

Research report

Welfare to work commissioning – Wave Two provider survey

by Dr David Armstrong, Carol-Anne Cummings,
Kieran Jones and Eilis McConville

Department for Work and Pensions

Research Report No 757

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First published 2011.

ISBN 978 1 84712 993 2

Views expressed in this report are not necessarily those of the Department for Work and Pensions or any other Government Department.

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Acknowledgements

The authors would like to thank all those who have contributed towards this study, in particular the providers who participated in the research during what was a particularly busy time for them.

We would also like to thank the DWP officials for their advice, feedback and assistance throughout the research, particularly Mike Hope, Vicki Brown and Paul Trenell.

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Abbreviations

CEP	Contracted Employment Provision
CPA	Contract Package Area
DWP	Department for Work and Pensions
EZs	Employment Zones
ESF	European Social Fund
FND	Flexible New Deal
GB	Great Britain
ITT	Invitation to Tender
JSA	Jobseeker's Allowance
MWRA	Mandatory Work-Related Activity
NHS	National Health Service
NPM	New Public Management
PAT	Provider Assurance Team
PEM	Provider Engagement Meeting
PPD	Provision Performance Division
PMD	Provision Management Division
PPR	Provider Performance Review
PwC	PricewaterhouseCoopers LLP
PRaP	Provider Referrals and Payment
SLA	Service Level Agreements

Glossary of terms

Black box	With respect to the Commissioning Strategy, the adoption of a black box approach refers to the minimal prescription by Department for Work and Pensions (DWP) on the process which providers undertake with customers to deliver sustainable job outcomes.
End-to-end provider	An end-to-end provider covers the range of general employment-related services a customer receives throughout their journey in Flexible New Deal (FND). These are typically provided by what DWP refer to as Tier one and Tier two providers which are prime providers and larger generalist subcontractors.
FND legacy programmes	These constitute the various programmes which FND replaced or subsumed in October 2009. These programmes include New Deal 18-24, New Deal 25 Plus, New Deal 50 Plus, private sector led New Deal, New Deal for Musicians, New Deal for the Self-Employed and Employment Zones.
Hardest to place customers	Hardest to place customers are those customers referred under the FND programme with multiple or complex barriers to employment. These barriers can be physical, psychological, social or attitudinal and can make it more difficult or challenging for a customer to be placed back into the employment market.
Jobcentre Plus	Jobcentre Plus is an executive agency of the DWP supporting people of working age from welfare to work, and helping employers to fill their vacancies.
Mandatory Work-Related Activity (MWRA)	Customers are required to participate in four weeks continuous full-time work-related activity (30 hours or more within that given week) within the first 52 weeks participation on FND. This applies if the customer has not had at least four weeks continuous full-time paid work since starting on FND.
Outcome-based funding	Under an outcome-based funding programme, services are paid for on the basis of achieved outcomes (e.g. sustainable job outcomes) rather than for delivering the service (e.g. motivational training, interview techniques). Often, there is a proportion of service-based payments included in the overall funding programme as is the case for FND.
Provider Referrals and Payments (PRaP)	PRaP is an IT system which automates the clerical referrals and payments process for providers. This was introduced to replace paper-based systems, as well as to facilitate the smoother exchange of information about customers referred for provision.

Quasi-market	This is defined as a market of independent agents competing with one another for custom, but unlike a normal market the purchasing power comes not directly from consumers but from the state.
Specialist provider	A specialist provider typically provides niche services such as provision of support for those wanting to become self-employed or support related to a customer's health or underlying issues, such as drug rehabilitation or debt management. These services are generally undertaken by Tier three and Tier four providers as per DWP's classification.
Sustained job outcome	This refers to a form of employment that involves a minimum of 16 hours per week, that lasts for at least 26 weeks out of 30 (breaks in employment must total no more than four weeks) and started prior to or within six weeks (the tracking period) of a customer leaving FND or completing their 52 week (or 26 week extension) allotted time.
The Merlin Standard	The Merlin Standard is an accreditation process designed to promote excellence in provider-led supply chains delivering welfare to work programmes. Trial assessments of Flexible New Deal prime providers were carried out during March to May 2010 prior to this Wave Two provider survey.
Welfare to work market	The welfare to work market consists of a range of organisations providing various services through the Government's series of programmes to encourage and support the unemployed in finding jobs. Organisations come from public, private and third sectors and can offer a range of general employment related services or specialist provision.

Summary

Introduction

Background

The Commissioning Strategy, launched by the Department for Work and Pensions (DWP) in February 2008, marked the beginnings of a new approach to commissioning employment programmes in Great Britain (GB) as DWP sought to work more strategically with providers. The rationale of the new commissioning principles is to achieve a substantial improvement in provider performance in terms of securing sustainable job outcomes for customers, while also achieving efficiencies in the provision of employment programmes through exposing employment provision to market forces.

The key features of the new commissioning approach are:

- **market structure:** developing a strong, consistent base of top tier providers who will work with regional and sub-regional partners;
- **market development and stewardship:** actively and transparently creating an enabling environment to ensure smaller, local providers can flourish and develop;
- **DWP capability:** developing DWP's own skill base to enable DWP to make a positive contribution to business partnership;
- **provider capabilities:** specifying specific capabilities and requirements of high-performing supply chains and top tier providers;
- **customer experience:** it will play an important part in the commissioning of provision, how it is delivered and how it is improved; and
- **commercial strategy:** rewarding providers on the basis of achieved job outcomes and using competition to drive greater effectiveness.

Launched in October 2009, Flexible New Deal (FND) was the first programme to be designed, commissioned and implemented under the Commissioning Strategy. It is being delivered in 14 contract package areas and 24 contracts were awarded to prime providers and their supply chains. FND contracts will be terminated in June 2011 with the introduction of the Government's Work Programme¹, a new single, personalised welfare to work programme for a wide variety of customers including Jobseeker's Allowance (JSA) customers and Employment and Support Allowance (ESA) customers.

The Work Programme will be commissioned under the Framework for Employment Related Support Services (the Framework) which was introduced in June 2010². Only organisations that are successful in achieving a place on the Framework will be able to bid as prime providers to deliver future employment-related service contracts for the lifetime of the Framework. Although the use of a framework to commission employment-related services marks a departure from previous

¹ The following web-link provides further information on the Work Programme <http://www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/work-programme/>

² The following web-link provides further information on the Framework for the Provision of Employment Related Support Services. <http://www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/framework-for-the-provision/>

approaches, there has been a continued commitment within the Work Programme towards the key principles of the new commissioning approach, such as the provision of larger contracts of longer duration, the use of the prime provider model and minimal prescription by DWP to providers on content of provision.

Terms of reference

This research seeks to establish the initial reactions and the emerging impacts the Commissioning Strategy is having on the welfare to work market among providers through focusing on FND. The research covers a range of providers, including those operating within the FND marketplace, i.e. prime providers and subcontractors and those outside, i.e. providers who are not delivering FND such as those who were unsuccessful or did not bid for the FND contract and those who have left supply chains during or after the bidding process.

The specific objectives of this research are to:

- monitor how new provision of welfare to work service 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 subcontractors; and
- provide feedback to inform the ongoing implementation of the new commissioning principles.

Methodology

This research comprised three phases of activity; a provider baseline survey, Wave One provider survey and Wave Two provider survey.

The findings of the first two provider surveys are contained in the DWP research report '*The Commissioning Strategy; Provider survey on early implementation.*' which was published in October 2010 (2010a). The content of this report will focus on the key findings from the Wave Two provider survey which examines the impact of the commissioning principles after one year of FND delivery. Below is a summary of the three phases of activity in this programme of research:

- **provider baseline survey:** this survey provided an insight into the landscape of the welfare to work marketplace prior to the introduction of the commissioning principles. In total, 593 interviews were completed between September 2009 and October 2009 with providers who were known by DWP to deliver welfare to work services;
- **Wave One research:** surveys were conducted with prime providers, subcontractors, unsuccessful bidders and non-bidders. They focused on how the commissioning principles and their implementation through FND have initially impacted on providers. Over two hundred interviews were conducted with providers between October 2009 and January 2010; and
- **Wave Two research:** further surveys and depth interviews were conducted with FND providers to provide insight into how the commissioning principles have impacted upon providers after one year of FND service provision. The survey also covered providers' reactions to the introduction of the Framework for the Provision of Employment-Related Services and the commissioning of the Work Programme. This involved interviews with all 14 prime providers and surveys with 98 subcontractors, 30 leavers, 22 unsuccessful bidders and 30 non-bidders. Interviews were undertaken between November 2010 and January 2011. There was no longitudinal element to the two waves of provider research as, while a number of providers were re-interviewed, the sample was different for both waves of research.

In addition to the Wave Two surveys, DWP provided separate data which comprised 403 records of subcontractors that were included within successful FND prime providers' supply chains. This information was gathered in two stages. The first stage was during the FND bidding process when providers submitted details of their proposed first tier of subcontractors and the second stage was during August 2010 when DWP conducted a survey of FND prime contractors and their supply chains during live running. This supply chain data was examined alongside the data collected in the Wave Two research and was taken into account in the analysis of the marketplace structure and supply chain movement.

This report provides an assessment, based on the Wave two provider surveys, of DWP's commissioning principles from the perspective of providers operating within the welfare to work marketplace during the live running of a programme.

The report does not represent an impact evaluation of the Commissioning Strategy. The research will be taken into account during the future development of DWP's commissioning approach for contracted employment provision.

Key findings

Market structure

- **Change in market structure:** there has been a growth in the number of providers within the FND marketplace when comparing the number of FND legacy providers, those providers concerned in the bidding stage and those involved in the implementation and delivery of the contract. This reflects both a level of entry and exit from the marketplace. The growth in numbers is linked to specialist providers delivering smaller valued contracts. Subcontractors who left FND supply chains, either before or during contract delivery, did so because they found the FND contract was unattractive, both financially and in terms of risk, and continue to deliver employment-related services for both DWP and other organisations.
- **Delivery models:** the extent to which services are delivered in-house by prime providers or subcontracted within the supply chain varies between FND prime 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, ethnic minority mentoring and anger management are subcontracted out on almost all occasions.
- **Supply chains:** while 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, supply chains remain short 12 months into delivering FND, i.e. subcontractors typically do not outsource services to subcontractors of their own. This shortness of supply chains is contrary to the initial vision of DWP's commissioning principles. There continues to be a significant 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 prime provider is valuable in delivering FND and have received assistance from their prime providers, 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:** this second wave of research shows that prime providers have continued to invest considerably in developing and managing their supply chains in the delivery of FND. These investments have taken various forms ranging from 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 with most experiencing some level of underperformance from their subcontractors. Competition does play a role in some supply chains in driving performance, for example monthly performance tables are made available for all providers within a supply chain so that relative performance of all these providers can be readily seen. However, in other supply chains, quality performance is driven by an ethos of collaboration and sharing of best practice.
- **Delivery partners outside FND supply chains:** while supply chains remain short the majority of FND providers have actively pursued working with a range of delivery partners outside their supply chains, both formally and informally, 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 young people in danger or drug addicts.
- **Merlin Standard:** the Merlin Standard (DWP, 2010a) has been developed by DWP 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 a trial period of the Merlin Standard, has shown that, overall, prime providers are generally supportive of the Standard with some process or operational-related suggestions for improvement, for example, prime providers felt that publication of results would give Merlin assessments more weight. Subcontractors are less clear about what the Merlin Standard is and what it is trying to achieve. In general, most FND providers were uncertain or did not believe that the introduction of the Merlin Standard had fundamentally altered prime providers' approaches to supply chain management.

DWP capability

- **Working in partnership with prime providers:** prime providers in general have observed improvements to DWP's overall capability since the first wave of this research and have particularly welcomed the introduction of the new roles and functions within DWP, such as the Account Manager role and the Provider Assurance Team Reviews. In contrast, subcontractors continue to have mixed views regarding improvements to DWP's overall capability, with the key areas cited as in need of attention concerning improving processes on customer referrals, where they perceive DWP as the source of customer referrals rather than prime providers, and communications as well as the need for DWP to improve their knowledge of the marketplace and subcontractors' needs. The development of this partnership approach has helped to improve provider relationships with Jobcentre Plus, although new market entrants would welcome more support from DWP regarding assistance in developing relationships with Jobcentre Plus and other networks of provision.

- **Improving the efficiency and accuracy of the referrals process:** while significant improvements to the development and the ease of operating the Provider Referrals and Payment (PRaP) system have been highlighted by prime providers in this second wave of research all FND providers would like to see the functionality of the PRaP system and the accuracy of customer referrals improved further, particularly in light of the difficulties encountered as a result of the early fluctuation in customer referrals.

Provider capability

- **Provider investments:** both prime providers and subcontractors have continued to make substantial investments to deliver the FND contract with the most significant investments made with respect to the development and maintenance of IT systems, the refurbishment of premises and ongoing recruitment and training. Prime providers in particular have recognised that investment was a key aspect to be met to fulfil their role as an effective top tier provider and has helped them to deliver the FND contract more effectively. 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 with a view to identifying future sustainable employment opportunities for customers.
- **The impact of the black box on service provision:** prime providers have widely welcomed and adopted the principles underpinning the black box approach and have used this as a basis for improving their service delivery and customer journeys. Providers particularly welcome the flexibility which has allowed them to be innovative in their service delivery, for example, through the development of novel diagnostic approaches which, in their opinion, has had a positive impact on customer experience. However, prime providers would now like to have even further autonomy to deliver the contract, particularly with respect to the existing prescription concerning fortnightly customer appointments.
- **Working with hardest to place customers:** most prime providers and just over half (54 per cent) of subcontractors noted that they have adopted new approaches for managing hardest to place customers, including additional training and assessments, in-work mentoring as well as working with external stakeholders and experts to enhance service delivery and customer journeys. These activities, according to customer feedback gathered by prime providers, are beginning to have an overall positive impact on the customer experience. The improvement to customer experiences during FND as stated by prime providers would need to be compared with other research conducted with FND customers³ to provide a complete overview of the FND programme.

Commercial and financial issues

- **Commercial viability:** prime providers are positive about the move toward larger and longer contracts, but subcontractors remain less convinced about the commercial viability of contracts such as FND. This research highlighted that most subcontractors have not been able to reach their profitability expectations for delivering the FND contract 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 that they hold with prime providers, specifically regarding referrals such as volume, type and quality. As in the Wave One research, the lack of guaranteed referrals from prime providers remains an issue for subcontractors, affecting their views about the risk versus reward balance under this type of contract.

³ DWP Report No 758: *Flexible New Deal evaluation: Customer survey and qualitative research findings*.

- **Outcome-related funding:** most prime providers have had experience of outcome-based funding and have appeared to have readily adapted through using financial strategies and adapting operational approaches. The move toward outcome-related funding appears to be having a positive impact on the culture of some FND prime providers and subcontractors by increasing the focus on more targeted outcome activity. Despite this, subcontractors are generally more aware of the negative impacts of moving toward outcome-related funding than the positive, specifically noting reduced revenue and an increasing 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 such as paying a flat fee or phasing in a new payment schedule.

The Framework for the Provision of Employment-Related Support Services⁴

- **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. Prime providers still view the market as commercially attractive with the introduction of the Framework, despite expressing some concerns regarding the potential risk/reward balance. Subcontractors had mixed views about the attractiveness of the market with non-FND providers being the least enthusiastic provider type about the impact of the Framework on the marketplace. Although, there were varying degrees of optimism regarding the Framework, the vast majority of all provider types intend to remain within the DWP welfare to work market and deliver services under the Framework.
- **Providers' preparations for the Work Programme:** in response to the introduction of the Framework and the forthcoming introduction of the Work Programme, providers are investing in developing their networks and relationships with other provider organisations. Both subcontractors and non-FND providers are pursuing this strategy by actively targeting larger providers, as well as responding to approaches by larger providers. Subcontractors and non-FND providers believe that DWP could take actions to help them avail themselves of opportunities in the market by increasing the transparency of the market, for example setting-up a database of providers and services per contract package area and providing additional advice on operating within the market.

Conclusions and recommendations

This research has provided an update into 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. However, it will be important to match prime provider performance across the different contract package areas along with their delivery models, customer profiles and customer feedback to ascertain whether there has been a step change in performance. In addition, the impact of the commissioning principles will need to be monitored further as contracting occurs under the Framework to assess costs, quality and equality of customer treatment.

⁴ This research with prime providers was conducted between November 2010 to January 2011 and therefore a few prime providers were aware when interviewed whether they had been successful or not in relation to the Framework for the Provision of Employment-Related Support Services. A few were preparing to bid for the Work Programme. All other providers were interviewed prior to the disclosure of successful organisations to the Framework.

To assist DWP to monitor and enhance the implementation of its commissioning approach, a number of recommendations have been proposed, based on the research findings, and are outlined below.

Continue stewardship role

- Conduct further analysis of the current risk/reward profile within supply chains to identify the balance of risk and reward which will inform the need for any corrective action to be taken or direction given to prime providers to address subcontractors' financial concerns. This will help to ensure that subcontractors are being equitably treated and adequately rewarded within supply chains commensurate with the risks they are assuming.
- Monitor the risk/reward balance in a changing economic environment to ensure that the risk/reward balance for providers in relation to outcome-based funding remains appropriate.
- Review the balance between regulation and flexibility in service delivery as prime providers would like to see the level of DWP regulation, particularly with respect to existing requirements concerning fortnightly appointments and the mandated elements of the work-related activity placements, relaxed further with full responsibility devolved to prime providers. DWP should continue to monitor the performance outcomes and customer feedback across different supply chains and contract package areas to gauge the optimal balance between regulation and flexibility in service provision.
- Continue to develop a partnership approach with prime providers through the Provision Management Division, utilising both Account Managers and Provider Performance Reviews to move relationships onto a more strategic level so that cost efficiencies and facilitation of innovation can be realised. In addition, prime providers would like to see these new DWP structures embedded for consistency purposes.
- Continue to monitor the change in supply chains and any market developments: entry, exit, mergers, acquisitions and alliances to maintain an understanding of the 'pulse' of the market, its attractiveness, diversity and the development of any potential barriers to entry. Delivery models, length of supply chains and changes within them should be aligned to contract package areas, prime providers' outcomes and customer feedback to ensure that movements in supply chains are occurring naturally because of market forces.

Communicate effectively

- Enhance subcontractors' understanding of their role in the marketplace through using the Merlin Standard both as a mechanism to embed DWP's market stewardship role as well as a tool to drive an effective top tier provider model through monitoring its effectiveness. This should help subcontractors fully appreciate the change in emphasis in contractual relationships and the benefits they may receive through this change. Any communications with subcontractors should focus on reinforcing DWP's market stewardship role and its rationale of leading to more effective and efficient service provision.
- Enable providers to access and assess contract opportunities through enhancing existing provider information portals and communicate these effectively to all providers to encourage usage so that non-prime providers better understand the changes occurring within the marketplace and assist their organisations' planning and development within it.

Develop capacity

- Review the PRaP system along with the referral process and evidence requirements and continue to work with prime providers in utilising PRaP to its full capability. Prime providers would like to see the PRaP system developed further in terms of its performance management capabilities as it was perceived that this would significantly improve the system and the benefits that providers could derive from it. However, DWP, in the first instance, should continue to work with prime providers to assess whether they need more guidance or training on how to more effectively use PRaP to realise its full potential and how it can be used to help manage referrals. This should also help the DWP gain a better understanding of the challenges prime providers are encountering with PRaP on a day-to-day basis. Any substantial system changes should undergo a cost benefit analysis.
- Continue to facilitate the sharing of best practice in terms of measures, such as novel diagnostic approaches, to assist the hardest to place customers to help raise overall levels of performance and improve the customer experience.

1 Background

1.1 Introduction

This chapter provides an overview of the background to this report and is structured as follows:

- background to the research;
- strategic and policy context;
- terms of reference; and
- structure of the report.

1.2 Background to the research

The Department for Work and Pensions (DWP) is responsible for employment programmes in Great Britain (GB) as part of its remit to maximise employment and opportunity for all and to deliver the Government's welfare agenda. In recent years, DWP's approach to commissioning employment provision in the welfare to work market has entered a new phase as it seeks to establish a well functioning quasi-market.⁵ This is characterised by the development of a more strategic relationship between DWP and providers operating in the market as DWP aims to expose contracted employment provision (CEP) to market forces.

The principles of DWP's new approach to commissioning were first outlined in the Commissioning Strategy (DWP, 2008a) and first implemented within the marketplace through the Flexible New Deal (FND) programme, introduced in October 2009. Several of these principles have been retained or developed through the introduction of the Framework for Employment-Related Services and the forthcoming implementation of the Work Programme.

The rationale of the new commissioning principles is to achieve a substantial improvement in provider performance in terms of securing sustainable job outcomes for customers while also achieving efficiencies in the provision of employment programmes. There are several components of the commissioning principles which have been designed to achieve this, such as offering larger, longer contracts; outcome-based funding and offering flexibility to providers in their approach to service delivery.

As the commissioning principles provide for a new way of engaging with providers on welfare to work, a programme of research was initiated to identify and understand the changes occurring in the welfare to work provider market following the implementation of the Commissioning Strategy.

1.3 Strategic and policy context

1.3.1 Development of welfare to work in GB

Welfare to work policy in GB has evolved through the introduction of a number of initiatives designed to address unemployment. Underpinning these initiatives is the New Public Management (NPM)

⁵ A quasi-market is defined as a market of independent agents competing with one another for custom, but unlike a normal market, purchasing power comes not directly from consumers but from the state (Le Grand and Bartlett, 1993).

principle of market orientation of public services, which is predicated on improving cost efficiencies and achieving better value for money. In particular, the suite of New Deal programmes, launched in 1997 by the then Labour Government represented a change in British welfare policy as it promoted a shift from welfare to work through tackling long-term unemployment, among other things. Through this programme, the Government aimed to deconstruct perceptions of welfare claimants as rightful and passive recipients of benefits, by treating claimants as active citizens with responsibilities aligned to the rights that they enjoy. While most British employment and training programmes have been outsourced since the 1980s through the adoption of NPM, New Deal restructured this provision and in doing so provided the landscape of a new welfare to work system in GB. While recent welfare reforms have been informed by research and evaluation evidence of New Deal, the essence of this structure has remained largely unchanged.

Jobcentre Plus is the public body responsible for administering the benefits system and provides basic, work-focused interventions to customers nearest to the labour market. Under New Deal, customers of Jobcentre Plus who had been unemployed between six and 18 months were mainly referred to programmes where they received more intensive support. These programmes included New Deal 18-24, New Deal 25 Plus, New Deal for Lone Parents and New Deal for Disabled People. Other programmes involving private and voluntary sector provision, such as Private Sector Led New Deals (1998), Employment Zones (2000) and Pathways to Work (2003) were introduced to build on the foundations laid down by New Deal. Under these Labour Government initiatives, providers had responsibility for case management and for deciding the type of provision, if any, which is needed to support customers. While outcome-based funding has existed in some programmes from the early 1990s, it formed a larger component of both Pathways to Work (provider-led element) and Employment Zones (EZs).

1.3.2 New approach to commissioning principles: the Commissioning Strategy and Flexible New Deal

Informed by evidence from these programmes, the Labour Government developed FND (DWP, 2007). FND reflects the Labour Government's aim to modernise the Jobseeker's Allowance (JSA) Scheme regime to meet the Labour Government's overall objective of increasing the employment rate (DWP, 2008a, p4-6) through flexible outcome-based provision. FND replaced a number of different programmes, namely the New Deal programmes such as New Deal 18-24 and New Deal 25 Plus in addition to EZs. Scheduled for introduction in two phases, which began in October 2009, FND was the first initiative commissioned under the Commissioning Strategy (DWP, 2008a). The Commissioning Strategy details a set of principles for the operation of contracted employment provision and is most evident in the commissioning of FND through:

- the provision of **larger contracts of greater duration**: the previous suite of employment programmes were fragmented into approximately 40 separate programmes. The Government has now streamlined much of the employment provision into the Work Programme, a major, personalised welfare to work programme for a wide range of client groups;
- the use of **prime providers**: core providers will have a stronger relationship with Government and will manage their own supply chain of smaller niche providers to meet the needs of all customers. Prime providers will also be responsible for developing and maintaining their capability and that of their supply chains, to meet the requirements to deliver employment-related contracts.
- the use of **outcome-related funding** and black box contracts where providers decide the types of provision that best meet the needs of their customers;

- **competition for and within contracts** and a balance of risk and reward for providers; and
- the establishment of a single, integrated, shared and transparent approach to the **measurement and management of provider performance** that enables a ‘like-to-like’ analysis of performance and redistribution of market share accordingly.

In relation to **customer experience**, this phase of GB’s welfare reform programme as implemented is guided by an agenda of personalisation, support and empowerment for benefit recipients, advocated by the Freud report (Freud, 2007), the Gregg report (Gregg, 2008), the Welfare Reform bills (DWP 2008b, 2008c), and the FND (DWP, 2008a). Key themes in the Labour Government’s welfare reform and skills agenda were:

- the end of automatic entitlement;
- rights and responsibilities in balance;
- enhanced support, tailored to individual needs; and
- devolved power and the creation of a welfare to work market.

1.3.3 Recent developments in commissioning welfare to work programmes

With the change in government in 2010, a number of reforms were outlined that are set to cause substantial change within the welfare to work sector (HM Government, 2010). Such reforms include the introduction of a single welfare to work programme, the use of a framework for the provision of services and changes to the benefits system. These have been designed by the Coalition Government to achieve greater efficiencies in the commissioning of employment-related services and ultimately improve measures designed to support people back into employment.

With the commitment of driving greater efficiencies, the Framework for Employment-Related Support Services (the Framework) was introduced in June 2010. Only organisations that are successful in achieving a place on the Framework will be able to bid to provide future employment related service contracts for the lifetime of the Framework. Contracts let under the Framework will vary, but in terms of DWP contracts, these are likely to be of a value between £10 – 50 million per year. The Framework has been divided into 11 regional lots and providers are to be selected depending on their ability against the criteria of; supply chain management, implementation, stakeholder engagement, contract performance and delivery challenges. From summer 2011 many of the existing employment-related programmes will be phased out and replaced with the forthcoming introduction of a major multi-client programme, the Work Programme. Although the use of a framework to commission employment-related services marks a departure from previous approaches, there has been a continued commitment within the Work Programme towards:

- the provision of greater contracts of longer duration;
- the use of the prime provider model (especially the use of non-public providers);
- minimal prescription by DWP to providers on the content of provision;
- outcome-based funding based on sustainable jobs;
- competition between providers, e.g. market share will shift to the highest performers; and
- the management of provider performance.

1.4 Terms of reference

1.4.1 Introduction

With the move towards the establishment of quasi-market for contracted employment provision, the objective of this research is to ascertain how these changes are affecting providers operating within the welfare to work market; both those that are providing services under the arrangements and those that are currently not. It is worth emphasising that this report focuses on providers only and does not refer to the impact the commissioning principles have had on service recipients or customers⁶. As such, this research is not an impact evaluation of the commissioning principles or FND – its purpose is to provide initial insights into what is happening with providers as a consequence of the changes within the welfare to work marketplace from a provider perspective.

In this context, DWP commissioned PricewaterhouseCoopers LLP (PwC) to undertake a programme of research to:

- monitor how new provision of welfare to work service changes with the introduction of the Commissioning Strategy;
- assess the impact of the Strategy on the market and operations of prime and subcontractors; and
- provide feedback to inform the ongoing implementation of the new commissioning principles.

Since this piece of research was commissioned by DWP, the welfare to work context has changed and the FND contract was terminated earlier than originally planned. Consequently, the second phase of the programme has not been rolled out and the elements of competition and customer choice not implemented, e.g. referrals continued to be shared equally between the prime providers in the areas where more than one operated. Despite the early termination of the FND programme, the principles by which the programme was commissioned are closely aligned to those that underpin the Framework and the Work Programme. Therefore the research that has been conducted into how these principles (such as larger, longer contracts, the use of the prime provider model and outcome-based funding) have impacted the welfare to work market is still relevant and may help to inform future employment-related programmes.

The following sub-section outlines the approach that has been used to achieve the research objectives.

1.4.2 Methodology

The methodology comprised three phases of activity; the provider baseline survey, Wave One provider survey and Wave Two provider survey. The findings of the first two provider surveys were published in a DWP research report in October 2010 (DWP, 2010b). The subject of this second report will focus on the key findings from the Wave Two provider survey which examines the impact of the commissioning principles after one year of FND delivery.

Below is a summary of the three phases of activity in this programme of research:

- **provider baseline survey:** this provided an insight into the landscape of the welfare to work marketplace prior to the introduction of the commissioning principles. In total, 593 interviews with providers were completed between September 2009 and October 2009;

⁶ Some references are made in this report about changes to customer service under FND, but this is purely from a provider perspective (although based on their own customer feedback). For further information on customer perspectives of FND please refer to DWP Report No 758: *Flexible New Deal evaluation: Customer survey and qualitative research findings*.

- **Wave One research:** surveys were conducted with prime providers, subcontractors, unsuccessful bidders and non-bidders. They focused on how the commissioning principles and their implementation through FND have initially impacted on providers. For definitional purposes, unsuccessful bidders were those that were unsuccessful in their bid for FND Phase One, either at Pre-Qualification (PQQ) or Invitation to Tender (ITT) stage, and who did not subsequently join an FND supply chain. Non-bidders were defined as those providers who did not bid at all for the FND contract, either in their own right or as part of a supply chain. Over 200 interviews were conducted with providers between October 2009 and January 2010;
- **Wave Two research:** surveys were conducted with prime providers, subcontractors, leavers, unsuccessful bidders and non-bidders. This survey focused primarily on how the commissioning principles have impacted upon providers after one year of FND service provision. The survey also covered providers' reactions to the introduction of the Framework for the Provision of Employment Related Support Services and the commissioning of the Work Programme. For definitional purposes, leavers are those providers that were either part of a bid to provide FND services but left it or those that began providing services under FND, but subsequently left service provision. Interviews were undertaken between November 2010 and January 2011 with:
 - all of the prime providers (14/14);
 - 98 (out of 218 known subcontractors delivering services under the FND contract based on the Wave One provider list);
 - 30 leavers;
 - 22 unsuccessful bidders (including those who bid as a prime provider or subcontractor); and
 - 30 non-bidders.

In a similar way to the Wave One research, the small number of interviews conducted with leavers, unsuccessful bidders and non-bidders are not intended to be statistically representative of their provider type (i.e. they were randomly selected from known welfare to work providers within the FND contract area) instead their purpose was to provide insight only. Where appropriate, findings from each provider type are outlined in chapters two to nine in this report.

