Department for Work and Pensions

Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model

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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 financially 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.

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The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 909532 21 2. Research Report 832. March 2013).

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

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