Working with hardest to place customers: Most prime providers and just over half (54 per cent) of subcontractors have adopted new approaches for managing the hardest to place customers. These approaches include additional training and assessments, in-work mentoring as well as working with external stakeholders and experts.

Commercial and financial issues

Commercial viability: Prime providers are positive about the move towards larger and longer contracts, but subcontractors remain less convinced about the commercial viability of such contracts. This research highlighted that most subcontractors have not been able to reach their profitability expectations for delivering FND, whereas prime providers have largely been able to do so; although a number did have to take mitigating actions. Subsequently subcontractors are concerned about the terms and conditions they hold with prime providers, specifically regarding the volume, type and quality of referrals. The lack of guaranteed referrals remains an issue for subcontractors, affecting their views about the risk versus reward balance under this type of contract.

Outcome-based funding: Most prime providers have readily adapted to outcome-based funding through a mixture of previous experience and adapting financial strategies and operational approaches. The move towards outcome-related funding appears to be having a positive impact on the culture of some FND providers by increasing the focus on more targeted outcome activity. Despite this, subcontractors are generally more negative about moving towards outcome-related funding, specifically noting that it has reduced revenue and increased uncertainty in the market. To date, the use of financial strategies by the majority of subcontractors has assisted them in managing the impacts of the move to outcome-related funding to the extent where they generally have not had to seek financial assistance from their prime provider. Where financial concerns have been raised, prime providers have generally addressed these through

changing payment arrangements, for example, moving towards flat fees or a new payment schedule.

The Framework for Provision of Employment-Related services

Providers' future intentions for the welfare to work market: The more prominent the provider's role in delivering services under FND, the more positive their views about the Framework. Although there were varying degrees of optimism regarding the Framework, the vast majority of all provider types intend to remain within the DWP's welfare to work market and deliver services.

Providers' preparations for the Work Programme: In response to the introduction of the Framework and the Work Programme, providers are investing in developing their networks and relationships with other provider organisations. Subcontractors and non-FND providers believe that DWP could help them avail of opportunities in the market by increasing the transparency of the market, for example, by setting-up a database of providers and services.

Conclusions

The research provides an update of providers' reactions to DWP's key commissioning principles after one year of delivering a programme awarded under the Commissioning Strategy. As found in the Wave One research, providers have generally incorporated the principles into their operations through investing in and developing their delivery models and supply chains accordingly. Flexibility in service delivery has been welcomed with providers believing that this has resulted in improved customer experiences. From this research, there does appear to be clear movement towards meeting the pre-conditions of a well-functioning quasi market with the foundation of a competitive market structure in place. However, the impact of the commissioning principles and the evaluation of how well-functioning the quasi-market for contracted employment provision is, will need to be monitored further as contracting occurs under the Framework.

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