During this second wave of research, 41 per cent of subcontractors surveyed began delivering FND services from November 2010 illustrating that the views of providers who have entered the market during live running have been captured. In addition, efforts were made during the Wave Two survey to identify any new entrants to subcontractors' supply chains since the Wave One research. This was carried out through the use of snowball sampling where respondents were asked to provide contact details for the organisations to which they subcontracted FND programmes or services. These were likely to be tier 3 or tier 4 subcontractors as tenderers were not obliged to provide these details. While all providers were asked to provide these details, it must be noted that, as in the Wave One research, the number of respondents (11) sourced through snowball sampling was minimal due to an observed lack of subcontracting among providers.

Detailed information on the Wave Two provider survey sampling frame and methodology are contained in Appendix A and data tables are presented in Appendix B.

In addition to the Wave Two survey, DWP provided separate data which comprised of 403 records of subcontractors that were included within successful FND prime providers' supply chains. This information was gathered in two stages. The first stage was during the FND bidding process when providers submitted details of their proposed first tier of subcontractors and the second stage was during August 2010 when DWP conducted a survey of FND prime contractors and their supply chains

during live running. This supply chain data was examined alongside the data collected in the Wave Two research and was used to inform the analysis of the marketplace structure and supply chain movement. Some tables within chapters two to nine report results from DWP’s data gathered on the provider market.

This two wave programme of research focuses on FND, the first welfare to work programme to be commissioned under DWP’s new arrangements, during the first year of its implementation. Due to the early termination of FND and the forthcoming introduction of the Work Programme, it will be important to review other future programmes commissioned to gain a holistic view of how the commissioning principles have impacted upon the welfare to work marketplace. This will help distinguish clearly between programme impacts and commissioning impacts. Table 1.1 summarises the key stages in this programme of research.

Table 1.1 Overview of the research

Phase	Activities	Outputs
Provider baseline survey Baseline survey and database development.	Scope <ul style="list-style-type: none"> Survey of accredited providers in DWP’s MOMENTA database (and other provider lists). Timing <ul style="list-style-type: none"> Fieldwork took place between September and October 2009. 	Interviewing <ul style="list-style-type: none"> 593 completed interviews representing an achieved response rate of 74 per cent. Reporting outputs <ul style="list-style-type: none"> Compiled and delivered new Provider Market database. Compiled baseline data of marketplace prior to introduction of the strategy. Findings published with Wave One survey findings in 2010.
Wave one provider survey Initial survey of providers following launch of FND Phase One.	Scope <ul style="list-style-type: none"> Survey of 12 prime providers, which included interviewees at national and district level. Survey of 195 other providers (including subcontractors, unsuccessful and non-bidders) to assess the initial impact of the Commissioning Strategy. Timing <ul style="list-style-type: none"> Fieldwork took place between October 2009 and January 2010. 	Interviewing <ul style="list-style-type: none"> 21 interviews with 12 prime provider organisations. 130 subcontractor interviews (response rate of 84 per cent of known subcontractors). 21 unsuccessful provider interviews and 44 non-bidder interviews. Reporting outputs <ul style="list-style-type: none"> Report on survey findings outlining the initial impact of the Commissioning Strategy published in 2010.

Continued

Table 1.1 Continued

Phase	Activities	Outputs
Wave two provider survey	Scope	Interviewing
Survey of providers one year after the implementation of FND Phase One.	<ul style="list-style-type: none"> Survey of 14 prime providers. Survey of 180 other providers (including subcontractors, leavers, unsuccessful bidders and non-bidders) to assess the impact of commissioning principles after one year of FND provision. 	<ul style="list-style-type: none"> In-depth interviews with the 14 prime providers.
	Timing	Reporting outputs
	<ul style="list-style-type: none"> Fieldwork took place between November 2010 and January 2011. 	<ul style="list-style-type: none"> Final report providing an update on the impact of the Commissioning Strategy. Report on survey findings outlining the impact of the Commissioning Strategy published in summer 2011.

Table 1.2 presents a summary of the research questions underpinning this wave of research.

Table 1.2 Key research issues

<p>Impact of the Commissioning Strategy on the market for welfare to work provision</p> <ul style="list-style-type: none"> Providers' business models for delivering FND: objectives and process of developing them. Development of existing and new alliances with other providers and partners, including changes in the number and nature of relationships that: <ul style="list-style-type: none"> prime contractors intend to seek and achieve with subcontractors; and subcontractors intend to seek and achieve with prime contractors. Changes in the profile of providers in FND regions (number, size, sector). Providers' views on the impact of the commissioning principles on the marketplace and on the impact of the Framework, including their future intentions and actions.
<p>Relationships between prime providers and subcontractors</p> <ul style="list-style-type: none"> Development and structuring of supply chains by prime contractors: <ul style="list-style-type: none"> who delivers what to whom and how prime contractors add value to their networks of suppliers; methods of agreeing the value of services provided and the terms of payment; how performance is monitored and managed within networks; and how risk is assessed and managed within networks. Perceived opportunities within the market since the introduction of the Commissioning Strategy. Impact of the Commissioning Strategy on both prime providers and subcontractors. DWP's Merlin Standard – providers' views on the influence and consequences, in practice.
<p>Impact of the financial and commercial details on providers</p> <ul style="list-style-type: none"> The prime provider model's affect on service delivery costs, efficiency of providers, providers' profitability and providers' ability to attract finance and invest in their businesses. Providers' views on the commercial attractiveness of the market and impact of outcome-based funding.
<p>Management of delivery by DWP and providers</p> <ul style="list-style-type: none"> Relationships between DWP and providers including; capacity, processes, roles and responsibilities, Jobcentre Plus and levels of prescription. Operational delivery including provider capacity, managing risks, client satisfaction and sharing best practice.

Table 1.3 provides an overview of the timeline of the Wave Two research milestones and major events in relation to the Framework for Employment-Related Services and the Work Programme.

Table 1.3 Timeline of Wave Two research and work programme commissioning

Work Programme Commissioning	Date	Wave Two Research
Framework competition (Closed 30th September)	August 2010	Questionnaire design phase
	September	
	October	
Framework suppliers identified (25th November)	November	Survey fieldwork (all providers)
Work Programme competition (Closed 14 February)	December	
	January 2011	
	February	
	March	
Work Programme suppliers identified	April	Presentation of key findings
	May	
Work Programme implemented	June	Report publication

1.5 Structure of the report

The remainder of this report will present the key findings from the second wave of this research and is structured as follows:

- Chapter 2: Overall impact of the commissioning principles on providers;
- Chapter 3: Market structure;
- Chapter 4: Market development and stewardship;
- Chapter 5: DWP capability;
- Chapter 6: Provider capability;
- Chapter 7: Commercial and financial issues;
- Chapter 8: The Framework for the provision of employment-related support services; and
- Chapter 9: Conclusions and recommendations.

In addition, there are three appendices to this report:

- Appendix A: Methodology;
- Appendix B: Survey data; and
- Appendix C: Bibliography.

2 Overall impact of the commissioning principles on providers

2.1 Introduction

This chapter examines the provider market's overall reactions to the commissioning principles after the first year of Flexible New Deal (FND), the first programme to be commissioned under the principles of the Commissioning Strategy. This chapter will provide a high level summary of providers' views about the impact the arrangements have had upon the welfare to work marketplace and those operating within it. The chapter is structured as follows:

- prime providers' views;
- subcontractors' views;
- non-FND providers' views i.e. leavers, unsuccessful bidders and non-bidders; and
- conclusion.

In order to understand reactions of providers in this wave of research, it is important to understand the initial views of providers as captured in the Wave One research. This showed that the more prominent a provider's role in the delivery of FND, the more positive their views. This was reflected in the views of the prime providers which were mainly positive compared to the more mixed reaction of the subcontractors. Larger, longer contracts and the flexibility to tailor service provision for customers were considered to be the most appealing aspects of the new commissioning principles for both prime providers and subcontractors.

In contrast, the majority of non-FND providers believed that the commissioning principles had caused mostly negative impacts. Although some non-bidders did note positive effects such as opportunities for growth, for most non-FND providers the requirements such as larger contracts and increased financial requirements were making bidding for contracts prohibitive.

Each section below examines the Wave Two findings which show the impact of the commissioning principles one year into the delivery of FND on each provider type along with their views about the impact on opportunities within the market. Prime providers' views on the impact on the marketplace are also examined. Comparisons are drawn between Wave One and Wave Two research data where appropriate.

2.2 Prime providers' views

2.2.1 Impact on the marketplace

Most prime providers stated that the structure of the welfare to work marketplace has changed following the introduction of the new commissioning principles. However, they had differing opinions as to what these changes have been and to the extent they have impacted on the market. The main impacts noted by prime providers are that there has been an opening up of the marketplace and a change in the number of providers operating within it. These impacts are explored in more detail below.

18 Overall impact of the commissioning principles on providers

Some prime providers believed that the introduction of larger and longer contracts had opened up the welfare to work market in Great Britain (GB) resulting in organisations entering the market for the first time. They continue to state that the size and length of the contract has been important in both attracting organisations to the market and in creating greater certainty within it. This greater level of certainty has allowed new entrant organisations to commit the amount of investment required to set up operations in the market. One provider, however, did comment that perhaps there was not as much movement of organisations entering the market as they had anticipated.

‘The impact [on the structure of the market] has been positive. It didn’t change as much as we thought it would, a few large organisations have entered but not many. The market is still dominated by a few large welfare to work providers so there are a few more changes to be made I think.’

(FND prime provider)

The opening up of the marketplace was viewed by most of the prime providers that commented on it as a positive move, with new entrants noting the added breadth and depth to the market. However, concerns were raised by one provider who stated that the lure of contracts such as FND had been causing fluctuations in service provision at a local level. For instance, private organisations were coming into contract package areas to avail themselves of what they viewed as attractive commercial contracts, but are then leaving such areas when the contract has finished.

‘If something looks lucrative for an organisation they will come into that area and then go when the contract is finished. So what we have seen [during previous contracts] is a number of providers come and go.’

(FND prime provider)

Prime providers also noted changes in the number of providers operating in the marketplace since the introduction of the new commissioning principles. Although DWP statistics show that the number of providers within the market has increased, a few prime providers perceived there to have been an overall reduction in the number of providers. Of those prime providers that commented on the perceived reduction, opinion was split as to whether this was a positive or negative consequence.

For those that thought it was a positive consequence, the reason cited was that there had been a rationalisation of the marketplace by the increased quality standards under the FND contract.

‘It is shifting the balance in the market, to a point where they [DWP] have had a huge patchwork quilt of provision and a lot of it has been low quality. One of the aims of the Commissioning Strategy has been to sort that out, to simplify it, to get rid of some of the low performers.’

(FND prime provider)

A small number of prime providers expressed concern that some organisations currently undergoing growth and expansion were not necessarily the best performing. It was suggested that organisations that were large or had access to financial backing were more able to avail themselves of opportunities for expansion without necessarily being one of the top performers.

‘So what I’ve seen is that some organisations have been able to grow quite aggressively where they have had financial backing. They are not necessarily the best performing.’

(FND prime provider)

2.2.2 Opportunities offered

Prime providers stated that the introduction of the commissioning principles has presented a number of opportunities to both improve provision to the customer and to develop their organisation in the marketplace.

Many prime providers noted that there were greater opportunities to deliver more effective customer services through the use of the prime provider model. Such benefits included a consistent level of service delivery to customers within contract package areas and certainty of investment within those areas due to prime providers' financial capabilities. It was also stated that the larger contract areas could produce economies of scale resulting in greater efficiencies.

'You have economies of scale and consistency with one firm co-ordinating an area which makes for better experience for customers.'

(FND prime provider)

However, one prime provider did not agree that larger providers operating in the market positively impacted on customer experience.

'We [the prime provider] are meant to be efficient because we are big and have deep pockets which are attractive but there are many levels of management so how much funding makes it to customers? From a customer point of view, more layers means less friendly.'

(FND prime provider)

The decreased level of prescription from the Department for Work and Pensions (DWP) and the move toward sustainable outcome-based funding were perceived by prime providers to have improved customer experience by helping create a more professional and performance-focused service, for example, focusing on providing high performance consistently across a contract package area and consulting with external experts to develop relevant services. The creation of a more professional, performance-focused service as stated by prime providers is corroborated by research with FND customers which shows that customers who experienced FND provision were slightly more positive about their experiences with employment services than those in comparison areas (i.e. on New Deal provision). They were significantly more likely to report: having received enough support; finding the support received useful; considering the support as well matched to their needs and circumstances; and not feeling under pressure to participate in unsuitable activities⁷.

While the flexibility in service delivery, i.e. the black box approach, has been broadly welcomed by prime providers, there is still a feeling that there could be a further reduction in the level of prescription from DWP. Although some providers did acknowledge that this was a difficult balance for a government department to strike.

'It's still a slightly opaque box but I understand the requirements to have some regulatory aspects but the more black box we are prepared to do the better.'

(FND prime provider)

Specific areas where prime providers believed that the level of prescription from DWP was too high included the use of the Mandatory Work-Related Activity (MWRA), and minimum customer engagement, i.e. fortnightly interventions and the sanction process. In terms of MWRA, some providers believed that they would be better placed to assess when customers should experience a work placement and the duration, in line with their approach to individually tailored programmes. In addition, some providers would like to see the speed of the sanction process improved as there is

⁷ DWP Report No 758: *Flexible New Deal evaluation: Customer survey and qualitative research findings*.

a view among prime providers that these often take too long, negating the impact of the sanction upon customers.

In addition to the opportunities to improve customer experience, prime providers also noted that there were opportunities available to develop their organisations in the marketplace. However, some prime providers still believed that there could be a potential for decreased opportunities for subcontractors. One prime provider noted that the Code of Conduct and the Merlin Standard would play an important role in ensuring opportunities for subcontractors and in maintaining a fair balance between prime providers and their supply chains.

‘The prime provider model is very positive if prime providers follow the Code of Conduct so with things like the Merlin Standard it ensures fairness and gives subcontractors a voice.’

(FND prime provider)

2.3 Subcontractors’ views

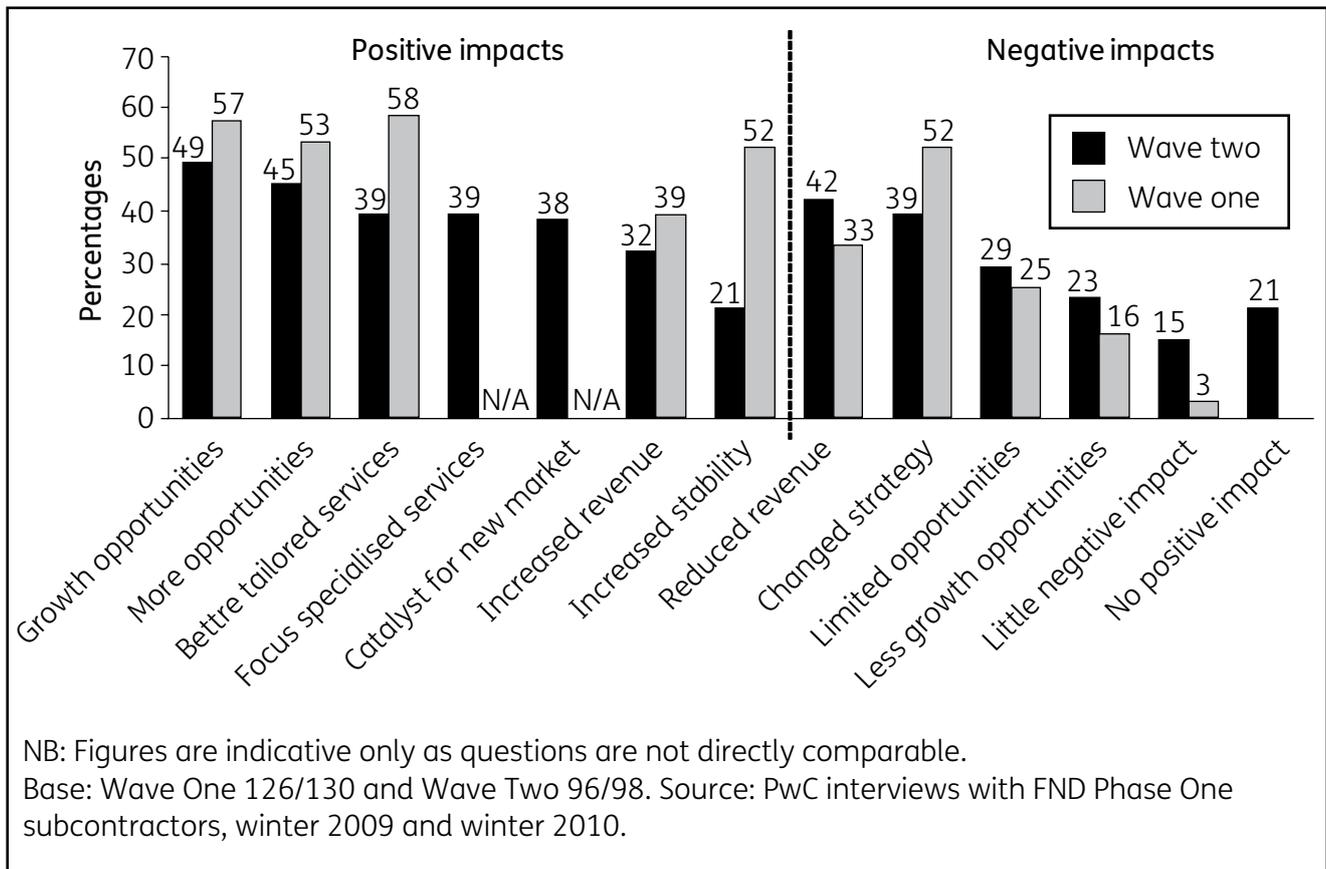
2.3.1 Impact on subcontractors

The reaction of subcontractors to the new commissioning principles was, as expected, more mixed than prime providers with most (62 per cent) having experienced both positive and negative impacts during the first year of the FND contract. Some subcontractors had only experienced positive impacts (14 per cent) or negative impacts (17 per cent). However, overall it appears there has been a shift in opinion, with subcontractors now less positive about the impacts of the commissioning principles than in the Wave One research. This is linked to the fact that an increasing number of subcontractors are experiencing reduced revenue under the new arrangements.

When subcontractors were asked about the impacts of the commissioning principles, a number of positive impacts were noted as illustrated in Figure 2.1. Subcontractors continued to note improvements in relation to their service offering, specifically being able to better tailor their service provision to customers (39 per cent).

Subcontractors were also able to focus on providing specialist services (39 per cent), which was the main driver for subcontractors wanting to deliver FND contract services in the Wave One research. For some subcontractors, opportunities still exist within the marketplace, but interestingly, after one year of delivering the FND contract, the commissioning strategy has also acted as a catalyst for almost two-fifths (38 per cent) of subcontractors to enter new markets. These positive impacts on service delivery and opportunities were not noted as impacts in the Wave One research, as illustrated in Figure 2.1.

While subcontractors’ perceptions of the impacts of the commissioning principles remain mixed, there does appear to be a shift in opinion since the Wave One research, with an increasing number of subcontractors noting negative impacts. These impacts included reduced revenue (42 per cent), limited opportunities (29 per cent), and less growth opportunities (23 per cent) as illustrated in Figure 2.1. It is also worth noting that there has been a substantial decrease in the number of subcontractors believing that stability within the market has improved. This could be attributed to changes in the welfare to work market such as the termination of the FND contract and the announcement of the forthcoming Work Programme.

Figure 2.1 Most noted impacts of the commissioning principles; Wave One and Wave Two

When subcontractors were asked to consider the one main positive and negative impact of the commissioning principles, the most noted were an increase in opportunities (28 per cent) and a reduction in the levels of revenue (28 per cent). Therefore, although some subcontractors noted that there were more opportunities in the market, an equal amount of subcontractors believed that they had experienced reduced revenue. Subcontractor's views on how the commissioning principles have impacted opportunities within the marketplace are examined in more detail in Section 2.3.2.

With regard to revenue, a potential increase in revenue levels was one of the main drivers for subcontractors wishing to provide services under the FND contract in Wave One. Therefore, the focus on reduced levels of revenue after one year of delivering the FND contract suggests that operating under the contract's financial terms has proved more difficult than anticipated for many subcontractors. The cause of revenues not meeting expectations could be as a result of the move toward outcome-related funding or the fluctuating volumes of referrals some subcontractors have experienced during the delivery of FND. Referrals and subcontractors are explored in more detail in Chapter 7.

It is worth noting that just over one-fifth (21 per cent) of subcontractors stated that there were no positive impacts from the new commissioning principles. However, this must also be viewed alongside the fact that one-quarter (25 per cent) of subcontractors stated that they had not been significantly impacted by the arrangements nor had they experienced any negative impacts. Interestingly, providers that started to deliver FND services after November 2009 tended to be more optimistic and more likely to state there had been no negative impacts from the commissioning principles than providers that had started delivering FND services before this.

2.3.2 Opportunities in the marketplace

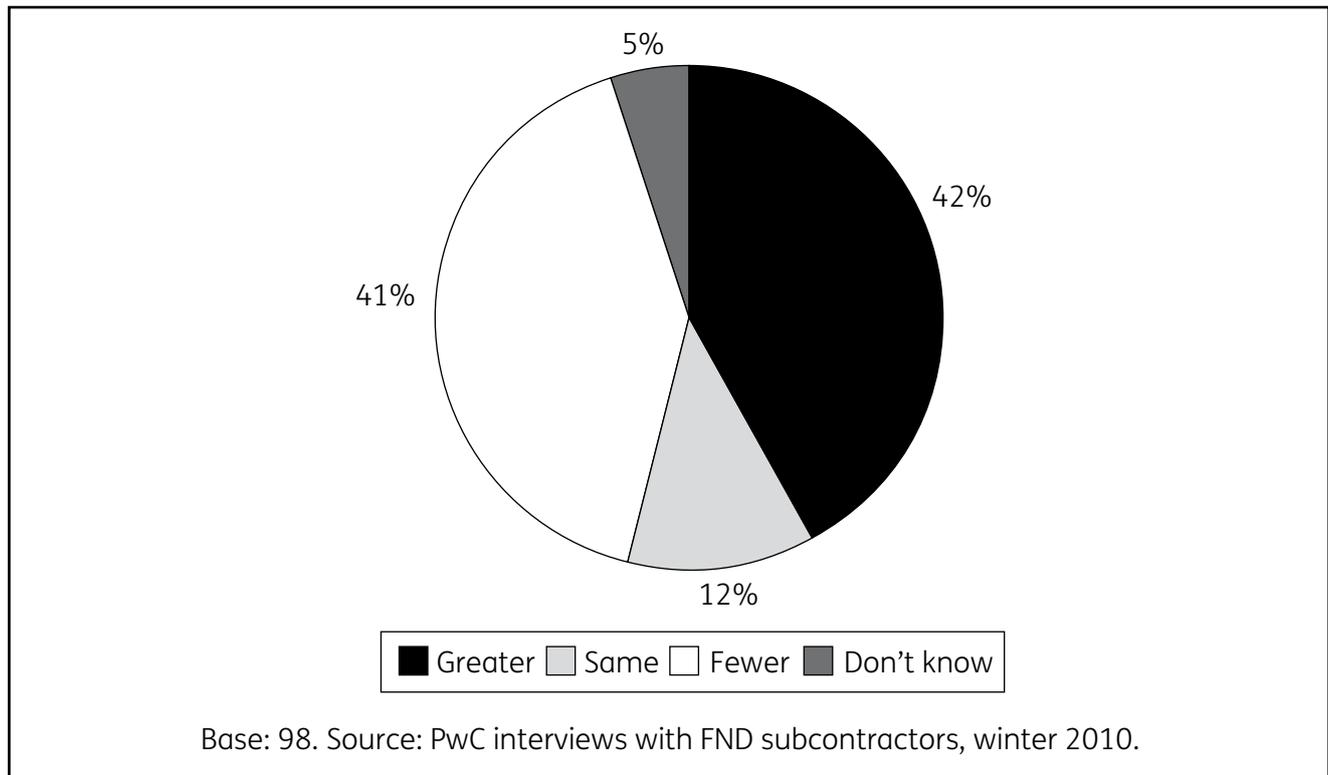
There was a general consensus among subcontractors that the commissioning principles have affected the level of opportunities available in the market, but similar numbers have indicated that opportunities have increased (42 per cent) as have decreased (41 per cent), as illustrated in Figure 2.2. A minority (12 per cent) noted that there had not been any change to the level of opportunities in the marketplace. This was mainly because they provide the same services for prime providers as they previously did for DWP, as well as the fact that the move to larger geographical contract areas had opened up new potential business and offset the impact of a higher level of competition. Again, there is an indication that providers that started to deliver FND services after November 2009 were more optimistic about the opportunities in the market than those that had started to deliver before this.

Similar to prime providers, the subcontractors who stated there were greater opportunities available under the new commissioning principles attributed this to larger contract areas and that they now had more appropriate contracts for the services that they delivered.

However, larger contract areas, while proving attractive to prime providers and some subcontractors, are viewed more negatively by other subcontractors and have contributed to what they view as a reduction in opportunities within the market. Larger contract areas, combined with prohibitive financial and capability requirements remain the most significant barriers to subcontractor development in the marketplace and are also the reasons for the perceived reduction in opportunities. This suggests that either some subcontractors still do not fully understand the changes that the new commissioning principles are seeking to bring about to the market and the impact on their organisations or that DWP is not succeeding in terms of developing suitable opportunities for subcontractors in the marketplace. It may also suggest that the move toward larger contract areas has not translated into positive revenue for a significant proportion of subcontractors who are finding it challenging to maintain the financial capability required to deliver FND.

A quarter (25 per cent) of subcontractors also mentioned that low demand for their services had caused fewer opportunities in the market. They attributed this to the fact that prime providers only required a limited number of subcontractors with similar skills to their organisation. This may support what some prime providers believe is a reduction in the number of suppliers operating in the marketplace.

In summary, not unsurprisingly, some subcontractors have availed themselves of new opportunities in the marketplace while others have not as would be expected in a competitive environment.

Figure 2.2 Level of opportunities in the marketplace for subcontractors

2.4 Non-Flexible New Deal providers' views

2.4.1 Impact on non-FND providers and on marketplace opportunities

Those providers not delivering FND held a more pessimistic view than prime providers or subcontractors about the impacts of the commissioning principles. This is reflected by the fact that just over one-third (35 per cent) of non-FND providers stated that they had not experienced any positive impacts under the commissioning principles compared to just over one fifth of subcontractors (21 per cent).

There was also a general consensus among non-FND providers that there are now fewer opportunities in the market. The reasons identified for this decrease were the same as identified by subcontractors and those identified in the Wave One research. These were larger contract areas and prohibitive financial capability requirements. The limited number of subcontractors with similar skills required by prime providers is an emerging concern shared by both subcontractors and non-FND providers. Over a quarter (29 per cent) of the non-FND providers who stated there are now fewer opportunities believed this to be the main obstacle to their organisations developing in the market, particularly in the case of non-bidder and unsuccessful organisations.

While the research with non-FND providers has been designed to be indicative only, some interesting differences between provider types are highlighted in the following sub-sections.

2.4.2 Leavers

For leavers, the main impact of the commissioning principles has been on the opportunities available to their organisations. Similarly to non-bidders, the new commissioning principles have acted as a catalyst for some leavers to move into new markets. While this was noted as a positive impact, there were more leavers who stated that there were now limited opportunities within the marketplace.

There were a small number of leavers that have experienced only limited negative impacts or none at all from the new approach to commissioning.

There were differences among leavers on what was considered to be the main obstacle or barrier to their organisation's development in the market, with differences noted depending on the type of service the organisation provided. Organisations that had provided specialist services or a specific part of FND stated that outcome-based funding was their main barrier. Due to the nature of the services they provide, payment arrangements would be particularly relevant, this has been acknowledged by most prime providers that have had to adjust payment terms and conditions for existing specialist subcontractors to include an element of a service-based fee. In contrast, those organisations that provided end-to-end services were more inclined to state that larger contract package areas were the main obstacle to their development in the market. An increase in contract package area, while offering opportunities in terms of increased volumes, may also be viewed as a barrier by end-to-end providers who do not have the capacity or the geographical coverage to meet the delivery requirements required by prime providers.

2.4.3 Unsuccessful bidders

As in Wave One, overall unsuccessful bidders are continuing to view the impacts of the commissioning principles negatively, however, some positive impacts were noted. Unlike leavers and non-bidders, unsuccessful bidders focused more on the positive impacts to service provision rather than opportunities, like leavers and non-bidders. The main positive impacts noted by unsuccessful bidders were better tailoring of services to customers and that the commissioning principles had allowed their organisations to focus on providing specialised services.

Despite this, most unsuccessful bidders continue to consider there to be more negative impacts than positive, especially in relation to revenue and in the number of opportunities now available. This is perhaps not surprising considering that these respondents have been unsuccessful in securing business under the FND contract. Most unsuccessful bidders stated that there are fewer opportunities in the marketplace since the introduction of the commissioning principles. Although they continue to view this as a result of larger contract areas and increased financial requirements, the main obstacle cited is that prime providers only require a limited number of subcontractors with similar skills to their organisation.

2.4.4 Non-bidders

In contrast, non-bidders tended to be more positive about the impact of the commissioning principles on opportunities than unsuccessful bidders or leavers. However, overall non-bidders noted more negative impacts than positive ones particularly in relation to reduced revenue. In contrast to the leaver provider type, non-bidders saw the main positive impact of the commissioning principles to be an increased number of opportunities in the market and that they had acted as a catalyst to enter new markets. New markets such as health and education that non-bidders have entered since the introduction of FND are explored in more detail in sub-section 3.5.5.

Despite this, most non-bidders continue to state that there are fewer opportunities within the market. Similar to unsuccessful bidders, they attributed the fewer opportunities in the market to the limited number of subcontractors with similar skills to their organisation that are in demand from prime providers. As in the Wave One research, a small number of non-bidders have experienced only limited negative impacts or none at all from the new approach to commissioning.

2.5 Conclusion

2.5.1 Key findings

The initial views and reactions of providers to the commissioning principles have remained largely unchanged since the Wave One research. It remains the case that the more prominent the provider's role in delivering services under FND the more positive their views about the commissioning principles.

Prime providers are still generally positive about the impacts of the commissioning principles on their organisations and on provision to the customer. Larger, longer contracts were believed to have changed the structure of the marketplace by attracting new entrants to the market. Key aspects of the commissioning principles were perceived to have positively impacted customer experience by allowing providers flexibility in delivery, facilitating consistent delivery within contract package areas and through funding based on sustained job outcomes.

Although subcontractors acknowledge benefits of the commissioning principles such as allowing them to focus on providing specialised services and offering better tailored services to customers, they are less positive than prime providers. Reduced revenue has emerged as a concern for more subcontractors over the last year of providing FND and there is a mixed reaction among subcontractors as to whether the level of opportunities in the market has increased or decreased.

Non-FND providers remain the least positive toward the commissioning principles. Benefits to service provision were recognised by some of these providers, in particular unsuccessful bidders; however, the majority of all non-FND provider types stated that there has been a reduction in the opportunities available since the introduction of the commissioning principles. It should be noted, however, that the number of subcontractors has in fact increased significantly. This would suggest that there are opportunities in the market and that maybe an element of rationalisation is occurring as would be expected in a competitive marketplace. In addition, those providers who started to deliver services after November 2009 appear to be more optimistic regarding the level of opportunities. While barriers to developing in the market continue to be large contract areas and prohibitive financial capability requirements, the perceived limited demand from prime providers for subcontractors with similar skills is also a key obstacle. In particular this has emerged as a concern since the Wave One research for some of the existing FND subcontractors, unsuccessful bidders and non-bidders.

Table 2.1 Summary of provider reactions to the commissioning principles

Type of provider	Positive impact/development	Negative impact/development
Prime provider	<ul style="list-style-type: none"> • Level of opportunities available • Larger/longer contracts. • Improved customer experience. 	<ul style="list-style-type: none"> • Some perceived risk to smaller providers. • Prescription remains from DWP.
Subcontractor	<ul style="list-style-type: none"> • Some see increased opportunities in market. • Ability to tailor provision/innovate. • Opportunity to develop specialised services. 	<ul style="list-style-type: none"> • Reduced revenue. • Some see fewer opportunities in the market.
Leaver	<ul style="list-style-type: none"> • A small number noted that the commissioning principles have acted as a catalyst for them to enter new markets. 	<ul style="list-style-type: none"> • Reduced opportunities. • Obstacles to the market are; larger contract areas and outcome-related funding.
Unsuccessful bidder	<ul style="list-style-type: none"> • A small number noted positive impacts on service provision. 	<ul style="list-style-type: none"> • Reduced opportunities and revenue. • Obstacles to the market are; larger contracts, prohibitive financial requirements and the limited number of subcontractors with similar skills in demand from prime providers.
Non-bidder	<ul style="list-style-type: none"> • A small number noted an increase in opportunities in the market. • A small number noted that the commissioning principles have acted as a catalyst for them to enter new markets. 	<ul style="list-style-type: none"> • Reduced opportunities and revenue. • Obstacles to the market are; larger contracts, prohibitive financial requirements and the limited number of subcontractors with similar skills in demand from prime providers.

3 Market structure

3.1 Introduction

This chapter examines the structure of the welfare to work marketplace and is structured under the following headings:

- background;
- profile of the Flexible New Deal (FND) provider market;
- delivery models;
- FND market entry and exit;
- the role of the prime provider; and
- conclusion.

3.2 Background

One of the key objectives of the Commissioning Strategy is to maximise levels of sustained employment. Based on the recommendations of Lord Freud in his report *'Reducing dependency, increasing opportunity: options for the future of welfare to work'* (Freud, 2007) the Commissioning Strategy (DWP, 2008a) seeks to achieve this objective by moving to longer, larger contracts, a top tier or prime provider model and outcome-based payments. In effect, the introduction of the Commissioning Strategy was a key step in establishing a quasi-market for contracted employment provision (CEP) within Great Britain (GB).

The main aim of introducing longer, larger contracts is to attract non-public welfare to work providers to deliver employment programmes by making the contracts commercially attractive, encouraging investment into providers' systems and processes resulting in high performance. These contracts would be managed by a top tier of providers who would have the capability to deliver across a wide geographical area leading and managing diverse supply chains. In this way it is envisaged that the structure of the welfare to work market would change by establishing a stronger, more consistent base of prime providers who would work closely with other providers and organisations to deliver sustainable jobs effectively. Aligned closely to these market structure principles is the component of market development which focuses on helping ensure a diverse and high performing range of providers are operating, flourishing and developing within this new structure. Market development and stewardship is explored in Chapter 4.

Key findings from the Wave One research, which examined the early implementation of the Commissioning Strategy through FND, indicated that the provider market prior to the introduction of the Strategy was mature with limited market entry and exit and that the FND contract attracted new providers into the market at both a prime and subcontracting level.

The Wave One research also showed that FND delivery models typically consist of a proportion of programmes and services delivered directly by the prime provider with the remainder delivered by subcontractors. The extent to which services are delivered 'in-house' or are out-sourced varies between contracts and prime providers. Subcontractors were delivering both end-to-end provision and specialist provision such as debt counselling or self-employment support.

At the time of the Wave One research (winter 2009) supply chains were short i.e. subcontractors did not typically out-source services to subcontractors of their own. Significant overlaps existed between supply chains with seven of the 14 FND prime providers also operating as subcontractors and over one-fifth of subcontractors delivering FND services for more than one prime provider.

This chapter focuses on the changes that have occurred during live running of FND including the changing structure of the provider market within the FND marketplace, delivery models being used to deliver the FND contract, what providers outside FND have been doing and how the role of the prime provider is viewed by both prime providers themselves as well as subcontractors operating under them.

3.3 Profile of the FND provider market

3.3.1 Number of providers in the FND provider market

In order to examine the changes which have occurred within the Department for Work and Pensions (DWP) welfare to work market as a result of the Department's new commissioning principles, it is most appropriate to compare FND legacy providers i.e. those providers delivering the programmes FND replaced or subsumed⁸ with those delivering FND – after initial implementation (Wave One research) and one year into delivering (Wave Two research).

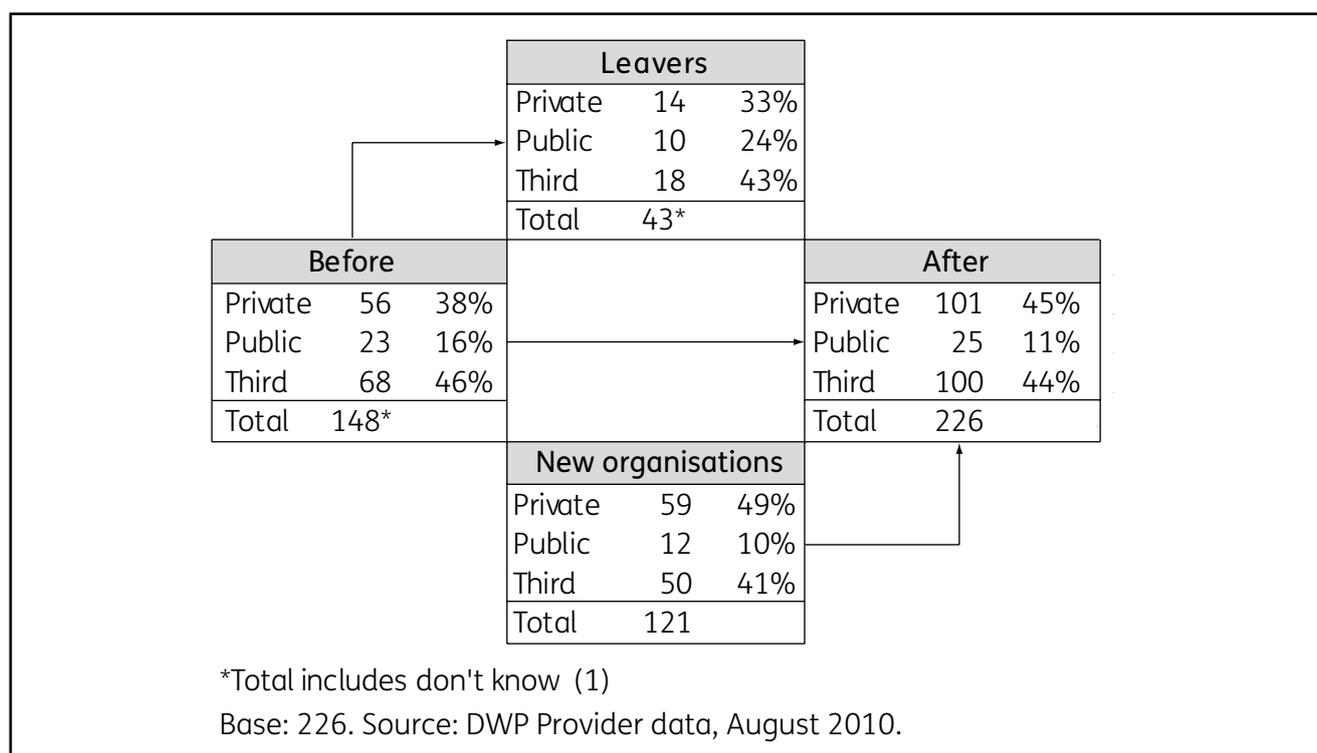
Findings from the baseline and Wave One studies suggested that the market had expanded in absolute terms⁹ although it was noted that this did not take into consideration the value of services being delivered by subcontractors and therefore did not provide a complete picture of the scale of change. Value of subcontractor services was provided through DWP provider data¹⁰ and was analysed in conjunction with the Wave Two survey data.

Analysis of DWP provider data gives information on the numbers of subcontractors within each prime provider's supply chain and the value of services provided. This data shows that the number of subcontractors has increased by 53 per cent from the bidding stage to August 2010, i.e. 148 to 226 as shown in Figure 3.1.

⁸ FND replaced a range of programmes including New Deal 18-24, New Deal 25 Plus, New Deal 50 Plus, Private Sector Led New Deal, New Deal for Musicians, New Deal for the Self-Employed and Employment Zones.

⁹ The estimation of FND legacy providers from the baseline survey was 116-148 which, when compared against the 169 known FND providers at the time of the Wave One research, would suggest that the market, in absolute terms, had grown. (DWP, 2010, pg 44).

¹⁰ DWP's provider data used in this report was provided to DWP by prime providers on their tier one subcontractors at the FND bidding stage and in August 2010 as part of an information request.

Figure 3.1 Number of FND providers

However, this increase appears to involve those providers focusing on delivering specialist or specific elements of FND as they mainly deliver small subcontracts and are often used on an ad hoc basis. This observation is supported by the Wave Two survey data, discussed in more detail in Section 3.5.1, which highlighted that 42 per cent of subcontractors surveyed started delivering FND from November 2009 onwards and that specialist service provision is the area where there has been most movement within prime providers' supply chains.

This growth in numbers shown in DWP's data is offset by 29 per cent of subcontractors who had been part of a prime provider's bid leaving the FND marketplace between the bid submission in April 2009 and August 2010. Reasons for subcontractors leaving the FND marketplace are explored in sub-section 3.5.2. Interestingly, a small proportion (five per cent) of subcontractors, who were part of the FND bidding process, 'switched' prime providers i.e. they had been part of one prime provider's bid but then delivered for another prime provider – sometimes within the same Contract Package Area (CPA), sometimes outside.

A slightly higher number of subcontractors, per DWP's data, have grown the number of their FND contracts from bidding to delivering (eight per cent) than those whose contracts have decreased (five per cent).

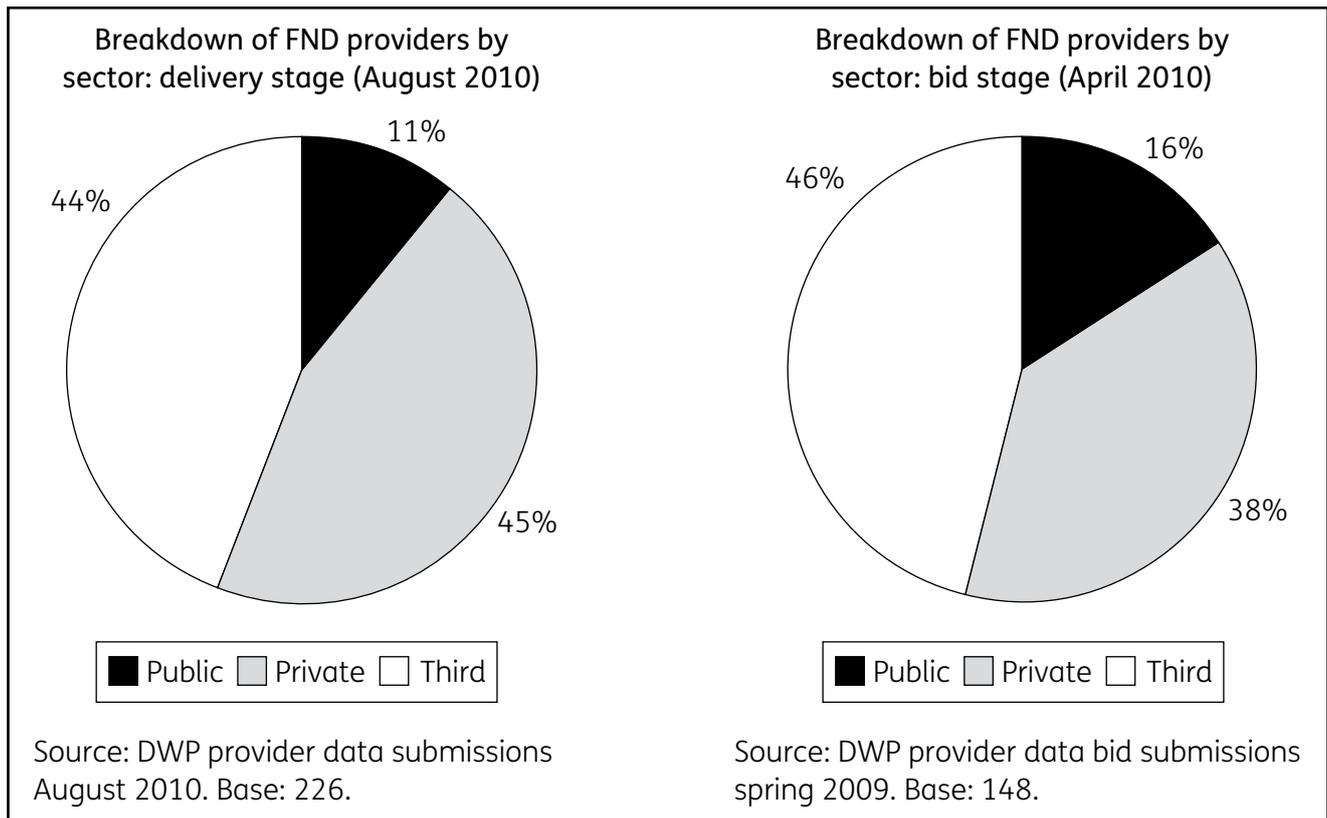
3.3.2 Sector profile of subcontractors within the FND provider market

There has been a shift in the sector profile of subcontractors operating within the FND provider market for, although private and third sector organisations still dominate, both have grown at the expense of public sector organisations.

A sectoral analysis of FND legacy providers reveals that public sector organisations represented over 20 per cent of these providers with the remainder of the market split between private (43 per cent) and third sector (35 per cent) organisations. Figure 3.2 shows how the sectoral profile of subcontractors shifts noticeably again between the FND bidding stage in April 2009 and delivering

in August 2010. While third sector organisations continue to play a strong role in the marketplace, private sector organisations have gained ground over public and third sector organisations between the bidding and delivery stages to become, marginally, the leading sectoral type. Details of this statistically significant sectoral shift are provided in Appendix A.

Figure 3.2 Sector profile of FND providers at bidding stage and delivery

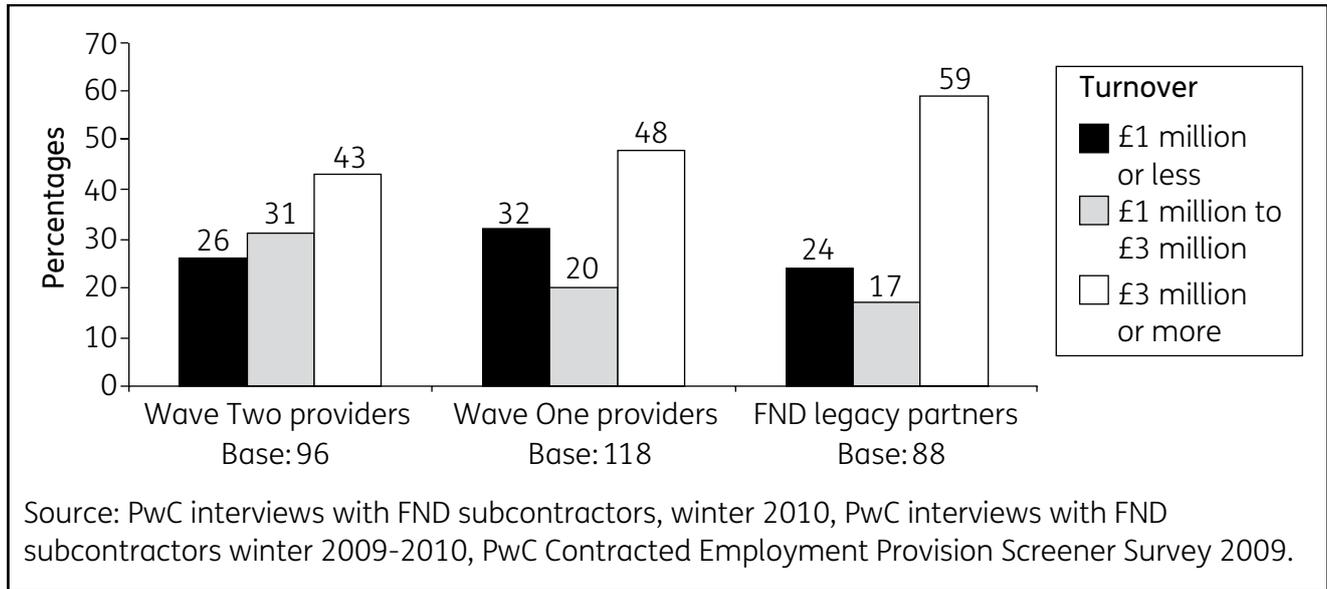


3.3.3 Size of subcontractors within the FND provider market

The findings from across the three provider surveys¹¹ indicate that the FND marketplace has changed with a decrease in the number of larger companies operating within the marketplace as subcontractors. This is highlighted in Figure 3.3 which shows that there is a higher proportion of subcontractors within the £1-3m turnover band.

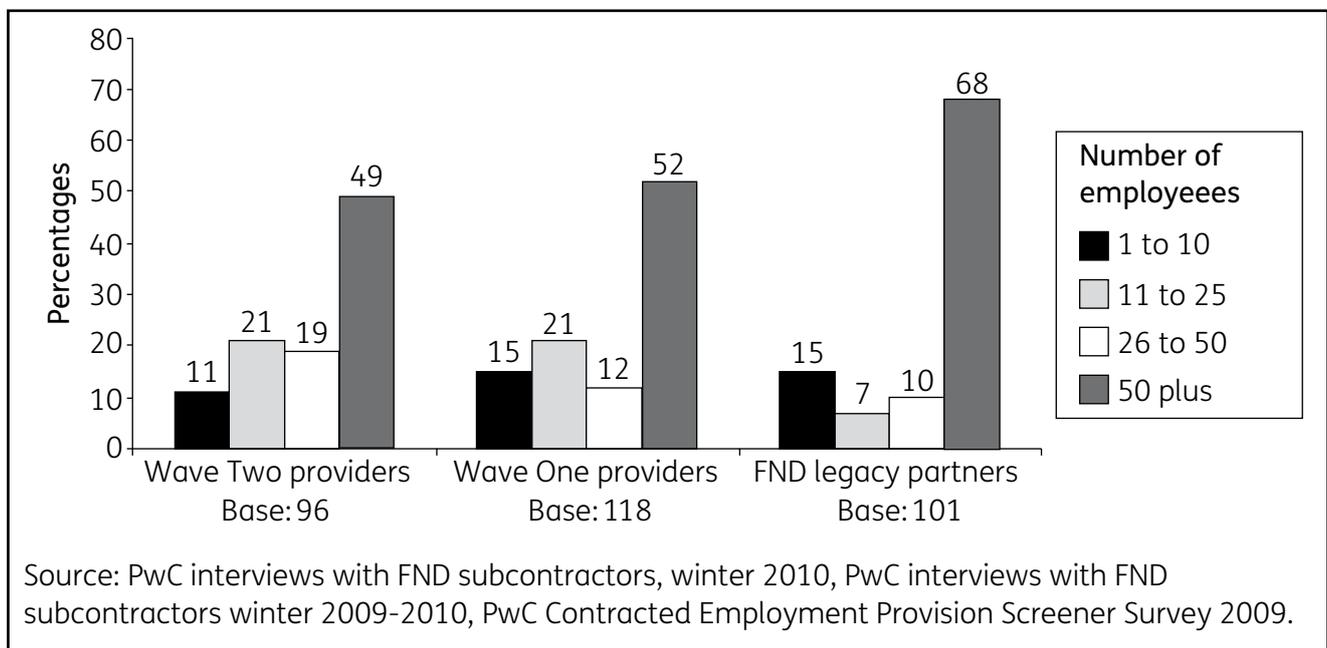
¹¹ Research data refers to the three surveys conducted from 2009-11 which incorporates the 2009 Contracted Employment Provision Screener Survey, Wave One research 2009/10 and Wave Two research 2010/11.

Figure 3.3 Revenue profile of FND subcontractors and FND legacy providers



The decrease in larger companies is reflected in the decrease in the number of subcontractors' full-time employees although most continue to have 50+ employees as illustrated in Figure 3.4.

Figure 3.4 Number of employees of FND subcontractors and FND legacy providers



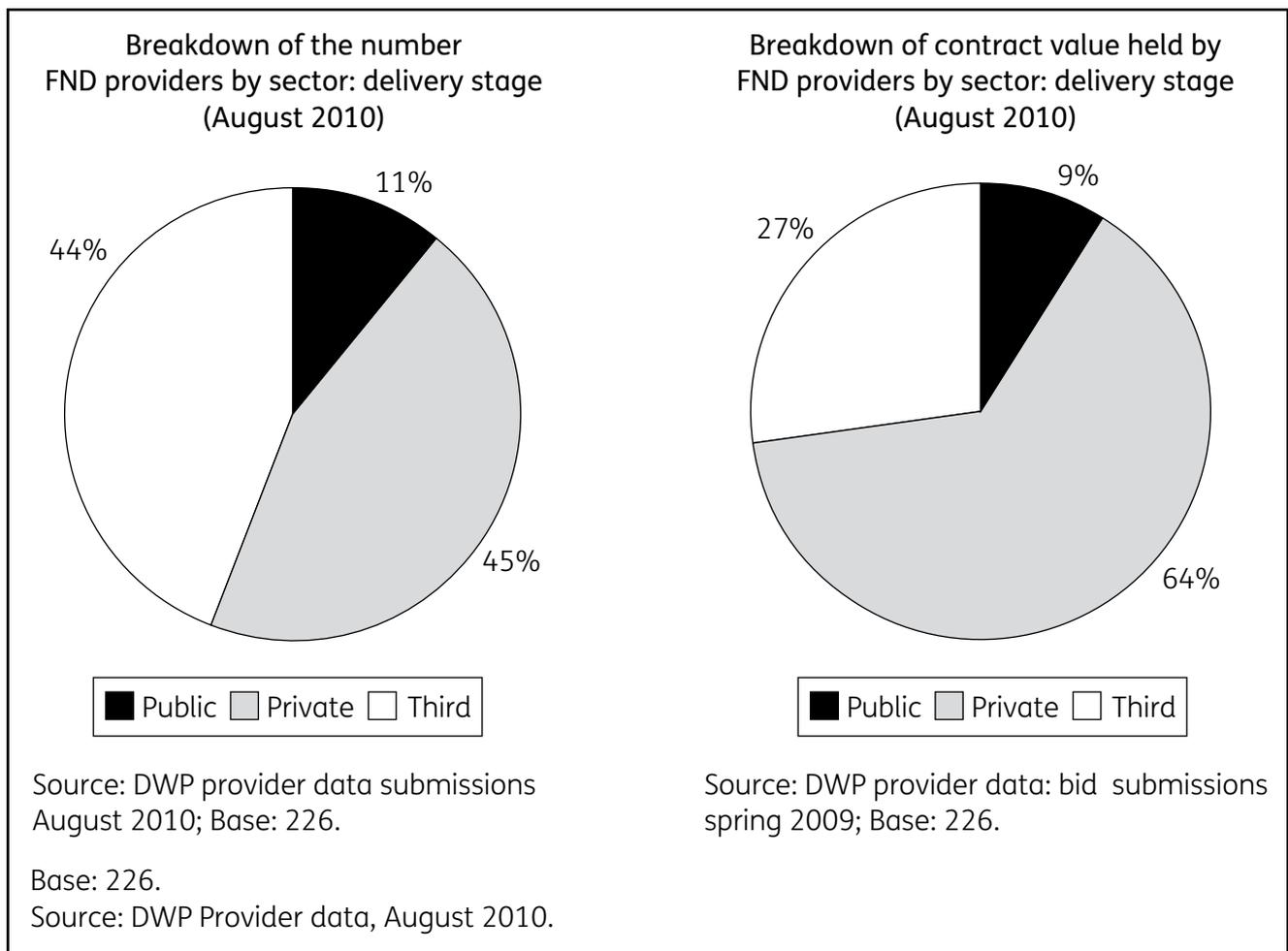
This reduction in the number of larger companies is linked to the increase in the number of specialist providers who tend to be smaller by nature.

3.3.4 Value of FND subcontracts

Based on DWP provider data, two-thirds of overall contract value is held by prime providers (both in their capacity as a prime provider and as a subcontractor) with the remainder being held by subcontractors. As illustrated in Figure 3.5 there are sectoral differences when comparing the

number of subcontractors and value of contracts. For example, whereas third sector organisations represent 44 per cent of providers, they only hold 27 per cent of contract value, suggesting that they tend to hold smaller contracts on average. Conversely, private sector companies hold 64 per cent of the contract value compared to representing 45 per cent of the market, suggesting they tend to hold larger contracts on average.

Figure 3.5 Sectoral profile of FND providers compared to contract value



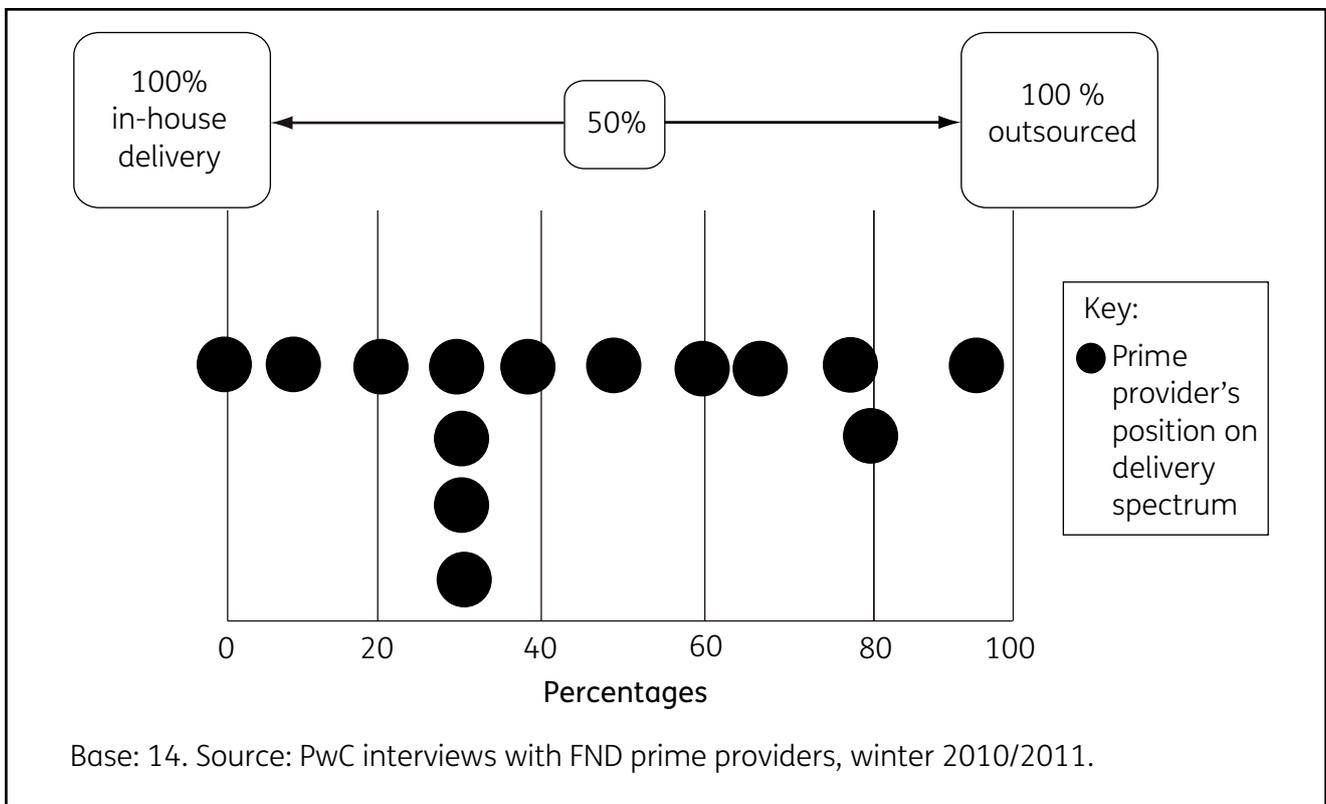
Overall, just over a quarter (27 per cent) of the total value of subcontracting is held by the top five subcontracting organisations. This has remained constant between bid stage and post contract award, although some of these five organisations have changed. The largest subcontractor (not also a prime provider) is estimated to receive around £80million over five years from all of its subcontracting. The vast majority (90 per cent) of the total contract value is held by the top 55 organisations. Examining movements in value between bidding and contract award at an aggregate level the division of business has not changed significantly, i.e. contracts have not moved to larger subcontractors at the expense of smaller providers.

3.4 Delivery models

3.4.1 Delivery models being used to deliver FND

Similar to the Wave One findings, a range of delivery models exist with the majority of prime providers delivering some element of FND themselves. Figure 3.6 shows the spectrum or extent of subcontracting FND services by prime providers within their supply chains. The left of the spectrum represents 100 per cent in-house delivery i.e. a prime provider operating without any subcontractors and the right of the spectrum represents 100 per cent outsourcing i.e. the prime provider acts as a managing agent and all customer services are delivered by subcontractors. As Figure 3.6 shows, just over half of prime providers deliver the majority of the contract themselves.

Figure 3.6 FND prime provider delivery spectrum



The level of subcontracting services was dependent not only on the prime provider’s delivery model but also upon the particular Contract Package Area (CPA) in which the prime provider was operating in. For example, prime providers who were operating across a number of CPAs had different levels of contracting out as they needed to recruit more subcontractors to cover a rural area than in a more urban area. Also, the amount of subcontracting out was driven by the level of existing infrastructure the prime provider had in place before winning the FND contract i.e. if a prime provider had moved into new districts within a CPA or into an entirely new CPA they would tend to use existing providers and their networks.

‘There are differences in the levels we [the prime provider] subcontract out. One issue is capacity where an area doesn’t have a lot of providers on the ground. Another issue is the different areas like rural and urban and travelling in those areas.’

(FND prime provider)

'In broad terms we contract out about 35 per cent to 40 per cent of our FND 'revenue' if you like. Most of that is taken up by end-to-end partners but there are some differences in different contract package areas. We had quite a big presence and coverage in [CPA X] where we were an incumbent provider whereas we weren't in [CPA Y]. So when we were looking to build our infrastructure after being awarded [CPA Y] contract we linked with the strong providers who were already in the district, whereas in [CPA X] we were more established in those areas.'

(FND prime provider)

In addition, a number of prime providers mentioned that they also used, where possible, complementary provision, such as accessing training to service FND customers as appropriate. This is explored in more detail in Chapter 6.

Prime providers stated that they had developed their models for delivering FND based on their knowledge of best practice and their experience of delivering other welfare to work programmes/ contracts. While the 'typical' delivery model used by prime providers i.e. where a prime provider will deliver end-to-end services along with subcontractors who will deliver end-to-end or specialist services, has remained largely the same since the Wave One research, some prime providers had made changes to their delivery model since the implementation of FND. This had been achieved through sharing of best practice and need to improve performance.

'There are several factors really to why we chose our delivery model. With the end-to-end providers the rationale is partly geographic. We bring providers in who have the infrastructure, experience and track record in that particular geography. Looking at the wider strategic angle we [the prime provider] are expected to bring in a delivery chain, but also in a large contract like FND we share the risk with the end-to-end providers. With the more specialist providers the rationale really is about trying to find appropriate matching providers with appropriate services, making sure that we use what's out there in the market but also that we are ask people to do things that they can do and that they are good at as opposed to trying to force them to do something they cannot do.'

(FND prime provider)

3.4.2 Nature of subcontracted services

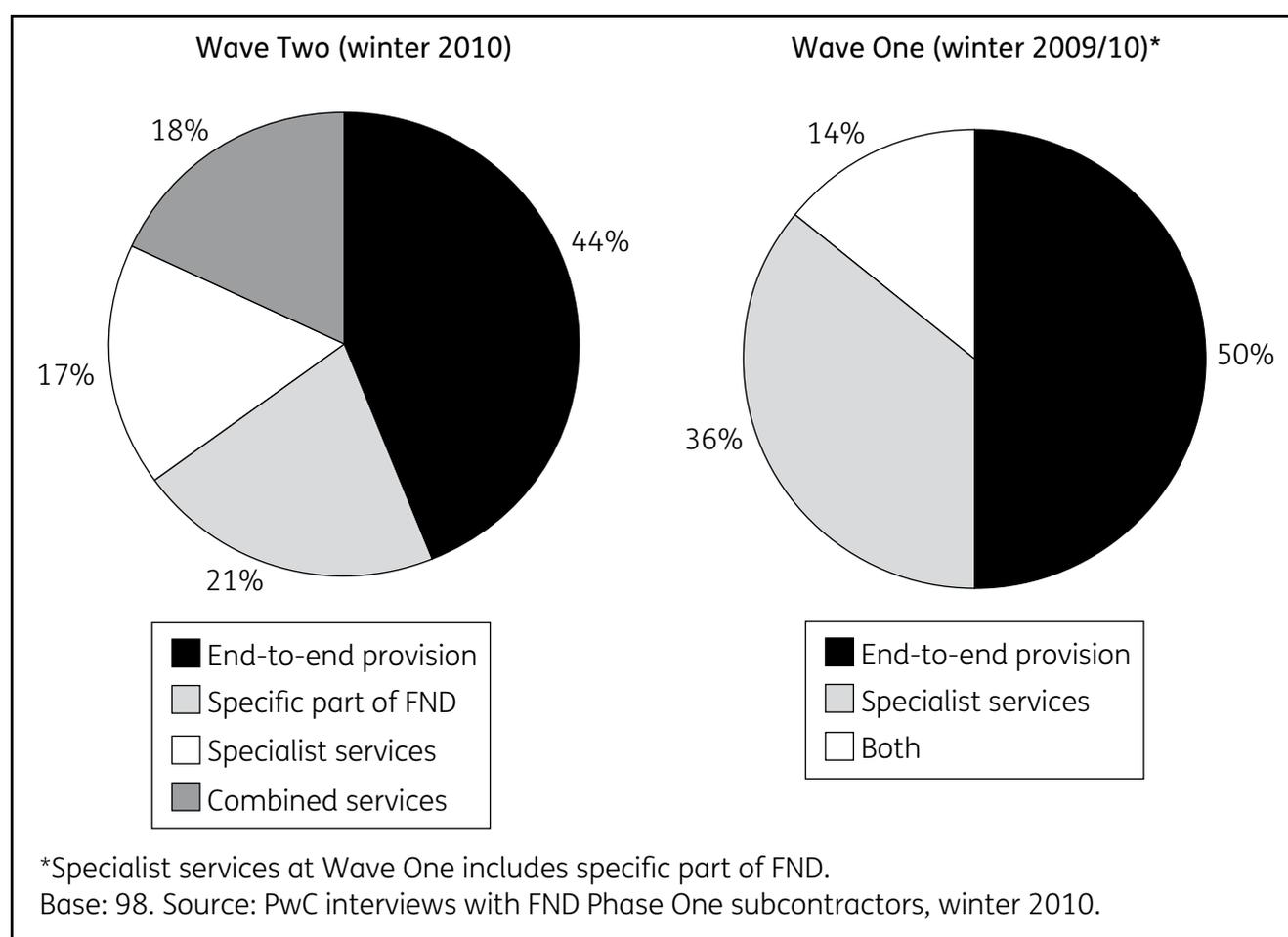
After 12 months of delivery FND subcontracted services can be categorised into three broad groups:

- **end-to-end providers:** these are subcontractors who support customers throughout their entire journey under FND and would have a degree of responsibility for delivering the customer's journey i.e. they would assess customers' needs and determine the most appropriate support (within the prime provider's delivery model). End-to-end providers cover a range of general employment-related services such as job search training, CV writing or confidence building. Some end-to-end providers may specialise in sectors, for example IT or with customer segments such as graduates. These subcontractors tend to be Tier two providers per DWP's classification of providers as shown in Table 3.1;
- **specific providers:** these are subcontractors who provide a specific part of FND i.e. they would cover a certain time frame of the customer's 52 week journey. These subcontractors can provide generalist services or they can focus on more specialist areas such as work placements. These services are typically undertaken by Tier two or Tier three providers as per DWP's classification; and
- **specialist providers:** these providers deliver niche services related to a customer's health or underlying issues such as drug rehabilitation, debt advice or lone parenting. These services are delivered by Tier three and Tier four providers as per DWP's classification as outlined in Table 3.2.

Table 3.1 DWP's classification of providers by tier

Tier	Definition/characteristics
One	Tier one providers are prime contractors. These are single legal entities responsible to DWP (as commissioner) for all aspects of the contract and its underpinning service delivery. The prime contractor is directly responsible for all aspects of the supply chain and customers receiving services by any part of it.
Two	Tier two providers are subcontractors who typically deliver end-to-end services for customers in an area or part of end-to-end services on behalf of the prime provider. In such an arrangement, they may also take full or partial supply chain responsibility for other delivery partners on behalf of (but not instead of) the prime provider. Subcontractors may have a range of different contracting arrangements in place with the prime provider.
Three	Tier three providers are delivery partners who typically provide either a locally configured end-to-end or part end-to-end service for customers or a partial/specialised service to some customers. Tier three providers can hold their contractual relationship with either the Tier one or Tier two providers.
Four	Tier four providers are specialist providers who typically deliver either a very local end-to-end or part end-to-end service for customers or a partial or specialist service to some customers. Tier four providers can formally hold their contractual relationship with any of the tiers within the supply chain.

The nature of services provided by FND subcontractors in this wave of research suggests that these organisations tend to provide one type of provision with a small minority providing a combination of service provision such as end-to-end and specialist services as illustrated in Figure 3.7.

Figure 3.7 Subcontracted provision by type – Wave One and Wave Two

Specialist services are subcontracted out on almost all occasions as prime providers do not have the capability in house. As implied in DWP's provider data, this appears to be the area where there has been most movement within prime providers' supply chains with many being added to prime providers' supply chains as the FND programme got underway. Examples of the types of specialist services provided under FND are shown in Table 3.2.

Table 3.2 Examples of specialist services subcontracted under FND

Specialist services
<ul style="list-style-type: none"> • Drug and alcohol counsellors/advice. • Legal advice. • Confidence building. • Motivation. • Ethnic minority mentoring. • Anger management. • Life coaching. • Work experience placements. • Deaf and blind specialists. • Mental/personal health specialists. • Skills training/accreditation, e.g. health and safety certificate. • Self-employment. • Help for lone parents. • Advice specific to ethnic minorities.

Base: 14.

Source: PwC interviews with FND prime providers, winter 2010/11.

Not surprisingly, there are fewer end-to-end providers within supply chains, but they receive a higher proportion of the FND contract than the smaller, more numerous specialist providers.

3.4.3 Length of supply chains

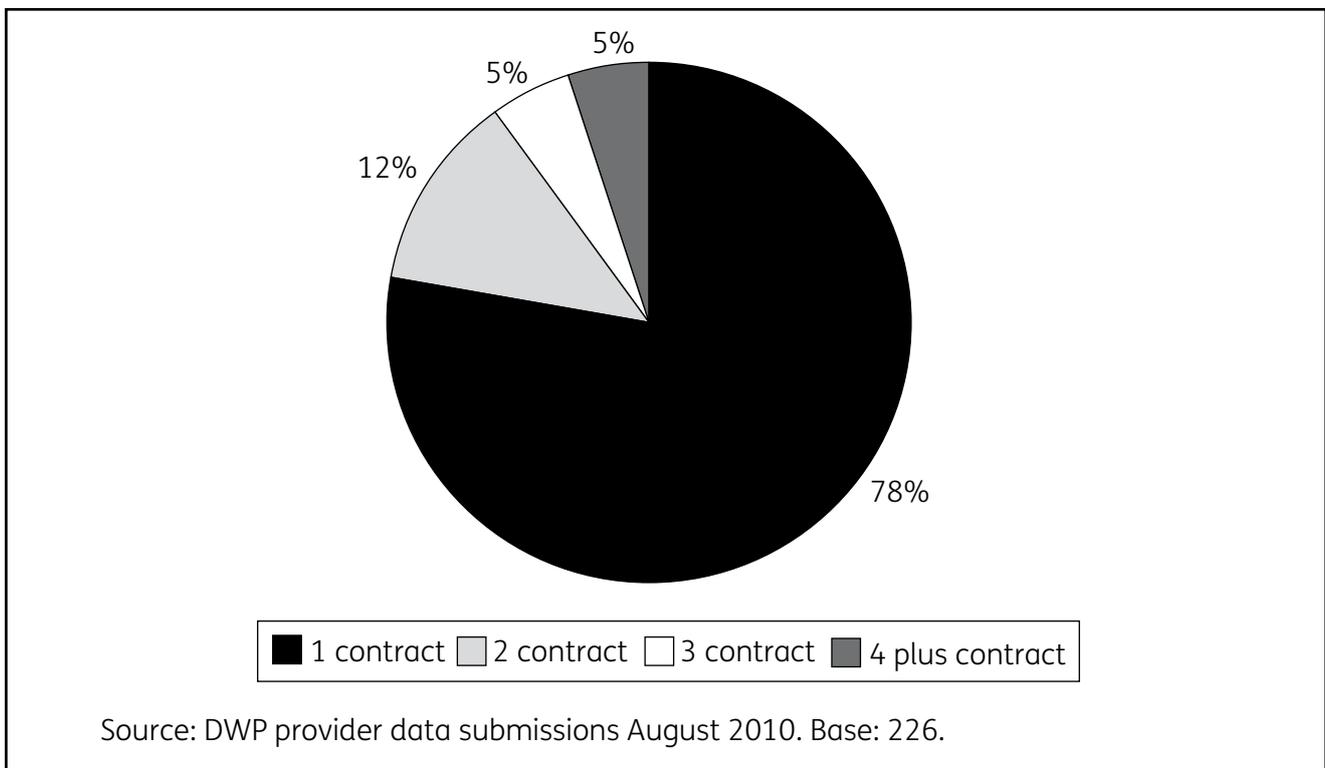
Supply chains still appear to be short 12 months into delivering the FND contract, with the vast majority (96 per cent) of subcontractors providing FND services directly on behalf of a prime provider. A small proportion (4 per cent) of subcontractors are only contracting directly with another subcontractor. In addition, only six per cent of subcontractors stated that they used their own subcontractors to deliver FND.

Most of those subcontractors who did have their own supply chain actually only used one subcontractor who tended to provide specialist services and operate under Service Level Agreements (SLAs) and receive service fees. Some Tier three or four subcontractors had been appointed since the beginning of the contract to provide additional resources and specialist services that the contracting subcontractor had not catered for originally.

3.4.4 Number of contracts held by subcontractors

The vast majority of FND subcontractors are highly localised and are not involved in delivering the programme at a national level. This is highlighted in Figure 3.8 which shows that almost four out of five (78 per cent) of subcontractors hold only one first tier subcontract with most of the remainder holding two or three.

Figure 3.8 Percentage of subcontractors and number of subcontracts held (August 2010)

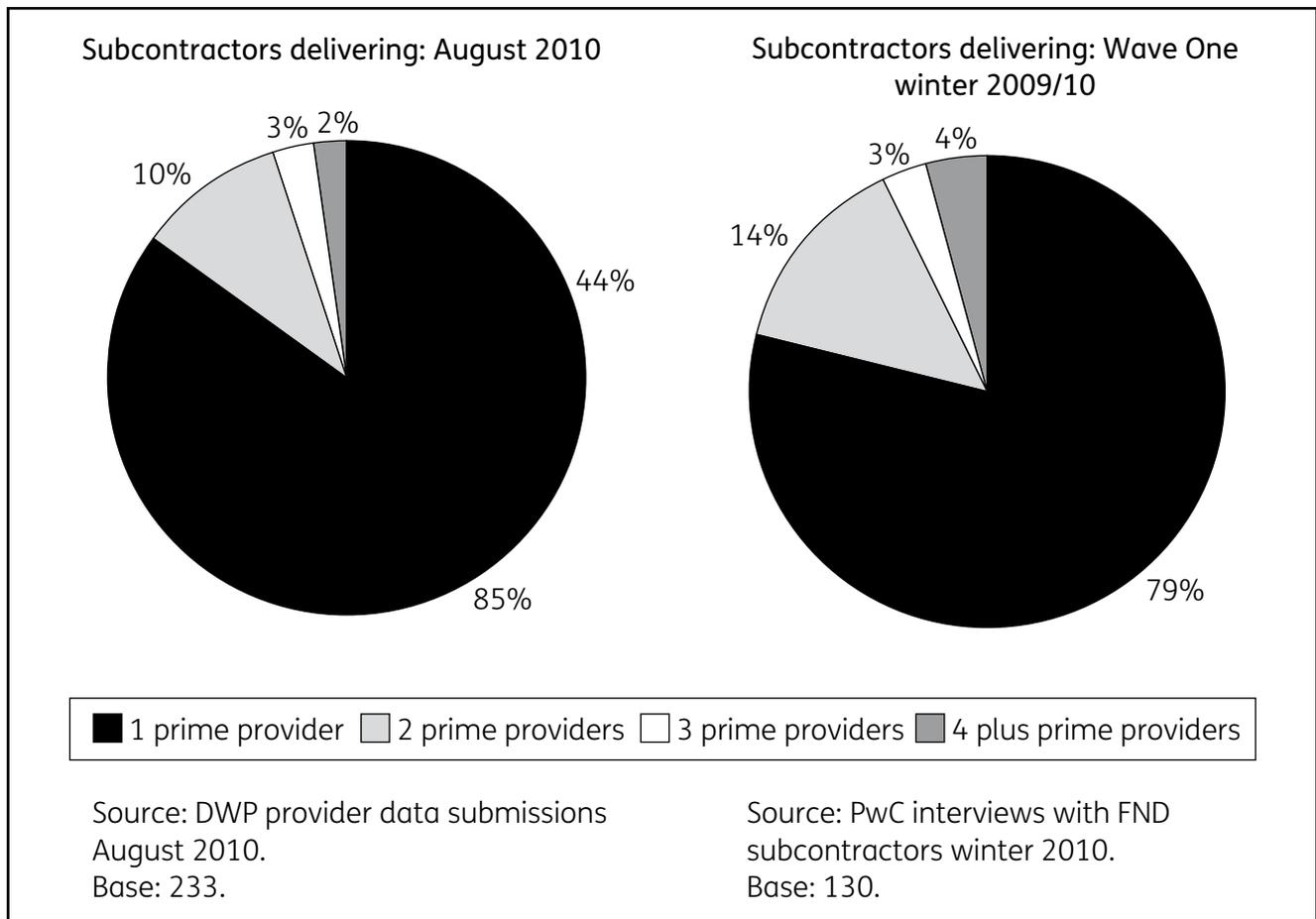


Of those organisations (four per cent) who hold four or more first-tier subcontracts only one is a FND prime provider.

3.4.5 Overlaps in supply chains

While subcontractors remain localised, significant overlap remains between supply chains. DWP's provider data shows that one-half of FND prime providers are operating as subcontractors in other contract package areas. While overlap continues among subcontractors this has reduced from the early implementation stages of FND (winter 2009) when, as illustrated in Figure 3.9, 21 per cent of subcontractors delivered FND services to more than one prime provider compared to 15 per cent ten months into delivering the contract in August 2010. This level of overlap should encourage the sharing of best practice. However, as seven of the 14 prime providers are subcontractors for other prime providers this may be seen as a barrier to entry for those external to the market.

Figure 3.9 Percentage of subcontractors and contractual relationships with prime providers



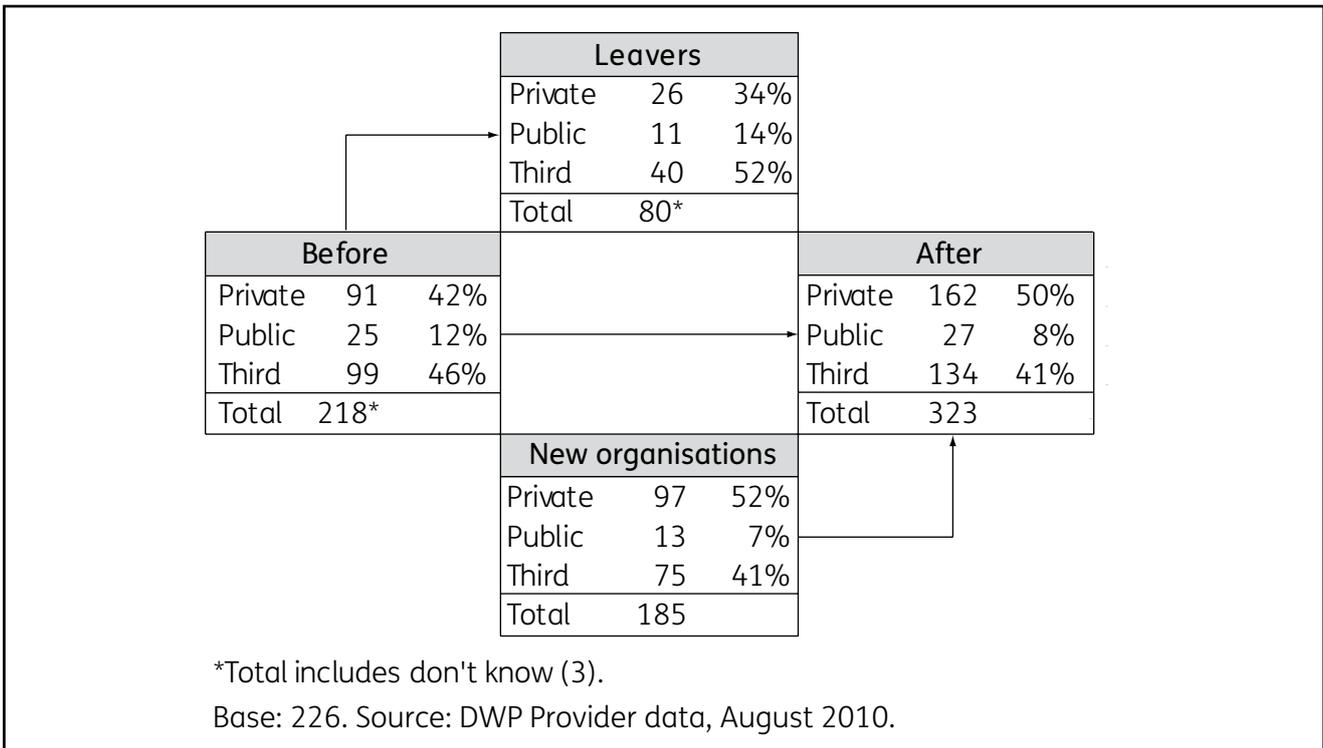
3.5 FND market entry and exit

3.5.1 Changes within supply chains since implementation of FND

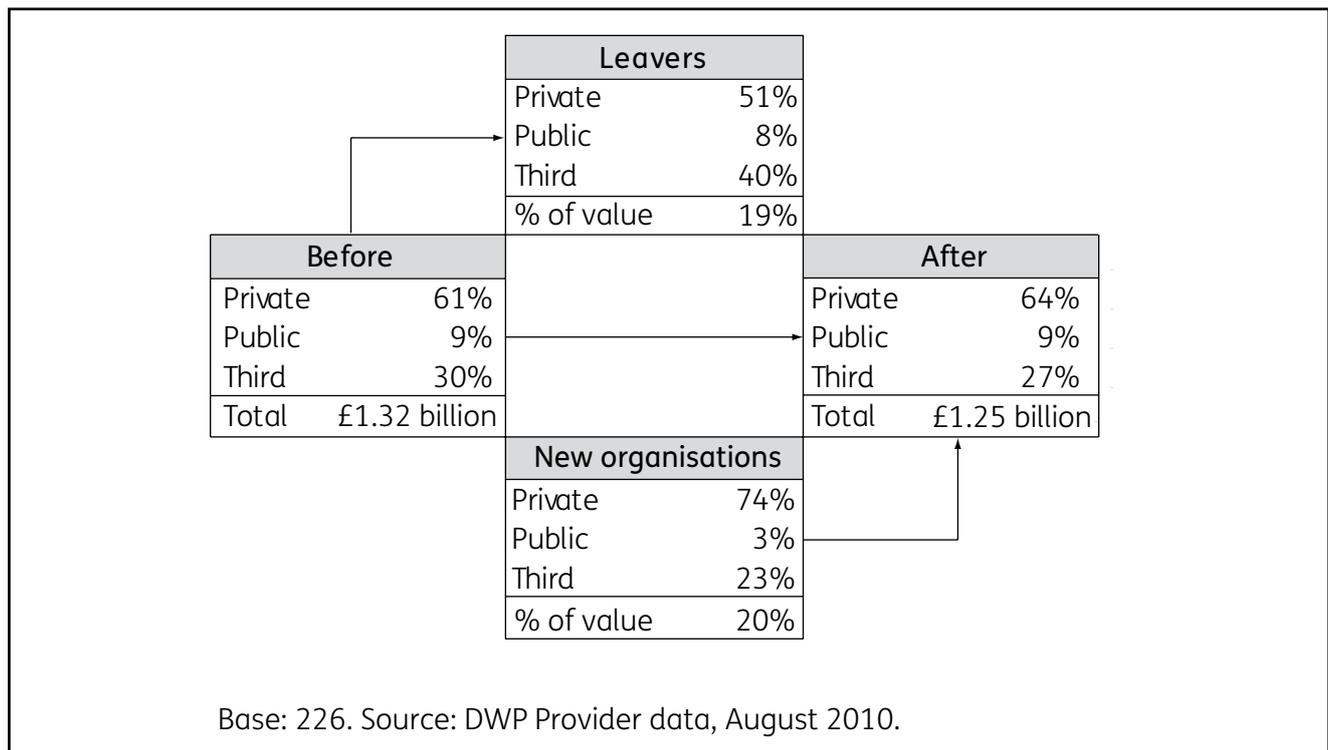
Section 3.3.1 examined the current profile of the FND market and the numbers of providers operating within the FND marketplace. This section discusses the changes that have occurred in FND supply chains between the bidding process for the contract and during live running. Of the 13 prime providers who have supply chains most stated that there had been changes in their supply chains, but that these tended to be limited with many happening immediately post bid. The numbers of providers in supply chains have increased in some networks but have decreased in others. This is supported by analysis of DWP's provider data, as discussed in Section 3.3.1, which showed that five prime providers had grown their supply chains, five had decreased the number of subcontractors within their supply chain with the remaining three prime providers who used subcontractors keeping their numbers constant.

Further examination of DWP provider data reveals that over one-third (37 per cent) of FND subcontracts were never signed or were cancelled between bidding and live running. However, the number of new subcontracts outweighed those which never came to fruition with the actual number of subcontracts increasing by 48 per cent between submission of providers' bids and delivery. Those organisations which left were most likely to be from the public sector and this has resulted in a realignment of the marketplace with a proportionately larger private sector representation as illustrated in Figure 3.10.

Figure 3.10 Number of FND subcontracts



As stated previously in Section 3.3.1, this increase in subcontracts has resulted in a growth in the number of FND providers overall – 121 new first tier subcontractors. However, while the number of subcontracts may have grown between bid stage and delivery of FND the overall value of these contracts remains the same. This is because the value of proposed subcontracts which were neither signed or were cancelled has been matched by new subcontracts totalling a similar amount overall, i.e. prime providers are subcontracting to the level they had stipulated in their bids. As illustrated in Figure 3.11 private sector organisations won almost three-quarters (74 per cent) of the value of these new contracts.

Figure 3.11 Value of FND subcontracts

While many of the new organisations who are now involved within the FND marketplace hold relatively small contracts a small proportion of organisations who have joined supply chains are estimated to be earning over £10million over five years.

3.5.2 Reasons for changes in supply chains

Prime providers added to their supply chains when they identified gaps within their delivery model, for example, catering specifically for ethnic minority groups.

'We started with five [subcontractors] and they have continued to deliver for us. We have brought in some new specialist subcontractors on a needs basis such as where a gap was spotted to help clients be competitive in the labour market.'

(FND prime provider)

In addition, changes within the macro environment, for example, the profile of the region itself including urban/rural split and the makeup of the labour market also encouraged prime providers to bring in additional subcontractors to cover new areas in which they were now operating – both to have a physical presence as well as within particular industry sectors.

From a prime provider perspective the main reasons why subcontractors left supply chains were because they were unable to handle the demands of the FND contract in relation to financial and security requirements. The issue of security requirements was raised by some subcontractors in Wave One of the research and remain a challenge for a number of subcontractors who have raised the issue with their prime provider or have received assistance from their prime provider in relation to security guidelines and policy. In addition, volumes were much lower than were expected and therefore the contract was not sustainable. Some organisations had even gone bankrupt.

‘Yes we had some big issues at the beginning. Those we identified as being fit for purpose appeared to over promise and weren’t ready. It seemed lots of organisations wanted to be involved in FND but didn’t understand the implications of financial performance. We had to let organisations go and bring in new ones.’

(FND prime provider)

Generally, when end-to-end subcontractors left a supply chain the prime provider tended to either, take over delivery itself, or use its existing subcontractors rather than recruit new end-to-end providers.

The addition of subcontractors to supply chains post initial implementation of FND can be seen as just under three-fifths (58 per cent) of subcontractors started delivering FND at the beginning of the programme (i.e. October 2009) with a steady increase in the number of subcontractors beginning to deliver FND from January to June 2010. These ‘new’ subcontractors tended to provide specialist services or specific parts of FND.

While a good proportion of these subcontractors who began delivering FND services after the start of the contract i.e. after October 2009 were approached by a prime provider most were actually proactive and sought out their prime provider. When a prime provider did approach a subcontractor it tended to be because these organisations offered particular or specialised services that the prime provider required to deliver the contract.

Interestingly, from a subcontractor perspective, relationships between prime providers and subcontractors appear to remain steady once instigated – only a small number of subcontractors had increased (four per cent) or decreased (three per cent) the number of prime providers that they are delivering FND for.

3.5.3 FND market exit – ‘leavers’

As part of the survey profiling process providers were asked whether they had been part of an FND bid but did not deliver the contract or whether they had started to deliver the FND contract, but had since left a supply chain. These providers were classified as ‘leavers’ as they had left the FND marketplace, i.e. they were no longer part of any FND supply chain. Interviews with leavers were not designed to be statistically representative of the provider type but rather to provide insight only.

Those providers who left the supply chain prior to beginning delivery tended to be part of more than one prime provider’s bid. Those who left supply chains prior to or post delivery of FND were more likely to be from the private sector and have a turnover of less than £3 million.

Leavers are still involved in delivering employment-related services under other contracts and while they delivered all types of welfare to work services, leavers were more likely to deliver a specific part of FND or specialist services than end-to-end provision. The most common services this provider type delivered included work placements, mentoring, basic employment and/or skills training and specialist services such as debt counselling, alcohol or drug advice.

Generally, the reasons why subcontractors left FND supply chains were because of the demands of the contract itself. The most common reason cited was the unattractive terms of the contract due to the high level of risk followed by FND terms not being financially attractive due to low volumes or low rates. A small number did state that their services were no longer required by FND customers. Those who left the supply chain after delivery of FND had begun mentioned that relationships between themselves and their prime provider or subcontractor had broken down.

As leavers have continued to deliver a mix of other employment related service contracts for non-DWP organisations, such as the European Social Fund (ESF), the impact of not being involved in FND

appears to be limited as many did not rely heavily on DWP/Jobcentre Plus income i.e. it represents less than 20 per cent of their organisation’s turnover. In addition, many stated that their turnover has increased or stayed the same over the last 12 months. This appears to be because leavers have been proactive in exploring a range of options in response to not being involved in FND. This approach has been two pronged and has involved leavers developing relationships with prime providers and customers other than DWP within the wider welfare to work market, along with still looking for new opportunities with DWP. Leavers also reviewed their services provided – either to expand their range of services or to specialise as well as taking these services outside the welfare to work market.

The main customers within the employment-related services market that leavers have developed business relationships with include ESF grants and local authorities. Other customers mentioned include Further Education Colleges, the Lottery Fund, the Skills Funding Agency and the National Health Service (NHS). These new customers are contributing to providers’ turnover to varying degrees – for some it is less than ten per cent, for others it is more than 75 per cent. Where leavers have diversified into other markets, training was the most popular followed closely by health and education. The main contracting organisations or bodies within these new markets were ESF grants, local authorities and the NHS. A summary of leavers including their profile, types of contracts they are currently delivering along with their business strategy for not being involved in FND is provided in Table 3.3.

Table 3.3 Overview of provider type leavers

Key findings	
Profile	<ul style="list-style-type: none"> • Tend to come from smaller organisations (<£3m turnover; <250 employees). • Most were from the third sector.
Contracts delivered since October 2009 (Top 3)	<ul style="list-style-type: none"> • Employment-related services for non-DWP organisations. • ESF. • New Deal (all types).
Strategy for not being involved in FND	<ul style="list-style-type: none"> • Develop relationships with prime providers. • Develop customers outside DWP but within employment-related services market. • Look for new opportunities with DWP.
New customers (Top 3)	<ul style="list-style-type: none"> • ESF grants. • Local authorities. • Further Education colleges/Lottery Fund.
New markets	<ul style="list-style-type: none"> • Training. • Health. • Education

Base: 30. Source: Interviews with non-FND providers, winter 2010.

3.5.4 FND market exit – unsuccessful bidders

Unsuccessful bidders, i.e. those providers who were unsuccessful in their bid for FND and who did not subsequently join a FND supply chain, tended to come from the third sector followed by the public sector and ranged in size. They tended to provide mentoring, work placements, basic employment training, basic skills training and self-employment.

Similar to leavers, unsuccessful bidders have been involved in delivering employment-related services under more than one welfare to work contract since October 2009, including employment-related services for non-DWP or Jobcentre Plus organisations followed by ESF, New Deal (all types)

and Jobcentre Plus Support Contract. However, unsuccessful bidders appear to be working for a higher number of organisations than the other two provider types.

Unsuccessful bidders appear to rely more heavily on DWP and Jobcentre Plus as a source of income than leavers or non-bidders but, despite this, most stated that their turnover has remained the same or increased since October 2009.

Similar to leavers and non-bidders, unsuccessful bidders have explored a range of options in response to not being involved with FND. Unsuccessful bidders also appear to be following a two pronged approach as they look to developing relationships with prime providers and developing other customers other than DWP within the wider welfare to work market and outside it along with still looking for new opportunities with DWP.

The main customers other than DWP that unsuccessful bidders have developed business relationships within the wider welfare to work market include ESF Grants, the Skills Funding Agency, local authorities and charitable trusts. Other customers mentioned include the Lottery Fund, the NHS and local government. These new customers are contributing to providers' turnover to varying degrees although for most it is less than 20 per cent of turnover.

Where unsuccessful bidders have diversified into other markets, training was by far the most popular new market followed by education and health.

A summary of unsuccessful bidders, including their profile, types of contracts they are currently delivering along with their business strategy for not being involved in FND is provided in Table 3.4.

Table 3.4 Overview of provider type unsuccessful bidders

Key findings	
Profile	<ul style="list-style-type: none"> • Range from small to large organisations. • Tend to come from the third sector followed by the public sector.
Contracts delivered since October 2009 (Top 3)	<ul style="list-style-type: none"> • Employment-related services for non-DWP organisations. • ESF. • New Deal (all types).
Strategy for not being involved in FND	<ul style="list-style-type: none"> • Develop relationships with prime providers. • Develop customers outside DWP in welfare to work and other markets. • Look for new opportunities with DWP.
New customers (Top 3)	<ul style="list-style-type: none"> • ESF grants. • Skills Funding Agency. • Local authorities.
New markets	<ul style="list-style-type: none"> • Training. • Education. • Health.

Base: 22. Source: Interviews with non-FND providers, winter 2010.

3.5.5 FND market exit – non-bidders

Non-bidders i.e. those providers who did not bid at all for the FND contract, tend to come from a range of organisation sizes within the third and public sectors. Non-bidders tend to provide basic skills training, basic employment training, short job focused training and work placements.

Most non-bidders are currently providing other DWP welfare to work programme/services. However, non-bidders rely less on DWP/Jobcentre Plus for income than the other two provider types with most saying that their turnover has increased or stayed the same over the last 12 months. Those that are not currently working with DWP have mixed views on whether they would like to provide such services. Those organisations who are not interested in providing services for DWP are looking at specialising in a particular service as well as developing new customers, for example, the Skills Funding Agency and diversifying into new markets, such as health and education.

Non-bidders' focus on other contracts appears to be slightly different from leavers and unsuccessful bidders with a preference towards delivering contracts under ESF, WorkSTEP and employment-related services for non-DWP or Jobcentre Plus organisations.

Non-bidders have also explored a range of options in response to not being involved with FND with a focus on developing other customers beyond DWP within the employment-related services market and developing relationships with prime providers. Non-bidders have also placed more emphasis on diversifying into other markets and expanding their range of services rather than looking for opportunities with DWP.

The main customers other than DWP that non-bidders have developed business relationships within the wider welfare to work market include ESF Grants, local authorities, FE Colleges and charitable trusts. Other customers mentioned include local government and the Skills Funding Agency. These new customers are contributing to providers' turnover to varying degrees although for most it is less than 20 per cent of turnover.

Where non-bidders have diversified into other markets training and education were the most popular new markets followed closely by health.

A summary of non-bidders including their profile, types of contracts they are currently delivering along with their business strategy for not being involved in FND is provided in Table 3.5.

Table 3.5 Overview of provider type non-bidders

Key findings	
Profile	<ul style="list-style-type: none"> • Range from small to large organisations. • Tend to come from the third sector followed by the public sector.
Contracts delivered since October 2009 (Top 3)	<ul style="list-style-type: none"> • ESF. • WorkSTEP. • Employment-related services for non-DWP organisations.
Strategy to not being involved in FND	<ul style="list-style-type: none"> • Develop customers outside DWP but within welfare to work. • Develop relationships with prime providers. • Diversify into other markets. • Expand range of services.
New customers (Top 3)	<ul style="list-style-type: none"> • ESF grants. • Local authorities. • Further education colleges.
New markets	<ul style="list-style-type: none"> • Training. • Education.

Base: 30. Source: Interviews with non-FND providers, winter 2010.

3.6 The role of the prime provider

3.6.1 Perceptions of prime providers on their role in FND

Prime providers generally see their role within the FND marketplace as a managing role providing support to their main subcontractors as necessary. The support provided ranged in intensity depending on prime provider and the subcontractor themselves and included sharing of best practice, building capacity, providing expert support (e.g. data security) or performance management.

All prime providers believed that they have helped their subcontractors to develop their capabilities. Some viewed it as part of their managing role with others seeing it as a ‘win/win’ situation i.e. better performance by subcontractors, better performance overall. Examples of activities prime providers have undertaken to support their subcontractors are shown in Table 3.6.

Table 3.6 Examples of activities undertaken by prime providers to support subcontractors

Specialist services

- Training (processes and systems).
 - Mentoring (including work shadowing, visiting premises etc).
 - Sharing of skills and expertise, for example, risk management, financial management, data security, working with hardest to place customers etc.
 - Sharing of best practice.
 - Installation/sharing of IT or management information systems.
 - Marketing.
-

Base: 14.

Source: PwC interviews with FND prime providers, winter 2010/11.

A number of prime providers mentioned that they had designated staff or teams within their organisation who deal specifically in working with subcontractors to improve their capability such as a Continuous Improvement Department and contract managers.

The approach to managing subcontractors did vary in formality among prime providers – one prime provider described their role as ‘a very friendly big brother’ while others were more structured in their approach:

‘We [the prime provider] have responsibility for the contract; we see us as an intermediary for DWP and the subcontractors, we try to work as closely as possible with the subcontractors, we don’t just say we’re the boss, here’s what to do, we talk, we negotiate, we inform them, we hold a monthly meeting where we go through results. If the results are poor we have more and more conversations with them to try and improve that. We say it’s our contract, we communicate with DWP, we monitor them and their performance.’

(FND prime provider)

A few prime providers believed that they had had to more actively manage their subcontractors than they had originally anticipated.

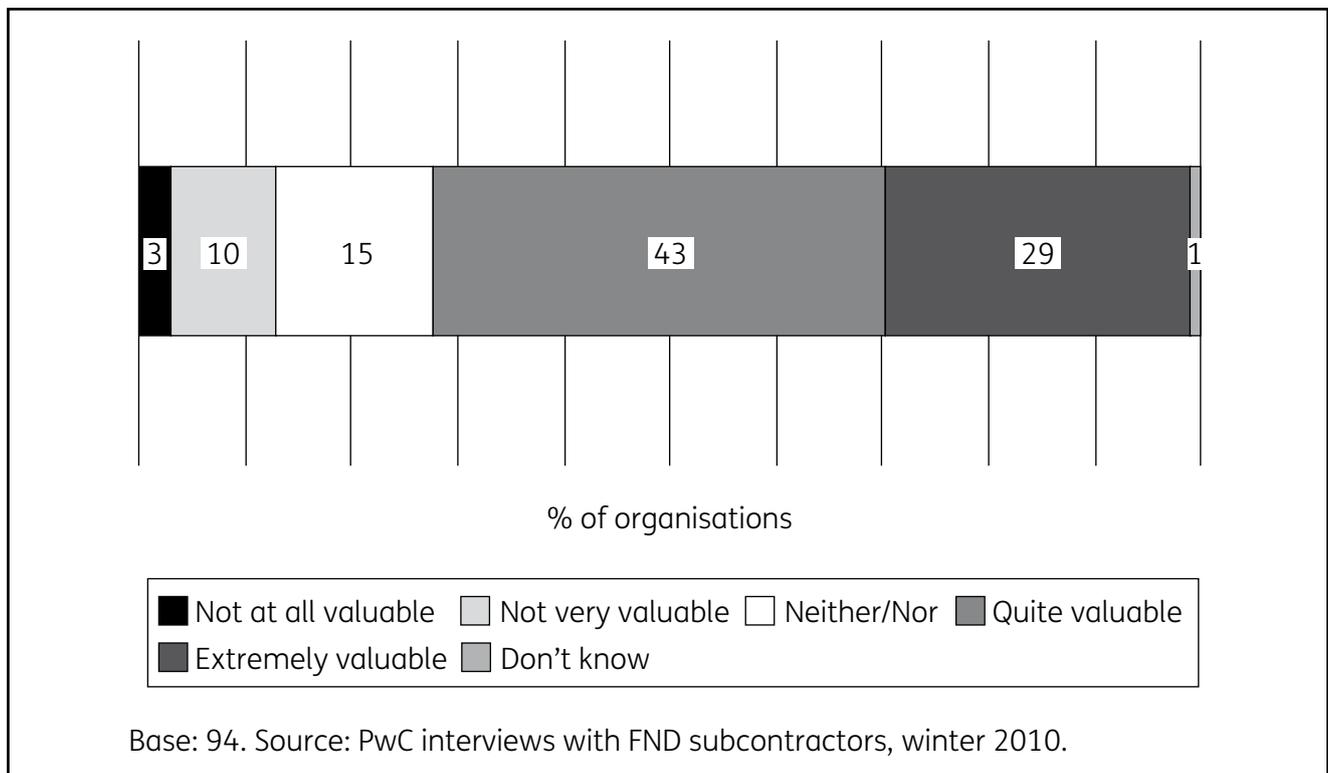
‘One subcontractor’s performance was lower than other members, we [the prime provider] let them know that something wasn’t working. We set up a performance improvement plan, we intervened and sent out a team to work with them resulting in 30 per cent improvement. It is too costly to let firms fail and bring in new ones. It is a partnership approach, we create competition through collaboration.’

(FND prime provider)

3.6.2 Perceptions of subcontractors on the prime provider role

Subcontractors generally find the role of the prime provider to be valuable in delivering the FND programme, as shown in Figure 3.12, with many subcontractors availing of some assistance from their prime provider. However, the move to an indirect relationship with DWP has not yet gained widespread support – over half (55 per cent) of subcontractors would still prefer to contract directly with DWP to deliver services.

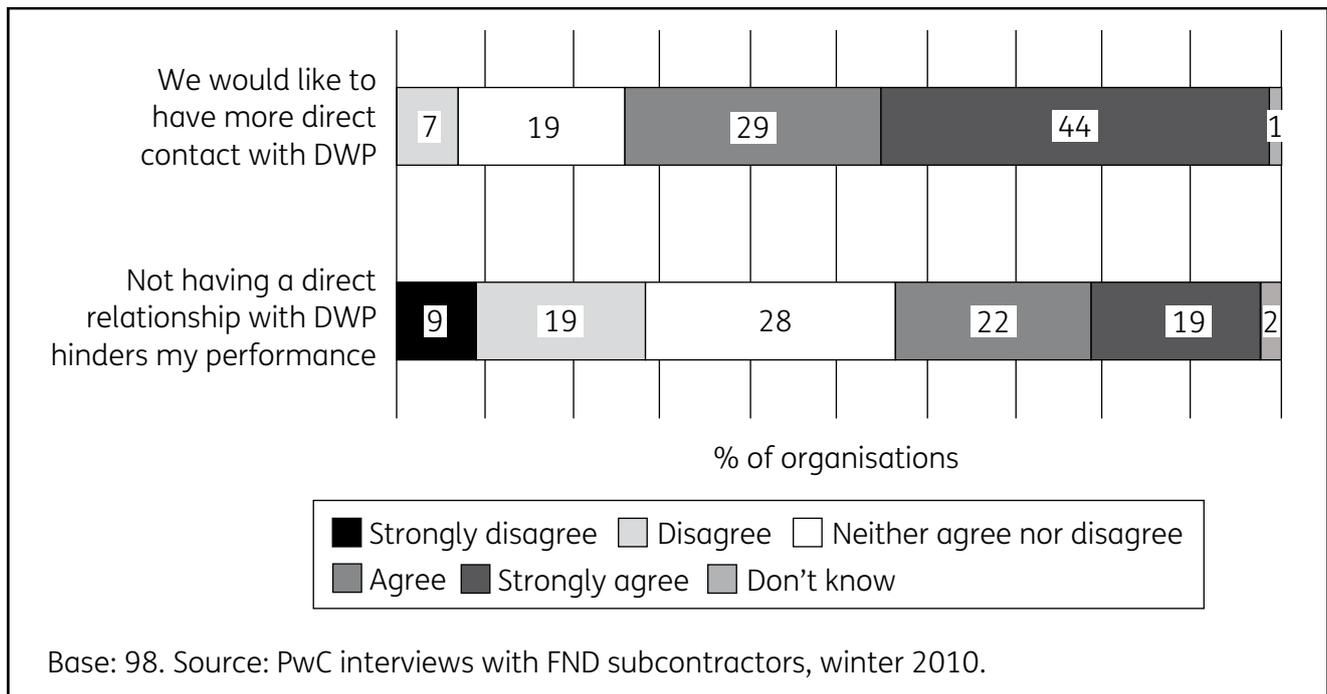
Figure 3.12 Value of the prime provider role as viewed by subcontractors



The value of the prime provider role is reflected by the fact that over two-thirds (68 per cent) of subcontractors stated that their prime provider gives them all the information they need to meet DWP’s requirements. Almost half (48 per cent) believe that their prime provider is able to assist them in meeting FND delivery requirements reflecting the numbers who have received some level of assistance from their prime provider (55 per cent). In addition, 52 per cent of subcontractors believe that their prime provider has a robust relationship with DWP.

However, as illustrated in Figure 3.13, the majority of subcontractors (73 per cent) would prefer to have more direct contact with DWP with a substantial minority (41 per cent) believing that not having a direct relationship with DWP hinders their performance.

Figure 3.13 The impact of less contact with DWP by subcontractors



A large minority (40 per cent) of subcontractors had experienced areas of contention while delivering the FND contract with the most common issues being referral volumes followed by payment terms. Other areas of contention included contract terms, quality and/or type of referrals and issues with IT systems.

3.7 Conclusion

3.7.1 Key findings

Part of the pre-conditions for a well-functioning quasi-market is a competitive market structure which includes numerous service providers as well as purchasers, easy market entry and exit along with free pricing (Le Grand and Bartlett, 1993). Findings from this programme of research and DWP’s provider data show clearly that there has been a growth in providers from FND legacy providers through the bidding process to delivering the FND contract. When looking in more detail at the profile of the provider landscape there has been a shift in the sectoral breakdown of FND providers with the dominance of the private and third sectors at the expense of the public sector along with a decrease in the number of larger companies operating within the FND marketplace. Subcontractors hold one-third of the contract value with private sector organisations tending to deliver larger contracts on average than the third or public sector organisations.

A range of delivery models exist, as found in the Wave One research, which typically involve a proportion of programmes and services being delivered by the prime provider with the remainder being delivered by subcontractors. The level of outsourcing was dependent not only on the prime provider’s delivery model but also upon the geographical profile of the contract package area the prime provider was operating in, along with the area’s existing infrastructure. The differences in the profile of CPAs have resulted in variations in the level of subcontracting even among a prime provider operating in more than one contract package area.

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, ethnic minority mentoring, anger management are subcontracted out on almost all occasions as prime providers do not have the capability to deliver these services in-house. While there have been movements within supply chains as providers move in and out, supply chains remain short 12 months into delivering FND with the almost all subcontractors surveyed providing FND services directly on behalf of a prime provider. This shortness of supply chains is contrary to the initial vision of DWP's commissioning principles. Subcontracting tends to be localised as the majority of organisations do not operate at a national level. There continues to be significant overlap between supply chains with seven of the 14 prime providers operating as subcontractors and while the number of subcontractors delivering FND services for more than one prime provider has reduced since Wave One, the proportions still remain high at 15 per cent.

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 prime provider is valuable in delivering FND and have received assistance from their prime providers, the move to an indirect relationship with DWP is taking a while to gain widespread support, as over half of subcontractors would still prefer to contract directly with DWP.

Generally, subcontractors left FND supply chains because the contract was unattractive both financially and in terms of risk. Those who left the FND contract tended to come from smaller organisations, from the third sector and had been part of more than one prime provider's bid. They were also more likely to deliver a specific part of FND or specialist services rather than end-to-end provision.

All those not providing FND services are involved in delivering employment-related services under a mix of contracts for both DWP (for example New Deal) and for non-DWP organisations. Non-FND providers have sought not only to continue looking for opportunities with DWP and prime providers, but also to develop relationships with customers outside the welfare to work market such as in training, health and education. However, it should be noted that while most non-FND providers have maintained or established other avenues of revenue since the introduction of FND, some of the programmes sustaining these providers will no longer exist with the introduction of the Work Programme. With the removal of these revenue sources the commercial implications for these providers under the Work Programme is currently unknown.

3.7.2 Recommendations

Based on the findings above, the following recommendation is made:

- **Continue to monitor the change in supply chains:** DWP should continue to monitor market developments: entry, exit, mergers, acquisitions and alliances to maintain an understanding of the 'pulse' of the market, its attractiveness, diversity and the development of any potential barriers to entry. Delivery models, length of supply chains and changes within them should be aligned to contract package areas, prime providers' outcomes and customer feedback to ensure that movements in supply chains are occurring naturally because of market forces.

4 Market development and stewardship

4.1 Introduction

This chapter examines how the principles of market development and stewardship, as set out under the Commissioning Strategy, have affected providers and is structured under the following headings:

- Background.
- Financial and contractual relationships with subcontractors.
- Supply chain management.
- Use of delivery partners (outside subcontractors).
- The Merlin Standard.
- Conclusion.

4.2 Background

The market development and stewardship component of the Commissioning Strategy is a key element of the Department for Work and Pensions (DWP's) aim of establishing a quasi-market for contracted employment provision (CEP). Linked closely to the market structure component discussed in Chapter 3, the principles of the market development and stewardship component are designed to help ensure a diverse and high performing range of providers are operating within the welfare to work market. A diverse market is viewed by DWP as vital in delivering more efficient and effective welfare to work services but DWP is also conscious that based on evidence from other countries, such as the United States, that the move to longer, larger contracts and outcome-based payments can result in a less diverse contracted market (DWP, 2009).

In addition, the development of a tiered system, i.e. where large prime providers subcontract service provision to smaller or specialist providers has led to some concerns that this might operate to the detriment of smaller providers (DWP, 2008a, pg 35). To mitigate this, a Code of Conduct was introduced which outlined the standards of behaviour expected between providers. The Merlin Standard, designed by DWP with providers and representative bodies, supports the Code of Conduct by recognising and promoting '*sustainable excellence and positive partnership working within supply chains*' (DWP 2010b, pg 1) via a co-regulation approach with welfare to work providers.

The Standard incorporates four fundamental and integrated principles including supply chain design, commitment, conduct and review. These principles have been designed to examine key areas of the relationship between a prime provider and the members of its supply chain.

Other elements of the market development and stewardship component focus on:

- **supporting market entry and development** through encouraging the entrance of new providers and the inclusion of high quality, high performing, smaller and specialist providers in contracts;

- **ensuring excellent subcontractual relationships** exist between the top tier and all other providers through adhering to the Code of Conduct and the Merlin Standard. This also involves reviewing the management and treatment of subcontractors, ensuring that prime providers adhere to any commitments made to delivery partners at contract award and facilitating good practice through collaboration and sharing of information;
- **monitoring the development of effective partnership working and supply-base development** at a local level as providers deliver part of the government's wider agenda;
- **the awarding of contracts, inspection and management of contracts** to facilitate a healthy high performing supply chain; and
- **communication between providers and DWP** through a number of mechanisms to ensure providers have access to DWP to air problems and share insights on how best to handle customers. DWP will also aim to develop relationships with provider representative organisations to capture organisations' perspectives from different sectors.

The key findings from the Wave One research highlighted that the Flexible New Deal (FND) contracting process had brought new entrants into the market at both a prime and subcontractor level. However, there were a number of subcontractors, unsuccessful bidders and non-bidders who believed that barriers to entry have either been increased or new barriers have been created. Size of provider and geographical size of contract package areas were cited as two such barriers.

The Wave One research showed that 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 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.

The research with FND subcontractors found that, for many, the Code of Conduct has helped formalise relationships along with providing them with more security. However, some subcontractors saw the Code of Conduct as leading to more administrative burden and increased financial costs.

In order to gain an understanding of how the market is developing this chapter essentially examines the role of subcontractors one year on in delivering the FND contract by focusing on financial and contractual relationships with prime providers, reviewing how subcontractors are managed by prime providers, the use of delivery partners beyond subcontractors and the impact of the Merlin Standard, which was being trialled at the time of this research, on provider relationships.

To avoid duplication and overlap, market entry has been discussed in Chapter 3 and the awarding, inspection and management of contracts along with communication between providers and DWP are examined in Chapter 6.

4.3 Financial and contractual relationships with subcontractors

4.3.1 Contractual relationships between prime providers and subcontractors

Prime providers have adopted different approaches to how they contractually engage with their supply chain, generally recognising the difference between those providing end-to-end provision and those providing more specialised services or specific parts of FND.

Generally, terms and conditions for end-to-end providers reflect DWP's contract although in some instances, contracts are simplified, for example removal of clauses from the main contract that are not relevant for a subcontractor. While end-to-end providers are on formal contracts, specialist providers tend to be contracted on a call-off provision basis or spot purchasing with many operating under a service level agreement rather than through a formal contract. Some are paid a retainer fee.

'Specialist subcontractors are paid on an agreed payment rate such as per hourly rate, per function or activity rate, these are called provider inputs not outcomes so we pay them on a negotiated rate. This is because there is a big difference from our end-to-end subcontractors who do achieve the outcomes whereas our other subcontractors provide inputs into the customer journey but don't actually 'own' the customer.'

(FND prime provider)

Most prime providers have not changed their contracting arrangements with subcontractors since the introduction of the Commissioning Strategy. Changes that did occur were in relation to formalising relationships or taking cognisance of a 'large fall' in referral volumes. Terms and conditions have also largely remained unchanged during live running of FND with only a couple of prime providers making minor amendments to incorporate volume changes and proportion of service fees.

Almost all prime providers have encountered some areas of contention with their subcontractors during the delivery of FND with the most common being in respect of underperformance by the subcontractors followed by lower levels of referral volumes than expected and evidence requirements regarding outcomes.

'No particular areas of contention arose with subcontractors. But we had to performance manage them, which people realised was necessary. Everyone realised the need for performance management. The furthest it went was a contractor asking if it would be possible to push a few more referrals their way as their numbers were a bit low. We did what we could.'

(FND prime provider)

'Yes, there was contention regarding management information and IT security and DWP introducing very strict security requirements very late on in the procurement phase which most suppliers couldn't meet. So we had to spend a lot of money on IT consultants to implement IT security. That was a real sticky issue. It meant that a number of suppliers weren't ready on time. There are also operational issues in terms of people not performing as well as they should be.'

(FND prime provider)

4.3.2 Financial relationships between prime providers and subcontractors

Regarding finances, prime providers have shown flexibility in how they engage with their supply chain and, similar to their contracting arrangements, generally recognise the difference between those providing end-to-end provision and those providing more specialised services or specific parts of FND.

End-to-end providers tend to be paid on an outcome basis with a few prime providers introducing a 'booster payment' to help with these organisations' cash flow. Subcontractors who provide a specific part of FND are on similar financial arrangements as end-to-end providers but have, for example, larger upfront payments or shorter outcome timeframes to accommodate their role in delivering FND. Specialist providers are generally paid on an agreed rate with a couple of providers helping their smaller specialist providers in other practical ways such as helping these types of subcontractors to minimise costs by allowing them to work on the prime provider's end-to-end providers' sites.

In addition, some prime providers have taken into consideration the size of a subcontractor's organisation rather than the role that they play in delivering FND by adapting payment structures to provide more upfront funding to facilitate their operating circumstances.

4.3.3 Financial concerns raised between prime providers and subcontractors

About half of prime providers reported that subcontractors had raised financial concerns with them but these tended to be limited to one or two providers within their supply chain. Concerns noted by prime providers that had been raised by subcontractors included the flow and volume of referrals, cash flow and the termination of the contract itself.

While prime providers stated that there had been limited numbers of subcontractors within their supply chains who had raised financial concerns, from a subcontractor perspective, three out of five (60 per cent) of subcontractors reported that they had raised financial concerns with their prime provider regarding the FND contract. However, only 12 per cent have asked for, or are being offered, financial assistance from their prime provider.

Prime providers have taken a number of different actions to counteract subcontractors' financial concerns so that organisations within their supply chains remain viable and are able to continue to deliver FND.

'Because we are dealing with some very small organisations, we have actually had to, in some instances, bend our terms and conditions because we have been concerned that they might go under as a result of restrictive payment terms, so we have actually advanced our payment in that respect.'

(FND prime provider)

'We've had two organisations and for different reasons we've supported them on financial arrangements. One of them is a medium sized provider, young in welfare to work terms and we have restructured their payments...to help them with cash flow, but in a way that it meant that it would help them enormously. It keeps them in the market, it keeps them as a provider to us and it helps them to learn as well more about the welfare to work market as we go along. One of my other clients – I realised they had some cash flow problems, so we sat down and did a major financial review of them...we injected cash into them. That cash was to be repayable after 12 months but in a structured way that didn't cause them any hardship...It's meant that they could keep on trading.'

(FND prime provider)

Examples of activities which prime providers have undertaken in the first 12 months of delivering are outlined in Table 4.1.

Table 4.1 Examples of activities undertaken by prime providers to address subcontractors' financial concerns

Examples of actions taken
<ul style="list-style-type: none"> • Changing the timings of payment arrangements. • Assisting with financial modelling. • Assisting with due diligence. • Providing a loan. • Provision of a management fee.

Base: 14.

Source: PwC interviews with FND prime providers, winter 2010/11.

For those subcontractors who had raised financial concerns with their prime provider their main issues are similar to those highlighted by the prime providers and are largely linked to referrals and cash flow. A summary of the types of concerns raised are shown in Table 4.2.

Table 4.2 Examples of subcontractors' financial concerns raised with prime providers

Examples of concerns raised
<ul style="list-style-type: none"> • The quality and type of referrals. • Amount of referrals budgeted and delays in receiving referrals. • Being unsuccessful in receiving client numbers. • The move to payment by results. • Payment of staff. • The change in payment schedule. • Level of service fees and payment amount/terms.

Base: 59. Source: PwC interviews with FND subcontractors, winter 2010.

Examples of actions prime providers have taken regarding these financial concerns cited by subcontractors reflect those mentioned by prime providers and include changing payment arrangements such as paying a flat fee or phasing in a new payment schedule.

However, despite the actions taken by prime providers many subcontractors have concerns regarding the financial terms and conditions of the FND contract. Issues with referrals, such as type and volume, were the main reasons why some (43 per cent) subcontractors did not believe their terms and conditions were sustainable. To avoid duplication the issue of referrals is explored in more detail in Chapter 7.

4.4 Supply chain management

4.4.1 Performance management processes

All prime providers actively manage their subcontractors' performance using a mix of formal and informal approaches from regular performance reports (including customer feedback) through to conversations and meetings with the ultimate sanction being termination of contract.

All prime providers operate a generic performance management process in managing subcontractors with the first step identifying the problem or issue and then working with the subcontractor to address the problem or issue through action plans or training. A few prime providers have specific teams which they send in to help the subcontractor improve its performance.

‘Yes...there is a performance management framework in place. It outlines the steps we [the prime provider] can take if they [subcontractors] underperform with the ultimate step being removal from the supply chain.’

(FND prime provider)

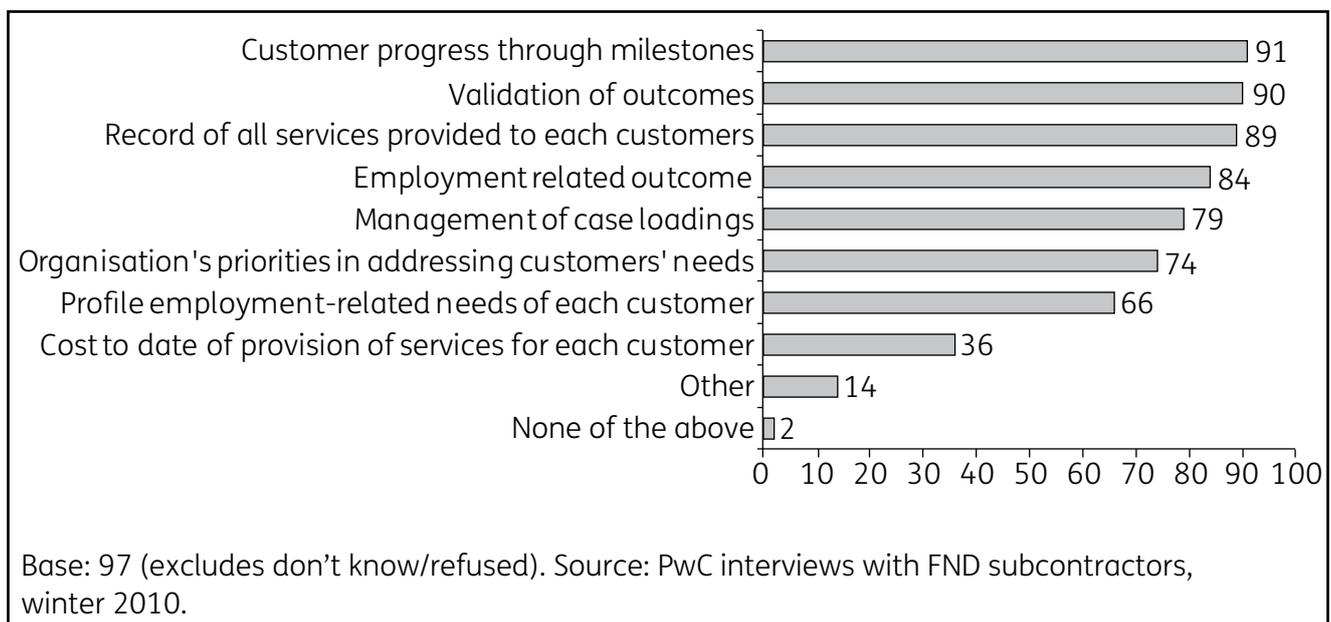
‘Yes, we [the prime provider] have a performance management framework so in the first instance people are put on notice that they are not good enough. They would then get more intensive interventions with the contract managers if that would continue. Then we set specific targets and ask them to do a performance improvement plan which we then monitor over a period of time.’

(FND prime provider)

However, some prime providers reduced referrals to the underperforming subcontractor as the first step in the process and then proceeded to work through the issues identified with the subcontractor. Those prime providers who operated this policy believed it generally resulted in a positive response from the under-performing subcontractor resulting in an improved performance. It was felt that this approach allowed the subcontractor to focus on their current customers to deliver an improved service as well as providing a financial incentive to improve with a reduction in their cash flow.

The level of intensity of this performance management process is reflected by the fact that subcontractors share a range of performance information, as illustrated in Figure 4.1, with their prime provider, often on a daily or weekly basis. In the vast majority (91 per cent) of cases, subcontractors’ performance is audited or independently verified by their prime provider and 86 per cent of subcontractors are reviewing their progress against the FND contract at least on a monthly basis.

Figure 4.1 Subcontractor data shared with prime providers



Subcontractors are also being proactive in their collection of performance management information. Almost two-thirds (62 per cent) of subcontractors are collecting additional information regarding programme delivery and outcomes than that which is requested by their prime provider. Examples include personal background of customers such as lone parents, customer satisfaction, in-work tracking, and financial monitoring such as work experience expenditure.

4.4.2 Underperformance and use of sanctions

Generally, prime providers had experienced some level of underperformance from subcontractors but none had actively terminated any contracts. For some the early termination of the FND contract itself had discouraged prime providers in pursuing underperformance by subcontractors as it had reduced the timeframe within which to work with subcontractors.

'I think where we are currently at as a contractor, in other words a year in [to the contract] you have got a period of bedding in, so if there are any significant examples of under-performance they would probably come up about now. But it is a bit late in the day to start taking corrective actions when you have only six months left in the contract.'

(FND prime provider)

This level of subcontractor underperformance experienced by prime providers is supported by findings from the subcontractors where four out of five (80 per cent) subcontractors have experienced some type of intervention from their prime provider for underperformance. The most common form of intervention from the prime provider cited by subcontractors is the holding of regular meetings to review performance with actions outlined to address identified areas of concern (64 per cent). This level of intervention appears high but could be linked to the prime providers' performance management process. Only a small proportion of subcontractors (five per cent) experienced more intense actions from their prime provider such as reduction in the number of referrals and provision of support from the prime provider in the area in which the subcontractor was underperforming.

Subcontractors were acutely aware that their prime provider could exercise sanctions if they were not performing as intended with respect to outcomes achieved. But while most (78 per cent) of subcontractors were aware that they could be subjected to a sanction by their prime provider just over one in ten (14 per cent) subcontractors had actually experienced any.

The most common sanction that subcontractors were aware of was termination of contract (73 per cent) followed by withholding payments (48 per cent) and reducing/freezing referrals (47 per cent).

4.4.3 Competition within supply chains

Prime providers had a mix of approaches to encouraging competition within their supply chains – for some it is open and somewhat aggressive with monthly performance league tables (including the prime providers' own offices) while for others it is more about collaboration and sharing of best practice.

'We would encourage friendly competition. Sharing best practice around what people do, sharing information with regards to performance and what's working and what's not, and then actively supporting those providers that may be less forward or require more specialist services because of the nature of their organisation.'

(FND prime provider)

One prime provider directed more referrals to subcontractors who were performing well after assessing whether the organisation(s) could increase their capacity to handle a higher number of

customer referrals. While another prime provider actively sought, wherever possible, to have more than one provider within an area, another prime provider would only have one end-to-end provider within an area as they felt that competition would dilute the value of the contract preventing subcontractors from investing in delivery.

All prime providers stated that they had processes or systems in place to share knowledge and encourage best practice across their supply chains with a majority (71 per cent) of subcontractors aware of such processes in place. Most prime providers stated that they hold regular meetings to share best practice among their subcontractors. Some had incorporated the process of sharing best practice into existing processes such as quality assurance procedures or contract and performance management while a couple of prime providers have dedicated teams focusing solely on best practice.

‘One of our assets is a product development and programme support team. Their job is to do exactly that, develop new ideas that work and identify good practice and share it. It seems to be working well. They go out to subcontractors to gather best practice and it is then shared across the whole supply chain.’

(FND prime provider)

Other examples of how best practice is shared within supply chains are provided in Table 4.3.

Table 4.3 Examples of sharing of best practice within supply chains

Examples of sharing of best practice
<ul style="list-style-type: none"> • Newsletters/bulletins distributed throughout the network. • Shared database. • Best practice meetings/forums. • Facilitation of networking. • Performance meetings. • Seminars. • Training of staff. • Website/e-mail updates. • Road shows/workshops.

Base: 14. Source: PwC interviews with FND prime providers, winter 2010/11; Base: 98. Source: PwC interviews with FND subcontractors, winter 2010.

A couple of prime providers did not believe that competition was relevant to their supply chain due to the different or specialist nature of services provided by their subcontractors.

4.5 Use of delivery partners (outside subcontractors)

4.5.1 Prime providers’ use of delivery partners

Almost all prime providers are working with a range of organisations outside their supply chain(s) in order to deliver FND as they recognised that by linking with other organisations or services that a better service is provided to customers. This is because, not only does it facilitate more individualised approaches for customers but it also allows providers to draw upon knowledge and expertise not contained within their own supply chains.

‘For example, we work with the Health Exchange, to advise clients on healthier lifestyles. We work with private training organisations such as Learn Direct. We have a very ethnically rich, diverse part of the country, there are Islamic support groups, Hindu support groups and so on and so forth. All of which we tap into...Customers are complex individuals. Because we are seeing people who have been out of work for at least 12 months, they tend to be people with multiple barriers. They may be quite simply without job, but then there will be people with disabilities, people with language issues, literacy issues, all sorts of issues...We certainly couldn’t deliver the full range of interventions that we would need to ourselves, it is not physically possible.’

(FND prime provider)

‘I do think it has translated into better customer service, but it is very difficult to be able to prove what would have been if they had not have had access [to these additional services], but the feedback from the customers is that the individual tailored approach is better than what they had experienced previously on other programmes and customers do feel it is more about them as opposed to having to just sit in a room and do something because that is what a contract says.’

(FND prime provider)

The organisations and services that prime providers (and subcontractors) are working with range from community groups to housing associations to organisations that deliver help and guidance, for example such as drug or health. The types of organisations that prime providers have used or are using are listed in Table 4.4.

Table 4.4 Examples of organisations prime providers are working with

Type of organisation
<ul style="list-style-type: none"> • Further education colleges e.g. training courses. • Community groups. • Organisations that deliver help and guidance e.g. drug, alcohol, health, disability. • Local authorities, for example Community Plan Partnerships. • NHS bridging services. • Private business networks/key employers (including Chambers of Commerce). • Citizen’s Advice Bureaux. • Ethnic minority support groups. • Housing associations. • Strategic partnerships in the local area, e.g. local economic development programmes. • Charities. • Employers.

Base: 14. Source: PwC interviews with FND prime providers, winter 2010/11.

However, one prime provider said they had been let down by local authorities not delivering what they were supposed to and that there were regional variations in how effectively organisations such as health bodies worked which made working with external organisations sometimes less effective than necessary.

All prime providers see working with employers as key with a number having dedicated teams or processes in place to manage relationships.

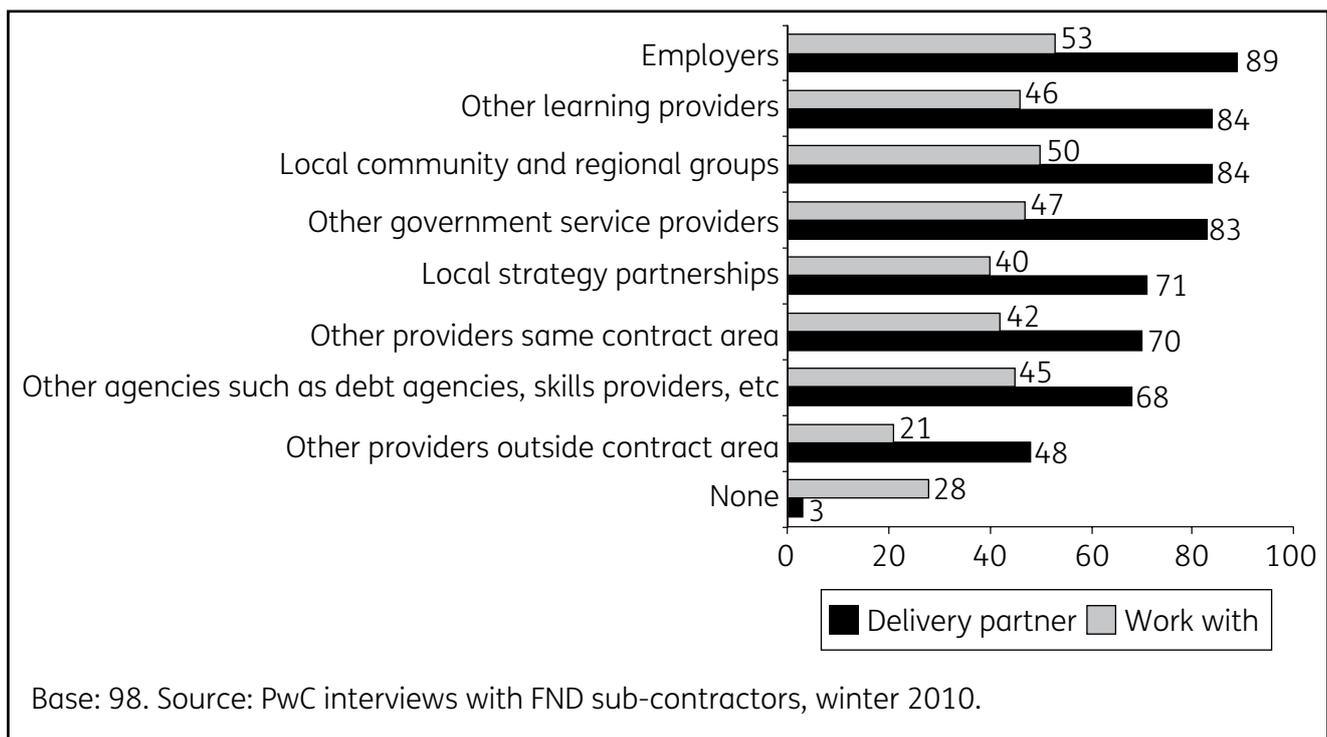
‘We have a number of host employers who actually come into our sites and set up mini work places of their own in our employment training centres offering work experience to our customers. We also participate in the local business community through the Chambers of Commerce, CBI and the Institute of Directors. We also talk to local authorities in terms of their local employment strategies which we participate in.’

(FND prime provider)

4.5.2 Subcontractors’ use of delivery partners

While FND supply chains remain short (as described earlier in Section 3.4.3) with the majority of subcontractors providing FND services directly on behalf of a prime provider, subcontractors are generally working with various other organisations outside their supply chain. Relationships with these organisations are either formalised through regular contact and payment, i.e. delivery partner or informal with subcontractors working with these organisations as and when required. Employers, other learning providers, local community and regional groups and other government service providers are the most popular types of organisations worked with as illustrated in Figure 4.2.

Figure 4.2 Types of organisations/stakeholders subcontractors work with



Examples of services accessed by subcontractors within these organisations include provision of training/skills such as vocational training and health and safety, assisting in the provision of specialist support such as housing and debt advice and working with special groups such as young people in danger.

4.6 The Merlin Standard

4.6.1 Providers' understanding and perception of the Merlin Standard

The DWP Code of Conduct was published as part of the DWP Commissioning Strategy in February 2008. It recognised the need to facilitate future healthy working relationships between prime providers and subcontractors, to ensure all providers act with integrity. To test the principles of the Code of Conduct DWP has developed an accreditation process designed to promote excellence in provider-led supply chains delivering welfare to work programmes. This is known as the 'Merlin Standard'. Work began in July 2009, and trial assessments of Flexible New Deal Phase One prime providers were carried out between March to May 2010. The findings of this study have been taken during the Merlin Standard pilot operation. All prime providers had an understanding of the Merlin Standard with a few actually being involved in its design. Most had undergone a Merlin pilot assessment. In contrast, two out of five (40 per cent) subcontractors did not have a clear understanding of the Merlin Standard with a higher proportion of these from public sector organisations than private or third sector.

Those prime providers who commented on how DWP communicated with providers about the Merlin Standard said it was effective with one provider giving examples of numerous email communications and the establishment of a portal providing daily updates on Merlin.

While prime providers were generally supportive of the basic principles of the Merlin Standard, some did suggest operational improvements to help drive its impact and effectiveness on supply chain relationships.

'I think the Merlin Standard is necessary. I think DWP has to have a mechanism to review quality and performance. It has to steward the industry and ensure a healthy market as well. The only issue is how it is being implemented by DWP, the bureaucracy of it. There must be a better way of going about it.'

(FND prime provider)

'I think the Standard itself is fine, I think any issues that we [the prime provider] have is, not so much in what the Merlin Standard says, but more how they [DWP] go about measuring or not measuring. I think is it more about the practical application of Merlin, which is where I think it has fallen down so far. I think the principles themselves are sound.'

(FND prime provider)

Suggested improvements are included in Table 4.5 and focus on the Standard itself, the associated assessment and the use of information arising from the assessments.

Table 4.5 Suggested improvements to the Merlin Standard by prime providers

Suggested improvement
• Publication of results of prime providers' Merlin assessments.
• Introduction of a transparent scoring system of prime providers.
• A quicker, less evidence-based process for Merlin assessments.
• Consolidation of the various standards or codes such as the Merlin Standard, Code of Conduct and Suppliers' Charter.
• Provision from DWP of a more detailed definition of supply chain management.

Base: 14. Source: PwC interviews with FND prime providers, winter 2010/11.

Those subcontractors (60 per cent) who stated that they understood what the Merlin Standard was about generally believed it was intended to improve relationships within the supply chain along with their own performance as illustrated in Table 4.6.

Table 4.6 Subcontractors' perceptions of what the Merlin Standard is intended to achieve

Intention of the Merlin Standard	%
Delivering a transparent/consistent approach to managing subcontractors	38
Achieving better assessment of the programmes being delivered	31
Ensuring relationships between prime providers and subcontractors are managed fairly	29
To improvement procurement and contract management	26
To protect subcontractors	21
To improve providers' performance	12
Strong partnerships	9
Improve professionalism of providers	7
Improve understanding of delivery	3
Other	7

Base: 58 (excludes don't know and refused), Source: PwC interviews with FND subcontractors, winter 2010.

4.6.2 Impact of the Merlin Standard upon provider relationships

There were mixed views from FND providers over whether the Merlin Standard has changed approaches to supply chain management. Most prime providers believed that the Merlin Standard had not significantly changed their approach to supply chain relationships as they were already operating to these basic principles before the Standard was introduced.

'The Merlin Standard values are already our values.'

(FND prime provider)

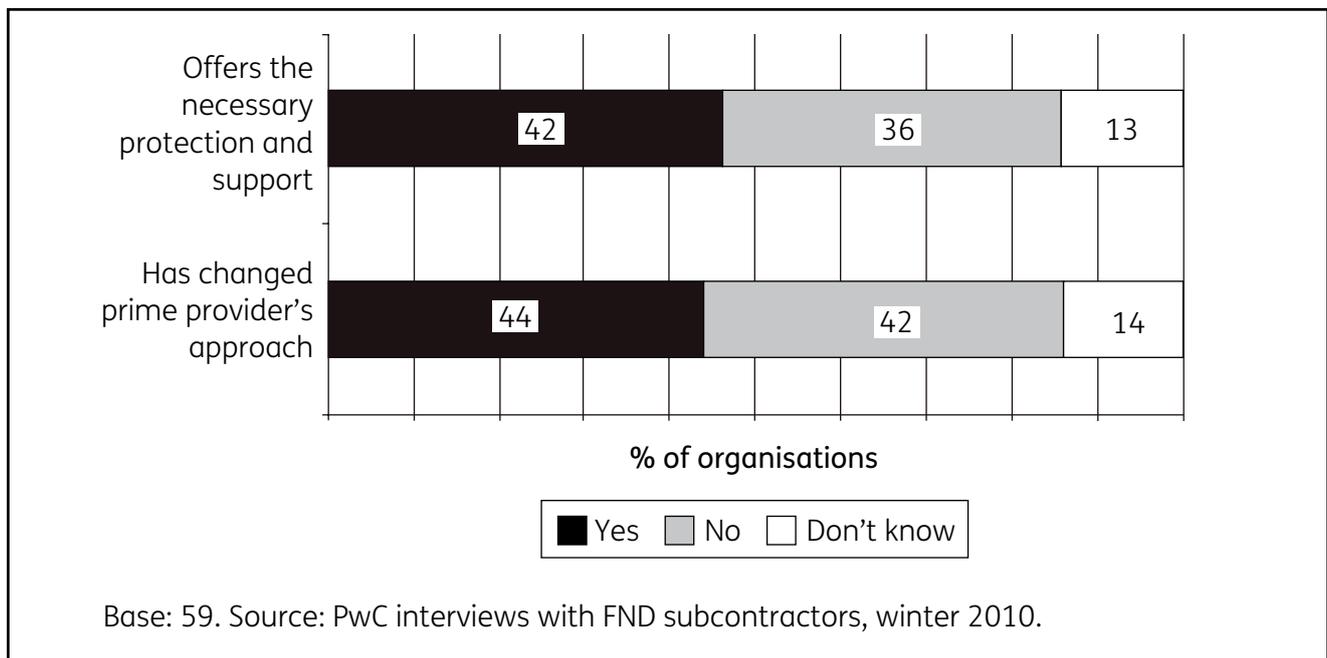
However, a few prime providers stated they had made minor changes after undergoing the Merlin pilot assessment and welcomed the feedback that the assessment process provided.

'It [the Merlin Standard] certainly puts some flesh on the minimum standard and we have had to review some of our subcontractors' management procedures to ensure that they comply with the Merlin Standard and we got an assessment early in the year which helped us with that. Did we have to change much? No, we came out pretty strong in terms of meeting the Merlin Standard.'

(FND prime provider)

As a whole, subcontractors, who had a clear understanding of the Merlin Standard, were divided over whether their prime provider's approach to supply chain had changed with the introduction of the Merlin Standard and whether it offered subcontractors the necessary protection and support in their dealings with prime providers as shown in Figure 4.3.

Figure 4.3 Impact of the Merlin Standard upon subcontractors and their relationships with prime providers



Examples given of how relationships with prime providers have changed included a better understanding or changes in the actual delivery of the programme and improved interactions between the prime provider and subcontractor. It was also mentioned by a small number of subcontractors that changes have occurred because prime providers are more aware that their actions are being monitored. Where relationships with prime providers had not changed this was generally because subcontractors had not experienced any problems to date along with the fact that the necessary systems in managing the supply chain relationships were already in place.

Where subcontractors believed that the Merlin Standard had provided them with the necessary protection and support in their dealings with prime providers this was mainly because of the introduction of standards of service and clarification of roles, responsibilities and expectations between the prime provider and their organisation. Where subcontractors did not believe that the Merlin Standard offers them the necessary protection and support there were various reasons including supply chain relationships remaining the same as before, there was no robust assessment of the Standard and that it was too early to assess the Standard's impact.

4.7 Conclusion

4.7.1 Key findings

Prime providers have adapted their contractual and payment arrangements for their supply chain to align with the nature of support provided or the size of the organisation. End-to-end providers are on formal contracts, generally mirroring DWP terms and conditions while specialist providers tend to have less formal relationships operating under service level agreements and spot purchasing or service fees. Some subcontractors have raised financial concerns with their prime provider regarding the FND contract with a proportion of these having asked for, or been offered, financial assistance from their prime provider. Financial issues raised by subcontractors were largely linked to the flow and volume of referrals and cash flow with prime providers addressing these through changing payment arrangements such as paying a flat fee or phasing in a new payment schedule.

Prime providers are actively managing their subcontractors through designated contract or performance management teams providing support and guidance as and when required. This support and guidance has taken a number of forms including building capacity, sharing best practice and revising payment schedules.

Performance management of the supply chain was taken very seriously by all prime providers with all conducting regular performance reviews. Most prime providers experienced, what they considered to be, some level of underperformance from their subcontractors. In addressing underperformance the prime provider tended to work through a process of identifying the issue and addressing this through action plans or training. On some occasions referrals were re-directed elsewhere in the supply chain.

There were mixed approaches to competition from prime providers with some actively encouraging competition within the supply chain through monthly performance tables while others focused more on collaboration and sharing of best practice.

The majority of FND providers are working with a range of delivery partners outside FND supply chains, both on a formal and informal basis. It was recognised by providers that linking to other organisations or services led to improved services through a more tailored and appropriate support. Organisations and services accessed by providers ranged from community groups to housing organisations to those delivering help and guidance to groups such as young people in danger or drug addicts.

Prime providers are generally supportive of the Merlin Standard with some process or operational-related suggestions for improvement. Most prime providers believed that the introduction of Merlin had not fundamentally altered their approach to supply chain management as they were largely adhering to the Standard already but a few mentioned they had made minor amendments in their processes.

Subcontractors are less clear about what the Merlin Standard is and what it is trying to achieve. Those who did have a clear understanding were divided over whether their prime provider's approach to supply chain management had changed with the introduction of the Merlin Standard and whether it offered subcontractors the necessary protection and support in their dealings with prime providers.

4.7.2 Recommendations

Based on the findings above, the following recommendations are made:

- **Conduct further analysis of the current risk/reward profile within supply chains:** Similar to Wave One, subcontractors are more concerned about the financial risks of operating under an outcome-based funding system than prime providers. DWP should conduct an analysis to identify the balance of risk and reward throughout supply chains which will inform the need for any corrective action to be taken or direction given to prime providers. This will help to ensure that subcontractors are being equitably treated and adequately rewarded within supply chains commensurate with the risks they are assuming.

5 Department for Work and Pensions capability

5.1 Introduction

This chapter examines various aspects of the Department for Work and Pensions (DWP's) capability since the introduction of the Commissioning Strategy, outlining areas of observed improvement as well as areas that could be improved upon further from a provider perspective. This chapter is structured as follows:

- Background context.
- Observed development of capability since Wave One.
- Areas where DWP capability could be improved upon further.
- Conclusion.

5.2 Background context

As part of the new commissioning principles, DWP has committed to developing its own capabilities through clarifying roles and responsibilities, investing in its skills base to support providers as well as working with providers using a partnership approach.

Subsequently, since the introduction of the new commissioning principles DWP has undertaken a number of actions to develop its own capability to positively support providers in delivering welfare to work services.

This has included making a number of changes to its internal structures with the objective of supporting providers further, building and sustaining relationships between providers, Jobcentre Plus and DWP as well as helping to ensure that the process is as smooth as possible. Changes to DWP's internal structure include:

- **the Provision Management Division (PMD)** has been established to bring together professional skills in supplier relationship, performance management and operational policy expertise into a single unit. The overarching objective of the division is to work with partners and key stakeholders to improve the design and delivery of provision as well as developing more strategic relationships with providers and other partners which maximises providers' contribution, builds on their experience and develops and shares good practice:
 - **the Account Management Teams** are part of the Delivery Directorate and sit within PMD. The teams have been established to help DWP and providers to work better together to drive up performance and improve value for money and customer service across all contracted employment provision (CEP). In total, there are ten account management teams which allow for flexibility in responding to changes in the market, for example, the introduction of the Work Programme. Account managers are responsible for developing strategic relationships with and assisting providers in achieving agreed performance targets as well as supporting the management of risks and issues individually and across the provider network and within DWP. Account managers also act as the 'go-to' person within DWP; and

- the **Provision Group Management – Jobseekers** also sits within PMD and is responsible for managing on-going performance of the contract including the role of Performance Managers charged with the responsibility for the effective performance, operational and service delivery together with improving performance and quality.
- the **Provider Assurance Team (PAT)** replaced the Jobcentre Plus Financial Appraisal and Monitoring Teams and sits within the Provision Performance Division (PPD) with the key function of assuring monies spent on CEP. Each prime provider is allocated a senior assurance manager as their main point of contact on such issues with the main aim of the team to review the effectiveness of providers' internal control systems. After each assessment the PAT issues prime providers with a detailed report rating their overall system as well as specific areas for improvement, if applicable.

The following sections will examine what developments to DWP's capabilities have been observed by both prime providers and subcontractors from the implementation of Flexible New Deal (FND) with a particular emphasis on the aforementioned changes to internal structures, before examining where providers feel additional improvements could be made.

5.3 Observed development of capability since Wave One

The Wave One research indicated that prime providers had mixed views regarding if, or how, DWP had developed its capability with similar numbers saying that they had seen improvements compared to those who had observed little or none. The Wave Two findings suggest that most prime providers have indicated that DWP's capability has improved since the introduction of FND with the remainder noting that this has remained much the same as prior to the implementation of the new commissioning principles.

'I would say that DWP's capability has improved overall, it's much more of a partnership approach with not so much policing. DWP are there to help us achieve success.'

(FND prime provider)

'DWP capability has certainly improved, they have recognised that they needed to step up and have done so by going beyond a transactional relationship to developing a strategic relationship with providers...DWP have moved beyond a tick-box focus and are trying to better understand our business.'

(FND prime provider)

The following sub-sections discuss in detail observed improvements to DWP capability by reflecting upon views and opinions expressed by providers with respect to three main components, namely the:

- Provider Referrals and Payment (PRaP) system including evidence requirements;
- impact of the introduction of the PMD; and
- development of relationships between providers and Jobcentre Plus.

5.3.1 PRaP system including evidence requirements

PRaP is designed to manage referrals and payments to providers and was introduced by DWP with FND to replace existing paper based systems as well as to facilitate the smoother exchange of information about customers referred for provision, and triggering payments to providers. PRaP performs an off-benefit check for all claimed job outcomes. If a claimed outcome fails this off-

benefit check (i.e. the customer is still claiming benefits) then providers are required to submit evidence to substantiate the claim. The evidence requirements process is therefore triggered by PRaP, but happens outside of PRaP itself.

In the Wave One research, both prime providers and subcontractors reported a miscommunication with regards to the resource requirements which introducing PRaP would have, particularly in terms of additional staff training and recruitment, the introduction of new systems as well as data security testing and strengthening. This, in addition to delays with the implementation of, and confusion in, operating the system had caused a degree of frustration among providers.

However, the Wave Two findings indicate that there is recognition by prime providers that PRaP has considerably improved since the early days of the FND programme.

The majority of prime providers noted that they had encountered various ‘teething’ problems with PRaP when first introduced, but that the efficiency of the system and how it is managed has improved from its initial implementation.

‘I think PRaP is a good system that has improved dramatically since the start of the programme...I hope that it is used for the Work Programme and that it is allowed to grow to become an even better system.’

(FND prime provider)

Some prime providers also mentioned that the system has become much easier to operate and that the PRaP Operational Support Team has significantly helped the situation in terms assisting providers’ concerns regarding the day-to-day operating of the system.

Generally, prime providers have continued to experience difficulties with respect to the FND referrals and payments process, particularly regarding the evidence requirements. Examples of issues raised concerned the need for DWP to communicate more clearly on what providers need to submit in the various employment categories as well as when this should take place.

There was evidence prior to Wave Two that suggested some prime providers were not claiming outcomes immediately. During the research prime providers were asked about this issue and there was a mixed response, with some expressing surprise that this was happening at all. The main reasons given to potentially explain this delay included the in-efficiencies of internal provider systems, technical issues with PRaP and the extent and complexities of the evidence requirements placed upon providers.

‘We are not claiming outcomes immediately because we want to make sure they are valid before we actually claim them...and that is just not as easy as obtaining the evidence, it is because sometimes the outcomes have been put into the system but are still being rejected... these concerns have been identified with PRaP and they are on-going issues.’

(FND prime provider)

‘Well, luckily it hasn’t [the evidence requirements] had a big impact on cash-flow because we had the necessary reserves. It has not been too much of a “backbreaker” for us. I mean the issues we had with some outcomes around PraP and the dates of customers and FND forms not agreeing with signing dates, we have had all sorts of issues there, but that would have caused major concerns for our subcontractors if we had not been able to pay them.’

(FND prime provider)

One prime provider noted that while they couldn't understand those who would not claim outcomes immediately, the only scenarios where they would potentially hold off from making their claim would be on other programmes, for example where they have over performed in one particular month and decided that they would delay making their outcome submission until the next month to assist with meeting monthly targets.

Despite the fact that there has been bureaucracy and misunderstanding around the evidence requirements, it should be noted that payments are automatic where the individual for whom a job outcome is claimed passes the off-benefit check. Table 5.1 details the FND job outcome claims failing the off-benefit check between January 2010 and January 2011, with the data illustrating that there has been variability in the quality of job outcome claims made by providers.

Table 5.1 FND job outcome claims failing the off-benefit check

	Jan-Dec 10 % claims failing off-benefit check	Apr-Jun 10 % claims failing off-benefit check	Jul-Sep 10 % claims failing off-benefit check	Oct-Dec 10 % claims failing off-benefit check	Jan-Mar 11 % claims failing off-benefit check
Provider 1	16	22	17	14	15
Provider 2	20	19	19	20	23
Provider 3	21	27	21	19	22
Provider 4	22	31	21	20	24
Provider 5	25	37	22	20	20
Provider 6	25	41	25	24	29
Provider 7	26	34	23	25	27
Provider 8	26	34	25	23	25
Provider 9	27	34	22	27	31
Provider 10	28	49	32	19	23
Provider 11	29	39	33	24	25
Provider 12	32	33	35	27	37
Provider 13	32	36	34	31	33
Provider 14	38	38	37	38	39
Total	27	32	26	25	27

Source: DWP internal statistics, 2010.

5.3.2 Impact of the introduction of the new performance management regime

The introduction of PMD with the various new management roles has been positively received, with most prime providers indicating that they have developed more meaningful and productive relationships with DWP since the introduction of the FND contract.

The Wave Two findings indicate that the development of more effective relationships between providers and DWP has been, in part, as a result of the team and the function they perform, including:

- the Account Management Team;
- the PAT Reviews;
- Provider Engagement Meetings (PEMs); and
- Provider Performance Reviews (PPRs).

Providers were asked to outline their understanding and views on the impact of the 'Account Manager' and 'Performance Manager' functions. There was a widespread understanding among prime providers about what the role of the Account and Performance Managers were as well as a positive endorsement as to how these new roles were communicated to providers by DWP.

'I actually think that the Account Manager role and the development of this new structure has been a really big success, we have seen a massive improvement on the back of it and we think DWP has done a really good job with it.'

(FND prime provider)

Most prime providers believed that the Account Management function had helped to improve their relationship with DWP with the majority also agreeing that this had led to closer working practices between their organisation and DWP.

Prime providers generally welcomed the 'PAT Reviews' with all but one having been subject to at least one review at the time of Wave Two's fieldwork. Prime providers also reported that while the level of evidence required for the completion of the provider reviews was extensive, most agreed that this was necessary to allow meaningful and robust review. All providers who had been subject to a review believed that this had enabled them to improve their internal systems with the PAT reports widely welcomed.

'There was a lot of information required for our Provider Assurance Team Review. It was very in-depth and seemed to cover a huge amount of information... I think it gave DWP a better understanding of the quality of our work and we were happy with the report...The level of evidence seemed too much at the time, but it is hard to see how it could have been different and still get the same level of understanding.'

(FND prime provider)

Providers were also asked to detail their understanding of the Performance Manager role and its links to both PEMs and PPRs. Both the PEMs and the PPRs were very well received by providers with most reporting a clear understanding and positive response to the meetings. The communications from DWP in this respect were said to be clear and informative.

'The Provider Performance Reviews ensures that we are focused and that we create a Performance Improvement Plan ensuring that we are ticking over each month and that we continue to move in the right direction.'

(FND prime provider)

From the Wave One findings providers have indicated that DWP staff needed to become more commercially aware as well as to have more clearly defined staff roles. The Wave Two findings suggest that some prime providers have noted that the internal re-structuring initiated by DWP has helped to create new, clearly defined roles which have helped to build and develop relationships. This indicates that there has been recognition, particularly among prime providers, that DWP has addressed the concerns noted in the Wave One research.

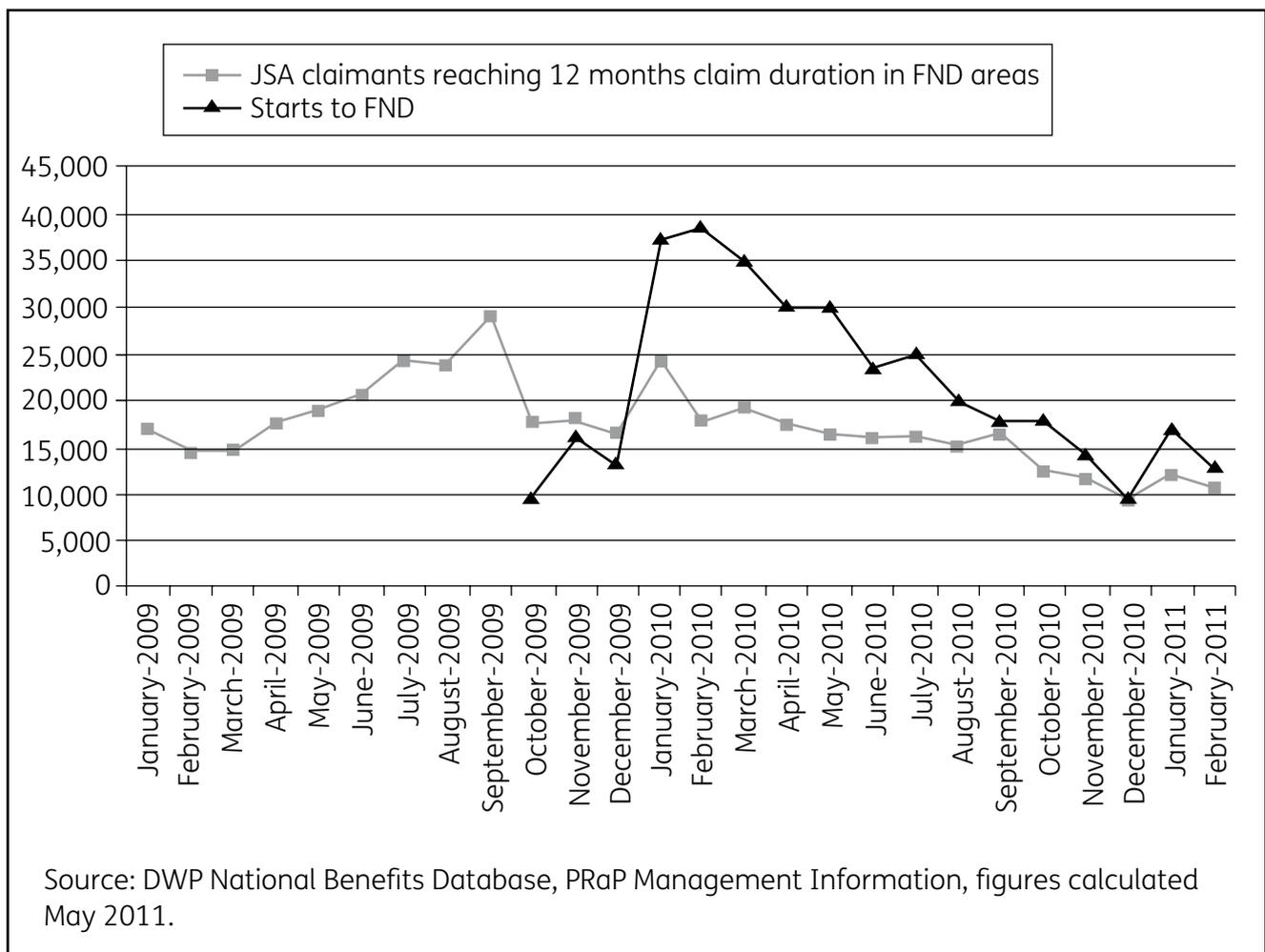
A few prime providers noted however that they would like to see their Account Managers have more autonomy and input in terms of decision making, noting that they are often informed of decisions by letter without having had the opportunity to make a contribution.

5.3.3 The development of relationships between providers and Jobcentre Plus

Prime providers have invested considerably in terms of building relationships with local Jobcentre Plus offices and their key personnel. DWP, as part of their internal restructuring mentioned in Section 5.2, has also developed internal relationships with Jobcentre Plus through the Provision Group Managers in PMD as well as Account Managers that have been assigned as contacts with Jobcentre Plus at the Customer Services Directorate level.

Figure 5.1 illustrates that there was a considerable backlog in the number of pending referrals during the early months of FND resulting in large numbers of starts as the backlog was being cleared from January 2010 onwards. More recently, starts have come into line with threshold flows and those referred now mainly consist of claimants who reach the 12 month trigger point on Jobseeker's Allowance (JSA). This is consistent with the reports of improvements to PRaP and improvements to the relationships between prime providers and Jobcentre Plus that are detailed in this chapter

Figure 5.1 Number of JSA claimants crossing the 12 month benefit claiming thresholds



Communications between providers and Jobcentre Plus have improved in some geographical areas since Wave One, where it had been reported that relationships in some contract package areas had been 'variable'. However, some providers are now working closely with Jobcentre Plus personnel including inviting them to work at the providers' premises in order that they are able to advise customers in a much quicker and more efficient way.

‘Generally, our relationships with Jobcentre Plus are very good. In a lot of places we have Jobcentre Plus staff working on our premises which is very helpful when a customer comes into our office to raise an issue concerning their benefit entitlement as it can often be quickly addressed by the Jobcentre Plus staff on the premises...This process is more seamless.’

(FND prime provider)

There appear to be differences between those providers who have been operating in the market for a longer period of time and new market entrants, as the former have been able to leverage and develop existing relationships with specific Jobcentre Plus personnel thereby helping the referral process and wider communications to improve.

New market entrants experienced more challenges in developing relationships with Jobcentre Plus as it has taken these providers longer to build up the necessary network of contacts as well as becoming more familiar with working with and seeking advice from Jobcentre Plus.

‘We had a slow start in developing relationships in some parts of the region, but we made a change in staffing roles that allowed more time to develop relationships with Jobcentre Plus.’

(FND prime provider)

It was noted through the Wave One findings that providers wished to see improved communications with Jobcentre Plus, which on the basis of the Wave Two findings has been significantly improved.

5.4 Areas where DWP capability could be improved upon further

Both prime providers and subcontractors were asked which areas regarding DWP’s capability they believed could be improved upon further. For prime providers the key areas where further improvements could be made included the need for PRaP to support better informed performance management information.

In terms of improvements to the basic functionality of PRaP, some prime providers indicated that downloading/uploading separate pieces of information was overly time consuming with one prime provider noting that they have staff with the specific task of accepting PRaP referrals on a one by one basis which was viewed to be somewhat inefficient and in need of improvement.

Subcontractors were much more sceptical with many questioning the extent of improvements to DWP’s capability. The main areas where subcontractors wished to see an enhancement to DWP’s capability concerned improving processes, for example regarding referrals and communications as well as the need for DWP to have an improved knowledge of subcontractors’ needs. This would imply that whereas prime providers should be the main contact and drive referral and communication processes throughout their supply chain, subcontractors perceive that there is a responsibility on DWP and/or Jobcentre Plus to oversee and monitor these processes. In addition, it should be noted within the context of issues with referrals that issues may actually arise as a result of human error through information inputted incorrectly by Jobcentre Plus advisers, rather than the system itself.

Prime providers also noted that there needed to be a more efficient interface between PRaP and their own internal systems. In addition, most prime providers have also not observed a linkage between improvements to PRaP with internal efficiencies or cost savings with some providers questioning the returns on their initial investment in order to become PRaP compliant.

‘We would like to see a single data entry system where we can interface our internal systems with PRaP... We have all this information sitting in excel files, it needs to be slicker than that.’

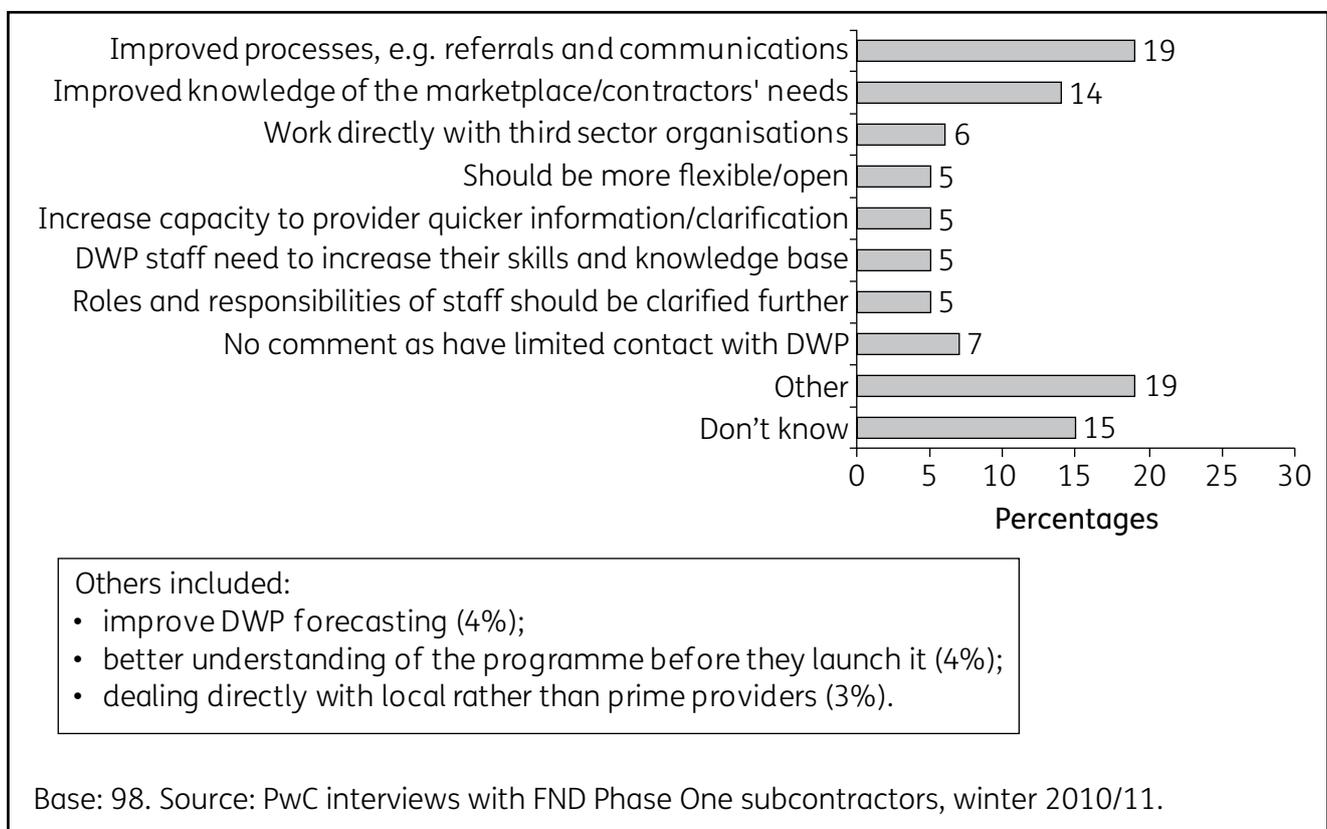
(FND prime provider)

The key aspects that prime providers stated that Jobcentre Plus could improve upon included instilling a greater partnership approach and alignment of respective goals between the providers and Jobcentre Plus. Another area for improvement mentioned included ensuring that Jobcentre Plus can process sanctions more swiftly in order that customers can see that action will be taken in response to non-compliance.

Subcontractors were less convinced regarding improvements to DWP’s capability in comparison with prime providers with just under two-thirds (61 per cent) observing little or no improvement to DWP capability since the introduction of FND.

The main areas where subcontractors wished to see DWP enhance their capability further concerned improving the processes for referrals and communications (19 per cent) as well as the need for an improved knowledge of the marketplace and subcontractors needs (14 per cent). Interestingly, other research¹² has highlighted that some subcontractors attend PEMs despite not having a contractual relationship with DWP. There were also a significant proportion of subcontractors (15 per cent) who didn’t know or couldn’t comment on specific areas where DWP could enhance their capability.

Figure 5.2 Areas where DWP could enhance their capability for subcontractors



¹² DWP Report No 758: Flexible New Deal evaluation: Customer survey and qualitative research findings.

As previously noted, prime providers have generally welcomed the introduction of the new structures within the PMD, particularly with respect to the positive impact that the Account and Performance Manager Functions have had on relationships. There was more scepticism however among prime providers concerning the extent to which these new roles had led to cost savings or the promotion of innovation and the findings would suggest that providers would like to see better communications from DWP on these particular aspects.

5.5 Conclusion

5.5.1 Key findings

Overall, a majority of prime providers have indicated that DWP's capability has improved with the remainder noting that this has remained much the same as prior to the implementation of the new commissioning principles. This represents somewhat of a shift in opinion since Wave One as prime providers had a much more mixed view regarding DWP's capability in the first phase of this research.

Some of the key steps taken by DWP in respect to developing its capability have included the internal restructuring around the PMD which has had a tangible and positive impact on working relationships with prime providers through instilling a greater partnership approach. The PAT Reviews have been very positively received by prime providers, who have been able to clearly link these reviews and the feedback provided to improving their internal systems, making the time and resources required to prepare for the reviews worthwhile.

This research would suggest that while much progress has been made in developing relationships with prime providers the strategic element of these could be developed further, for example, prime providers are not yet associating the new roles such as Account Manager as bringing benefits of cost efficiencies or innovation and new market entrants would welcome more support from DWP regarding assistance in developing relationships with Jobcentre Plus and other networks of provision.

While recognising that further improvements are necessary, prime providers have also noted significant improvements to the ease of using the PRaP system which has helped their day to day operations. However, more efficient interfaces with internal systems, an improved performance management capability as well as more accurate information on customer referrals were said to be key areas that could be improved upon further.

Subcontractors continue to have mixed views regarding improvements to DWP's capability, with just under two-thirds (61 per cent) observing little or no improvement to DWP capability since the introduction of FND. The key areas where subcontractors believed that DWP could enhance their capability further concerned improving processes on customer referrals and communications as well as the need for DWP to improve their knowledge of the marketplace and particularly subcontractors' needs.

In summary, this research highlights that generally prime providers perceive that DWP has developed its own capability since the implementation of FND. However, it is important that DWP keeps improving and developing its capabilities further in order to continue playing a strategic role within the contracted employment provision marketplace.

5.5.2 Recommendations

- **Continue to develop a partnership approach with prime providers through the PMD, utilising both Account Managers and Provider Performance Reviews (PPR) to move relationships onto a more strategic level:** prime providers have welcomed the introduction of the new functions under PMD which have helped to improve relationships and working practices with DWP. However, prime providers have yet to associate the roles, such as Account Manager, as bringing benefits of cost efficiencies and facilitating innovation. New market entrants would welcome more support from DWP regarding assistance in developing relationships with Jobcentre Plus and other networks of provision. There is therefore the potential for the DWP to work with prime providers more strategically. In addition, prime providers would like to see these new DWP structures embedded for consistency purposes.
- **Review the PRaP system and referral process along with the evidence requirements and continue to work with prime providers in utilising PRaP to its full capability:** prime providers have noted marked improvements to PRaP in comparison with the early phase of the FND contract but still desire to see further improvements, for example, less stringent parameters around submitting data on evidence requirements. Prime providers would also like to see the PRaP system developed further in terms of its performance management capabilities, as it was perceived that this would significantly improve the system and the benefits that providers could derive from it. However, DWP in the first instance should continue to work with prime providers to assess whether they need more guidance or training on how to more effectively use PRaP to realise its full potential and how it can be used to help manage referrals. This should also help DWP gain a better understanding of the challenges prime providers are encountering on a day-to-day basis. Any substantial system changes should undergo a cost benefit analysis.
- **Enhance subcontractors' understanding of their role in the marketplace through using the Merlin Standard both as a mechanism to embed DWP's market stewardship role as well as a tool to drive an effective top tier provider model through monitoring its effectiveness:** while many subcontractors stated that they believed the prime provider role to be valuable, the research indicates that they are missing the direct relationship with DWP. Continued communications with subcontractors – either through information portals such as the Merlin Standard Portal or through prime providers themselves – should focus on reinforcing DWP's market stewardship role and its rationale of leading to more effective and efficient service provision. This may help subcontractors fully appreciate the change in emphasis in contractual relationships, particularly in terms of how prime providers have assumed responsibility for the active management of supply chains from DWP and of the positive impact that this should have for subcontractors. In addition, the Merlin Standard should continue to be used as the main mechanism to assess prime providers' communications and actions with their supply chains to ensure that prime providers are facilitating sustainable and excellent subcontracting relationships. Published Merlin assessments should not only drive excellence between prime providers' supply chains by engendering a level of competition but should also provide subcontractors with an open process to assess which supply chain they would like to be a part of. As the Merlin Standard embeds within the marketplace as a recognised industry standard, its implementation along with its communication to all providers presents a good opportunity to help subcontractors gain a greater understanding of their role, the prime provider's role and DWP's role within the new top tier market structure.

6 Provider capability

6.1 Introduction

This chapter examines the component of provider capabilities as set out in the Commissioning Strategy and providers' responses to it. This chapter will also discuss the development and changes to provider capabilities since the introduction of the Flexible New Deal (FND) including the impact that this may have had on customer experience.

This chapter is structured under the following headings:

- Background context.
- Providers' investment since the introduction of FND.
- Customer experience.
- Impact of the black box approach.
- Conclusion.

6.2 Background context

Department for Work and Pensions' (DWP's) approach to commissioning Contracted Employment Provision (CEP) in the welfare to work market has changed with the introduction of the Commissioning Strategy with the development of a more strategic relationship with providers based on a partnership model.

Under the Commissioning Strategy's principles, prime providers also had to satisfy a number of capability related requirements. This includes commercial viability and financial strength, supply-chain management and performance, in addition to the ability to leverage expertise and resources to deliver effectively along with programme and project management.

The Wave One findings largely confirmed that providers believed these principles to be appropriate and commensurate with the size of the contracts they were tasked to deliver. Commercial viability, including size and financial and operational capability, was viewed by all provider types as key to being successful in winning and delivering welfare to work contracts such as FND.

In Wave One, prime providers also felt most confident in their ability to deliver effective programme and project management and ability to bring in expertise, but also stated that they had least experience in supply chain management and development.

The following section will discuss the key areas that providers have invested in since the introduction of FND, before examining the potential impacts this may have had upon the customer experience.

6.3 Providers' investment since the introduction of FND

Almost all prime providers have continued to invest in their capabilities, often substantially, in order to deliver the FND contract.

In particular, new market entrants noted that the investments they made in order to deliver the FND contract, in terms of acquiring new premises and infrastructure helped to secure the continued viability of their business, as well as equipping them with the capacity to deliver similarly sized contracts.

The most significant investments made by prime providers have continued to be with respect to the development and maintenance of IT systems, the refurbishment of premises and on-going recruitment and training, as well as the management of staffing levels – particularly in light of the early fluctuation in customer referrals.

Similar to the Wave One research, prime providers have continued to make substantial investments in their IT capabilities, particularly in terms of meeting the data security requirements of the contract. Some prime providers noted that these investments were extensive but also noted that they understood the reasons why this was necessary as well as identifying the benefits that this could provide their organisations in the long-term.

Prime providers have also made significant investments in building and developing relationships, for example, with Jobcentre Plus as well as effectively managing their respective supply chains.

‘Yes, these investments have helped us improve our delivery of the FND contract, our investment was mainly about making sure that the data security requirements were done properly, that has helped us as it’s much tighter...I think that this investment will benefit us in the long-term, it has equipped us up to run other contracts.’

(FND prime provider)

Just under half of prime providers noted that they had made further investments to their premises and office properties since the introduction of the FND contract. This largely included the refurbishment of customer adviser offices to be aesthetically more welcoming and comfortable for those referred under the programme. Other prime providers noted that they had invested in recruiting or training new staff in order that they could deliver their customer journey more effectively.

Prime providers have also mentioned that these investments, while often costly in both resources and time, have helped them to deliver the FND contract effectively, in addition to providing them with the capacity and market presence to deliver similar contracts including the Work Programme.

‘As an organisation as a whole we have used FND as a trigger to undertake some major restructuring of the business going forward. We invested in a new IT suite, software, and hardware and also changed the way our offices were laid out...This will be beneficial for the future.’

(FND prime provider)

6.3.1 Operational challenges faced by providers in delivering the contract

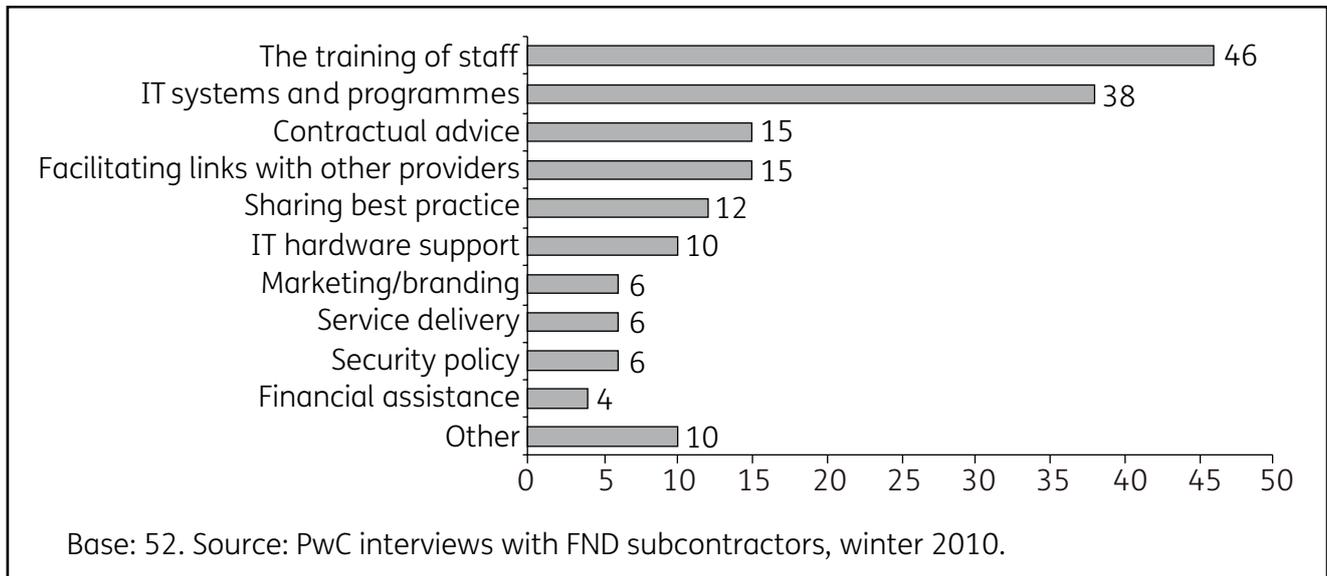
Providers have also overcome a range of challenges in delivering the FND contract, not least becoming familiar with new contract package areas, the impact of the recession as well as managing flexible and high performing supply-chains, in addition to staff development and recruitment.

‘I would say the main challenge that we have faced has been staffing across the whole contract. There has been a huge amount invested in staff development...We have a lot of staff with a range of experience, very good in terms of New Deal provision, dealing with customers in classrooms etc...but FND is a very different approach, it moves away from a tutorial to more of a personal adviser approach and being able to broker other training options which staff would not have had to do previously.’

(FND prime provider)

Just over half (55 per cent) of subcontractors indicated that they had received assistance from their prime provider, suggesting that prime providers have developed and strengthened their capability in terms of managing and developing their supply chains compared with Wave One

Figure 6.1 Areas where prime providers have assisted subcontractors to develop their capabilities



The main areas where subcontractors have received prime provider assistance has been with respect to staff training (46 per cent), support to develop their IT systems and programmes (38 per cent) as well as contractual advice (15 per cent).

One of the key areas where prime providers have had to make additional investments has been with respect to managing the fluctuation in customer referrals, which according to prime providers was a major challenge in the early stages of the FND contract due to inaccurate forecasts.

The impact of this, for prime providers, has been two-fold. Firstly, it has resulted in inducing greater levels of investment on the part of prime providers, particularly in terms of developing new customer forecasting models, managing more flexible supply chains and investing time and resources in building relationships with Jobcentre Plus. Secondly, this unforeseen investment has resulted in prime providers becoming much better equipped to manage periods of high and low demand which has ultimately improved their wider capability in resourcing and maintaining a high level of customer service.

‘We were quite smart in the way we handled the fluctuation in customer referrals, we took a phased approach to organising our resources...We worked out the peaks and troughs and tracked the trends, which enabled a more flexible resourcing plan.’

(FND prime provider)

‘To address the fluctuation in customer referrals we held off on some sites where we knew the volumes would be lower, we slowed down on the development of premises where the volumes wouldn’t need a full-time office and we lowered our head count because we knew the volumes dropped, but would pick up as time went on.’

(FND prime provider)

Prime providers have demonstrated strengthened capabilities in terms of having stronger, more robust financial strategies and high performing supply chains to manage and react to the early termination of the FND contract. This is a further example of how prime providers have begun to demonstrate the required capabilities under the Commissioning Strategy and settle in their role as a top tier provider.

In addition and as with Wave One, prime providers appear comfortable operating within outcome-based funding structures, which further supports the view that these providers now have the financial capability and size as well as experience of delivering similar contracts for this change not to have a negative impact. Subcontractors however were more sceptical of this change and have indicated that this will be a bigger challenge for them to overcome. (This is expanded on in further detail in Chapter 7).

6.4 Customer experience

The following sub-section examines providers' views with respect to the extent to which the commissioning principles have had an observed impact upon the customer experience including measures adopted to help those furthest from the employment market.

More than half of prime providers have indicated that the commissioning principles have had a positive impact upon the overall customer experience, based upon the feedback they have received from their own customers and staff.

The personally tailored customer journey which providers have developed has been welcomed and said to have had a positive impact on the overall customer experience. In particular, prime providers have noted that this has had a positive impact upon those customers who have been out of the employment market for a significant period of time.

'The customer experience has been very positive particularly because it is more of a personalised customer experience.'

(FND prime provider)

Some prime providers also noted that the experience of customers has been improved and enhanced as a result of the outcome-based payment provision which has helped to focus advice and guidance on employment outcomes. In addition, the refurbishment of customer adviser offices to become more attractive and welcoming has been said to help customers settle into the programme in a more positive way. Prime providers' views that customer experiences had improved was based on positive customer feedback they had received which commended the more personalised customer journeys and the friendly, welcoming environment. This improvement to customer experiences during FND as stated by prime providers would need to be compared with other research conducted with FND customers¹³ to provide a complete overview of the FND programme.

Subcontractors have also taken significant steps to improve their offering to customers by investing in more intensive staff training and recruitment as well as working closely with external stakeholders, for example Local Authorities and Skills Agencies, particularly to assist the hardest to place customers.

Other prime providers were less positive highlighting a number of factors under the new commissioning principles which they perceived as negatively impacting upon the customer

¹³ DWP Report No 758: *Flexible New Deal evaluation: Customer survey and qualitative research findings*.

experience. This included too much change in a short space of time, for example the changes to DWP personnel and internal structures, as well as a concern that, in relation to sustained job outcomes and customer experience, the constrained jobs market and spending cuts may impact upon the balance of meeting sustained job outcomes versus addressing long-term customer needs.

6.4.1 Helping the hardest to place customers

Most prime providers have implemented specific measures to assist the hardest to place customers or those with the most complex barriers preventing them from gaining employment as part of implementing FND. The remaining prime providers who had not introduced specific measures to assist the hardest to place customers stated that this was because they had already built into their delivery models for other contracts prior to FND, assessments or measures to assist customers on an individual basis and therefore there was no need to introduce any changes.

Steps that prime providers have taken include forging partnerships with external experts/groups to develop novel diagnostic approaches. Prime providers have also developed closer relationships with specialist providers in order that they can effectively sign-post customers for further advice, in addition to building relationships with local employers to assist with placement programmes and potential employment opportunities.

‘In terms of those customers who are hardest to place, we are putting our staff through life coaching/training so they are fully focused on the needs of challenging customers.’

(FND prime provider)

‘We have worked with more specialist providers relevant to those customers who are difficult to place, so engaging the support of specialist providers is critical...Also the customer journey design lays out different routes for different customers, this has allowed us to plan and resource around those different customers...We are working with a range of specialist providers including organisations that help former offenders, mental health advisers and we also have a variety of green related placements which allows young people to not get tied down in an office and opens up horizons.’

(FND prime provider)

A number of examples of the measures that prime providers have adopted to help those furthest from the employment market are highlighted in Table 6.1.

Table 6.1 Prime provider measures to help the hardest to place customers

Prime provider measures
<ul style="list-style-type: none"> • Targeting resources and intensive adviser support to those who need it most. • Working closer to and having greater liaison with specialist providers so that the hardest to place are provided with the nature of support that they need. • Life coaching and training for provider staff so that they are fully equipped to work with and advise challenging customers. • Building partnerships with external experts to develop diagnostic approaches so that critical barriers can be identified and addressed at an early stage. • Inviting employers to visit provider offices to provide customers with information about their sector/ business – often referred to as ‘taster sessions’. • The development and extension of the MWRA programme for those with complex barriers. • Intensive in-work support programmes to assist hardest to place customers to remain in jobs once they have obtained them.

Base: 14.

Source: PwC interviews with FND prime providers, winter 2010.

Subcontractors appear to be working much more actively with specialist partners and external stakeholders when compared to Wave One findings, for example to ensure that customers are being provided with tailored advice and services commensurate to their needs. This suggests that subcontractors are aware that they are often referred customers with complex barriers which are preventing them from entering the employment market, reinforcing the importance of working closely with niche organisations that can provide specific advice and guidance to assist these customers in their wider journey.

Table 6.2 details a variety of organisations that subcontractors are working closely with as well as the types of support that they can offer their customers.

Table 6.2 Examples of where subcontractors are working with external partners

Stakeholder	Examples of partnerships to deliver better customer service
Other operators operating in the same contract area(s): e.g. Local Authorities and Development Trusts	<ul style="list-style-type: none"> • Referrals (12%) • Transfer of customers through FND stages (12%) • Specialist support (10%) • Provision of training/skills development (10%)
Other Government service providers: e.g. Probation service, Jobcentre Plus	<ul style="list-style-type: none"> • Social/community based services (13%) • Training (for example, English for Speakers of Other Languages and workshops on VAT) (13%) • Work placements (11%) • Specialist services (11%)
Other learning providers: e.g. Further Education Colleges, Universities, Local Authorities and Skills Agencies	<ul style="list-style-type: none"> • Vocational/occupational training programmes (29%) • Work-based learning (11%) • Numeracy/literacy skills (9%)
Employers: e.g. Government, NHS and Regional Assemblies	<ul style="list-style-type: none"> • Job opportunities (35%) • Work placements (23%) • Employer courses (8%) • Apprenticeships (8%)
Local Community and Regional Groups: e.g. Charities, NHS, Local Authorities	<ul style="list-style-type: none"> • Specialist support services (27%) • Work experience opportunities (12%) • Cross-referrals (6%) • Developing networks (6%)
Local Strategy Partnerships: e.g. Local Authorities, Skills Bodies and Primary Care Trusts	<ul style="list-style-type: none"> • The provision of local employment opportunities (10%) • Delivery of specialist advice (10%) • Networking (5%)

Base: 39-52.

Source: PwC interviews with FND subcontractors, winter 2010.

In addition to the above, just over half (54 per cent) of subcontractors noted that they have adopted new approaches for managing the hardest to place customers. Examples of the types of new approach adopted have included offering increased mentoring and in-work support to customers (28 per cent) offering basic training opportunities (21 per cent) as well as undertaking additional assessments with these customers (19 per cent).

6.4.2 Impact of sustained job outcomes upon customer experience

Just under half of prime providers indicated that they had changed their methods and approaches in response to the sustained employment outcomes provision under the new commissioning principles. The remaining prime providers noted that they were already operating within a sustained job outcomes context under other employment programmes, with an emphasis on seeking longer-term employment opportunities for their customers.

The main method that prime providers have used in order to achieve sustained employment outcomes has been to work with and forge deeper relationships with local employers in their respective geographical areas so that their customers could potentially be considered for pending employment opportunities.

'The key aim is employer engagement, that's why we have a sole function that is responsible for engaging with employers to work with our customer base...That way you can get more sustainable outcomes.'

(FND prime provider)

In addition, the personally tailored customer programme that prime providers have adopted has also been a key factor in helping to achieve sustained employment, with advisers afforded greater freedom to map their customer journeys with a greater emphasis on the importance of longer-term opportunities.

The research also suggests that providers have continued to be pragmatic in response to the need to achieve sustained outcomes, including developing and utilising more up to date labour market information as well as targeting particular sectors where longer term employment prospects are more likely. In addition, as highlighted in Table 6.1 prime providers also mentioned that they have developed intensive in-work support programmes to assist hardest to place customers to remain in jobs once obtained.

Most prime providers agreed that seeking sustainable employment is likely to be more beneficial for the customer and their wider experience as they would be much better off in longer-term employment as opposed to temporary short-term positions. However, it was also mentioned that the existing constrained jobs market was making it much more difficult to place customers into any form of employment.

'We need to be careful that we are not preparing people for jobs that don't exist.'

(FND prime provider)

Concern was also expressed among a few prime providers that the impact of the constrained jobs market may lead to providers focusing more on employment outcomes rather than customer needs which could have an overall negative impact upon the wider customer experience.

6.5 Impact of the black box approach

Prime providers generally stated that the new commissioning principles have had a positive impact on customer's experience because of the black box approach.

'The black box has been the most positive aspect of the new commissioning principles...It has enabled us to be more flexible and to tailor our services to meet individual customer needs.'

(FND prime provider)

'The whole black box approach issued by the Department is the right thing to do... This is about addressing individual needs rather than putting programmes in place that prescribe a series of interventions.'

(FND prime provider)

Prime providers have also noted that the black box approach has enabled them to be more innovative in terms of service delivery, particularly in terms of the flexibility that this gives providers to tailor their advice and guidance to individual needs. An example of developing innovative methods under black box included one prime provider commissioning an external expert to examine whether their services effectively met the needs of younger customers and the recommendations and lessons derived from this were shared throughout their supply chain. Another example cited to highlight the level of flexibility and autonomy under black box included one prime provider being able to organise and run a six week apprenticeship for some of their customers, at the conclusion of which they provided the customers with bicycles to enable 'green' commuting. This apprenticeship assisted their customers in becoming better prepared for the employment market and helped to develop their skills. This prime provider stated that the flexibility to convene and run such a scheme was helped as a result of the principles underpinning the black box.

Despite this, while most providers welcomed the reduced prescription and its positive impact on customer service, the aforementioned examples of innovation were somewhat isolated, suggesting that there is further scope for the development of innovative approaches under black box.

Just over half of prime providers noted that pivotal to the positive impact of the black box approach has been that it reinforces the view that the FND programme, and how it is delivered, is about the customer as an individual and addressing their needs on an individual basis.

However, while the flexibility and ability to be innovative under the black box approach has been largely welcomed, prime providers would like to see even more autonomy through less prescription from DWP. This is because some prime providers believe that they are now fully familiar with the role they have been charged to deliver and would like to see even less prescription in future employment-related contracts, particularly with respect to having to facilitate fortnightly customer review appointments as well as Mandatory Work-Related Activity (MWRA). It should be noted that the fortnightly contact requirement was not an original part of the FND design, but was a measure put in place when the service fee for the total unit cost to carry providers through the recession was increased from 20 per cent to 40 per cent. This therefore supports the view that if reducing the extent to which the contract is outcome funded, that the level of DWP prescription should be increased.

'The concept of the black box approach has worked. However, there is certainly room to improve it, as there are too many mandated processes that we have to do that I would be happy not to... For example, we see our customers every fortnight which has limited use and we also have a mandated twenty working days of MWRA...I am not saying I am against any of those concepts in principle but I think that the level of intervention should be determined on the basis of each client's individual situation.'

(FND prime provider)

A couple of prime providers described the black box approach as the right thing to do in theory but that in practice it had become more of an 'opaque box', largely as a result of the levels of prescription and regulation around fortnightly appointments, which if removed would give prime providers the freedom to fully manage their customer journey based on individual need.

6.6 Conclusion

6.6.1 Key findings

The Wave Two findings indicate that providers have increased and developed their capabilities since the introduction of the FND programme and have begun to settle into their role as a top tier provider in comparison with Wave One.

Prime providers have made significant investments both in capital and time in order to meet the Commissioning Strategy's requirements expected from top tier providers, particularly in terms of project and programme management for effective delivery as well as financial capability.

The research has also indicated that prime providers are managing and advising their subcontractors much more effectively compared with Wave One, including providing direct assistance on staff training, IT systems and contractual issues which have been positively received and endorsed by subcontractors.

Prime providers have begun to demonstrate their capability of being a top tier provider by being able to manage the early fluctuation in customer referrals. This represented a significant challenge to providers' plans but illustrated their enhanced capability in terms of the speed at which they reacted and the measures that they put in place to successfully manage this. Prime providers were able to develop and implement customer forecasting models to assist them in how to plan and react to periods of both high and low demand which has equipped them much more effectively throughout the remainder of the contract.

In addition, while the early termination of the FND contract represented a significant challenge to their wider capabilities, most prime providers have been able to call upon their renewed financial and operational capability in response to this development. The Wave One findings indicated that prime providers believed that commercial and financial capability were key components to delivering large welfare to work contracts such as FND, and as such, the Wave Two research has illustrated that prime providers are now beginning to demonstrate this capability in their reactions to the contract termination.

Providers have also developed their capabilities through the flexibility afforded to them mainly as a result of the black box approach, for example through developing new diagnostic tools and forging external stakeholder partnerships. This has enabled and given the freedom for prime providers to be more innovative in their service delivery, particularly in terms of the flexibility to tailor their advice and guidance to individual customer needs. However, prime providers would like to see even more autonomy in this respect and some have been frustrated by the continued level of prescription within the FND contract that still applies to facilitating fortnightly customer appointments in addition to the mandatory elements of the MWRA programme. Prime providers, generally, believe that they are now in a much better position to assess customer need on an individual basis. The Work Programme should in part be able to address this concern, as it is aimed to afford even further flexibility than has been the case with the FND contract.

Both prime providers and subcontractors have also developed their capabilities in terms working with the hardest to place customers, which has included investments in novel diagnostic approaches as well as developing much closer relationships with specialists and local stakeholders to ensure that the needs of these customer's are effectively identified and addressed. As all FND providers have developed these capabilities and prime providers have generally adapted their payment structures to facilitate specialist providers and their type of provision, i.e. they are paid by service delivered, this would indicate that prime providers have taken cognisance of the challenge of securing sustained outcomes both for themselves and for their subcontractors.

The key challenge for providers has continued to be 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 with a view to identifying sustainable employment opportunities for customers. Some providers have also expressed a concern that the impact of the limited labour market may impact upon the balance of meeting sustained job outcomes versus addressing longer-term customer needs.

In summary, this wave of research highlights that providers have increased and developed their capabilities since the introduction of the new commissioning principles, mainly due to the high levels of investment as well as their experience of delivering the FND contract. However, it will only be through customer feedback and performance measurement that a more objective view of provider capabilities, their appropriateness and their strength will be obtained.

6.6.2 Recommendations

- **review the balance between regulation and flexibility in service delivery:** prime providers have welcomed the autonomy and added flexibility afforded to them under the Commissioning Strategy; however they wish to have even more freedom and responsibility in terms of how they manage the nature and type of services delivered. For example, prime providers would like to see the level of DWP regulation, particularly with respect to existing requirements concerning fortnightly appointments and the mandated elements of the work-related activity placements, relaxed further with full responsibility devolved to prime providers. DWP should continue to monitor the performance outcomes and customer feedback across different supply chains and contract package areas to gauge the optimal balance between regulation and flexibility in service provision;
- **monitor the risk/reward balance in a changing marketplace:** prime providers have readily embraced the sustained employment outcome-based funding under the new commissioning principles, but there is some concern among providers as to what the potential impact of this could be in what is a changing market environment due to the current economic climate. In the forthcoming period it will be important to monitor the appropriate risk/reward balance for providers with a particular emphasis on ensuring that all providers within supply chains are equitably treated; and
- **continue to facilitate the sharing of best practice in terms of measures to assist the hardest to place customers:** the research has illustrated the various measures that providers have adopted to assist the hardest to place customers, for example the development of novel diagnostic approaches and external expert partnerships and collaborations. DWP may wish to consider the further facilitation of the sharing of good practice methods in this respect both within and between supply chains in order to help raise overall levels of performance.

7 Commercial and financial issues

7.1 Introduction

This chapter examines the commercial and financial issues experienced by the Flexible New Deal (FND) providers operating under the new commissioning principles. The chapter is structured as follows:

- Background.
- The move toward larger and longer contracts.
- Impact of outcome-based funding on providers.
- Conclusion.

7.2 Background

The commercial strategy component of the new commissioning principles was designed to encourage competition between existing suppliers within the welfare to work market while also making the market attractive so as to encourage new entrants. The provision of larger, longer contracts and the structuring of payments based on outcomes were designed to achieve competition which would in turn be the main lever in driving value for money.

‘We will build a competitive market with larger and longer contracts, rewarding providers for sustained outcomes and significantly reducing costs, using competition on a continuing basis as the spur to greater effectiveness.’

(Department for Work and Pensions (DWP), 2008a, p21)

It was intended that through the FND contract, competition would be enlivened by offering customer choice areas (areas in which more than one prime provider operated) and by shifting market share to the highest performing providers. However, due to the termination of the FND contract, customer choice and shifting market share were not introduced as intended¹⁴. As initial reactions to these elements of commercial strategy were gathered in Wave One of this research, they have not been a subject of focus in this second wave of research.

Therefore, the following sections are focused on two areas of the commercial strategy component that are concerned with:

¹⁴ It was originally outlined in the FND Phase One specification (DWP, 2008b, p12) that for the first 18 months of operation in choice contract package areas customers will be allocated on a 50:50 basis. In the subsequent 18 months a provider’s market share could fall to a minimum of 40 per cent and grow to a maximum of 60 per cent in five per cent increments based on customer choice. From year three onwards the ratio was to change to a minimum of 30 per cent and a maximum of 70 per cent. Due to the termination of FND contracts customer choice was no longer trialled under FND however competition between providers will be a key feature of the Work Programme where market share will shift to the organisations that are performing the best.

- **the move towards larger and longer contracts:** how providers view the commercial attractiveness and viability of contracts such as the FND; and
- **impact of outcome-based funding on providers:** how providers have reacted to the move towards outcome-based funding and whether, in their opinion, the rewards outweigh the risks in operating within this new marketplace.

The findings from the Wave One research showed that the move toward larger, longer contracts and outcome-based funding had resulted in most FND providers and unsuccessful bidders commercially appraising the FND contract. However, the intensity of appraisal by providers decreased the further down the supply chain, with prime providers tending to use a minimum of four techniques, subcontractors generally one or two and unsuccessful bidders generally only one. While prime providers were settling readily into outcome-based funding in the Wave One research, many subcontractors were concerned about the financial impact of the move away from service based funding. Within the following sections, comparisons with the Wave One research findings have been made where appropriate.

7.3 The move towards larger and longer contracts

Prime providers generally continued to view the market as more commercially attractive than subcontractors who were less positive about the viability and profitability of longer and larger contracts such as FND. For those prime providers that did not believe that the market was attractive or was becoming less attractive, the reasons cited ranged from the impact of the economic recession, a perceived increase in risk, e.g. due to cancellation of contracts and increased working capital requirements and an increase in contractual requirements, e.g. data security.

7.3.1 Commercial viability and referrals

All prime providers stated that larger and longer contracts such as FND that lasted over a five year period would be financially viable. It was noted by some prime providers that a contract offered over five years allows for a 'steady state' of performance to be reached as well as relationships with both DWP and delivery partners to be developed and solidified.

'The five year contract works better because with shorter contracts there is a change in providers which leads to a lot of inefficiencies and you then have that 18 month learning curve all over again. It is in year four and five where you hit your peak performance.'

(FND prime provider)

There was a distinctly mixed reaction from subcontractors about whether their current financial terms and conditions with prime providers would be viable over five years. Issues with referrals, such as type and volume, emerged as a key concern among subcontractors and were the main reasons why some (43 per cent) subcontractors did not believe their terms and conditions were sustainable. Alongside profit margins, concerns regarding the type and quality of referrals were more prevalent among end-to-end providers. In contrast, specialist providers were more concerned with the level and volume of referrals. These differences are understandable when considering the nature of the contracts held with prime providers; for example, in general end-to-end providers are more likely to receive an overall higher number of referrals than a specialist provider but their payment terms would stipulate a lower payment per outcome due to the absence of a service fee element that specialist providers might receive. In the Wave One research, prime providers stated that their main operational challenges were managing discrepancies in actual versus forecasted referral levels and subsequent fluctuating referral volumes. While referrals still represent a challenge, most prime

providers who mentioned referrals in this second wave of research, stated that levels were sufficient, with some prime providers stating that they were able to take actions to manage the fluctuations such as downsizing their operations or implementing staffing solutions, e.g. freezing staff levels or lowering headcount.

'The number of referrals was not what was predicted but they were sufficient, we adapted, we planned to have ten offices and now we have five.'

(FND prime provider)

'The referrals are up to about 65 per cent of their original profile so what that means is that we and our subcontractors have bigger properties than we needed and what we modelled for but we have been able to manage the impact of this to a certain degree.'

(FND prime provider)

Although stating that referrals were generally sufficient, some providers did note that they had experienced a recent drop in referrals which has resulted in levels being inadequate; the termination of the contract was mentioned as a possible cause.

'Referrals were sufficient up until about nine months ago. When the Work Programme was announced, things started to slip a bit.'

(FND prime provider)

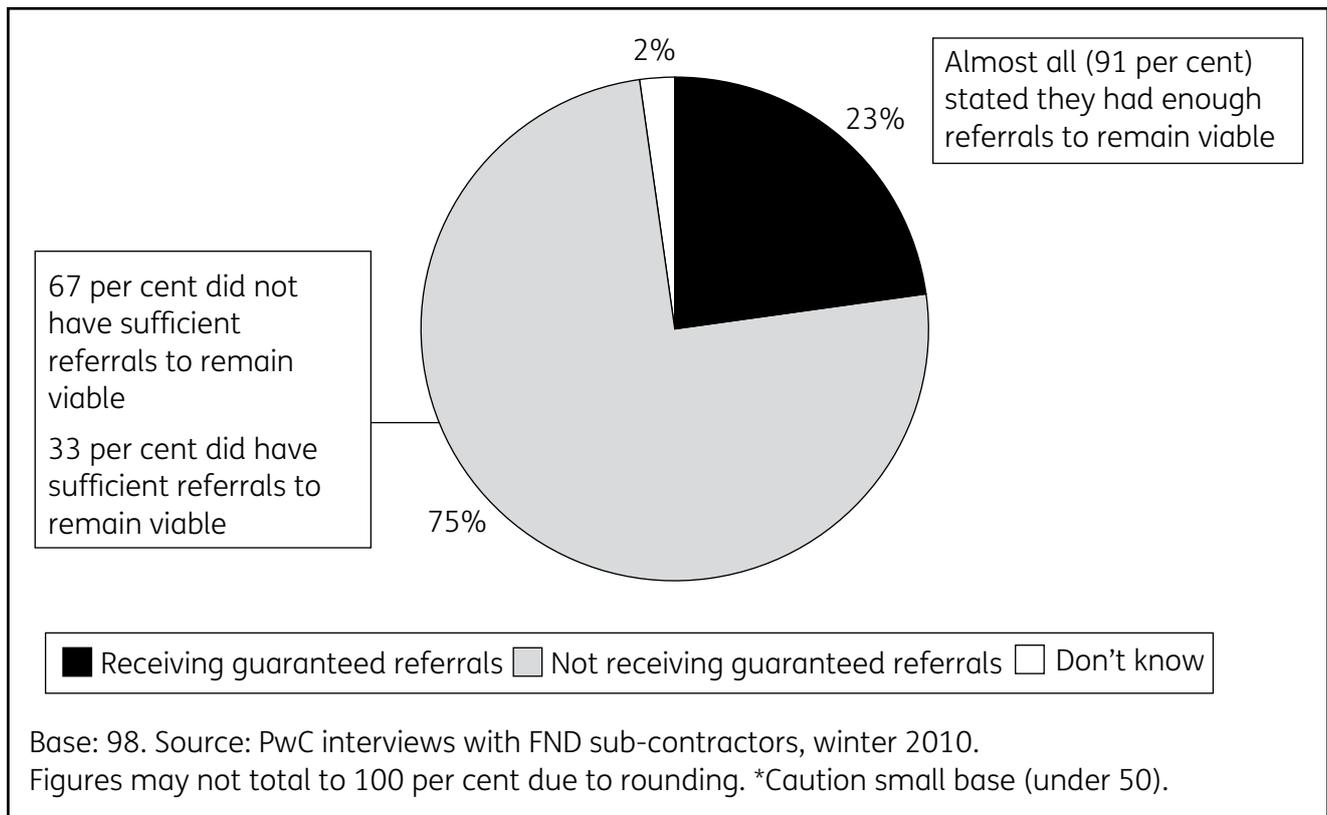
'The numbers of referrals up to 12 months were at 60 per cent mark so within the tolerance banding, however, recent referrals have rapidly dropped. We think it is because of the termination but regarding the profiles which we have agreed with DWP around the reductions, they are a lot lower than what we expected. They have dramatically gone down, especially when we know the stock's in the system.'

(FND prime provider)

However, DWP data reflects that almost all of the reduction in referral numbers can be accounted for by the reduction in the number of customers being eligible for FND.

In contrast, just over half (52 per cent) of subcontractors were finding it more challenging than prime providers to maintain the viability of their operations due to the level of referrals they received. Unsurprisingly, for some subcontractors their opinions on the viability of delivering the FND contract were linked to whether they were receiving guaranteed levels of referrals. In other words, those subcontractors who were receiving guaranteed referrals were more likely to state they had sufficient volumes to remain viable than those subcontractors who were not receiving guaranteed referrals.

As illustrated in Figure 7.1, prime providers are generally still not providing guaranteed levels of referrals to subcontractors, with less than a quarter (23 per cent) of subcontractors receiving guaranteed numbers of referrals. In the Wave One research, guaranteed minimum referral levels emerged as a key issue during prime providers' contract negotiations with their subcontractors. After one year of delivering FND, almost half (48 per cent) of subcontractors are still concerned about the viability of delivering the FND contract without receiving guaranteed referral levels. If subcontractors are receiving payments dependent on volumes (i.e. they are not guaranteed) they will not have the same 'cushion' towards risk as the prime providers who receive a fixed monthly service fee, which provides a guaranteed income and less of a financial risk.

Figure 7.1 Percentage of contractors receiving guaranteed referrals

7.3.2 Profitability

The Wave One findings showed that prime providers spent extensive time and effort appraising the commercial aspects of the FND contract by using a minimum of four modelling techniques, including reviewing case loads, length of time on provision, length of contract and cash flow. It appears that despite the early termination of the contract most prime providers' profits have remained largely in line with their expectations with some prime providers stating that they maintained profitability by taking mitigating actions. These mitigating actions included cutting costs to protect profit margins and downsizing operations, premises and staff in response to lower and fluctuating levels of referrals.

Those prime providers whose profits were lower than forecasted stated that this was because of difficulties in achieving forecasted conversion of referrals into job outcomes, the economic recession and the fact that investments had been made on the basis of a five year contract.

'We have had a reduction in the service industry and we have been finding that outcomes have been more challenging to get. When FND came out we weren't in recession, we hadn't seen the banking crisis so in that sense everything has been a different ballgame.'

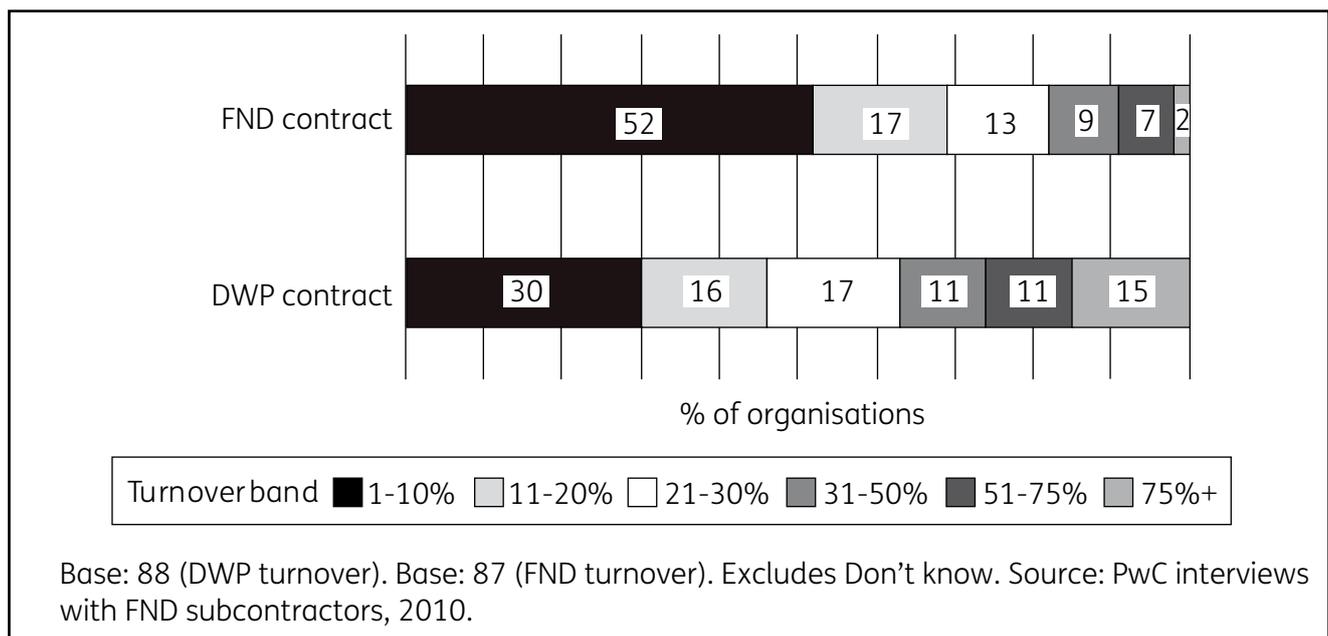
(FND prime provider)

'We haven't actually managed the conversion rates of entrants to outcomes; it was harder than we thought. I think it was the candidates that we hadn't appreciated; we hadn't worked with them on such a large scale before so we weren't ready for the big flows. Also, we went into recession which didn't help.'

(FND prime provider)

It is interesting to note that the percentage the FND contract represented of a prime provider’s total turnover varied largely, ranging from one per cent of total turnover to 100 per cent of total turnover. This variance reflects the differing types of organisations that are currently delivering the FND contract such as larger multi-billion turnover organisations to new entrants to the welfare to work market. Conversely, and as detailed in Figure 7.2, for almost three-quarters (73 per cent) of subcontractors, the FND contract represented 30 per cent or lower of their total turnover for the year. Interestingly, the FND contract is more likely to contribute more than 30 per cent of income for end-to-end providers than specialist or specific providers.

Figure 7.2 Percentage of subcontractor turnover derived from FND and DWP contracts



In the Wave One research, most subcontractors (66 per cent) believed that the FND contract would either impact positively on their profits or that their profits would be unaffected. It now appears that subcontractors have been impacted more heavily than they had anticipated, with almost two-thirds (63 per cent) of subcontractors not reaching their expected profitability levels. As previously mentioned, a sizable minority (43 per cent) of subcontractors were also not convinced that the terms and conditions they held with their prime providers would be viable over a five year contract with volume, type and delays in receiving referrals being the main reasons cited.

7.3.3 Expected performance by prime providers versus actual performance

Analysis of provider performance data that DWP has undertaken suggests that in general, prime providers are not achieving the level of outcomes that they have been contracted to deliver, even after accounting for the impact of the economic recession. The data states that at the end of FND year one, a cumulative conversion rate of 13.7 per cent of short job outcomes to starts was expected, however, the actual conversion rate was in fact almost half at 7.3 per cent. A number of reasons could be contributing to prime providers’ failure to reach these performance targets.

It is possible that prime providers are finding FND customers more difficult to place into sustained employment than they had anticipated at bid stage. This is supported by the fact that prime providers have been identifying gaps in their provision and thus have been adding specialist providers to their supply chains in order to cater for the needs of their customers. This movement

within supply chains is discussed in more detail in Chapter 3 – Market Structure. The fact that prime providers are adapting their supply chains to cope with customer needs suggests that they did not perform adequate due diligence appraisals at bid stage of the contract package areas in which they would be operating. In the Wave One findings, although all prime providers conducted in-depth commercial appraisal only four prime providers conducted customer profiling exercises.

Operational challenges that prime providers faced during the year may also have contributed to lower than expected levels of performance, especially during the initial stages of delivery. Several prime providers commented that they found the time scales between signing contracts with DWP and actual delivery of FND quite short and this presented issues with regards to finding premises, implementing IT and dealing with staff, e.g. recruitment of experienced staff to deal with customers and also training of staff. Despite these difficulties, the performance expectations and levels of outcomes at this stage in the contract were adjusted accordingly to allow for a period of operation set-up.

In the contract award of future employment programmes, it may be useful include an element of reviewing past performance of providers against agreed targets to ensure DWP value for money.

7.4 Impact of outcome-based funding on providers

As in the Wave One research, subcontractors are more acutely aware of the move toward outcome-based funding than prime providers. Both prime providers and subcontractors have noted positive benefits such as more performance focused activity and positive cultural change within their organisations. However, for subcontractors the negative impacts of outcome-based funding still outweigh the positive impacts and the financial difficulties of operating under outcome-based funding remain.

7.4.1 Impact of outcome-based funding

Prime providers remained largely unconcerned by the move to outcome-based funding. As illustrated in Table 7.1, more prime providers noted operational or business impacts rather than financial impacts of delivering the FND contract.

Table 7.1 Examples of how outcome-based funding has impacted prime providers

Impact
<ul style="list-style-type: none"> • Positive cultural change. • More performance focused activity. • Increased cost awareness. • Better planning and performance tracking. • Increased awareness of investment and returns. • Less interest by providers in temporary jobs. • Stronger employer relationships.

Base: 14.

Source: PwC interviews with FND prime providers, winter 2010/11.

Similar to Wave One, some prime providers stated that their familiarity with delivering other DWP contracts under outcome-based funding has meant that they have not been significantly impacted. For other prime providers the move to outcome-based funding has increased their organisation's focus on performance, with a few noting that this has also positively changed the attitudes and culture within their organisation.

'In truth it has not been a hardship for us because our organisation was formed to deliver the Employment Zone which were output related programmes so FND is just another step on a journey that we have been on for some time.'

(FND prime provider)

'It is a positive thing as you are getting paid by results as it drives the right attitude in the organisation. There are some challenges moving to an outcome-based funding arrangement but that is to be expected.'

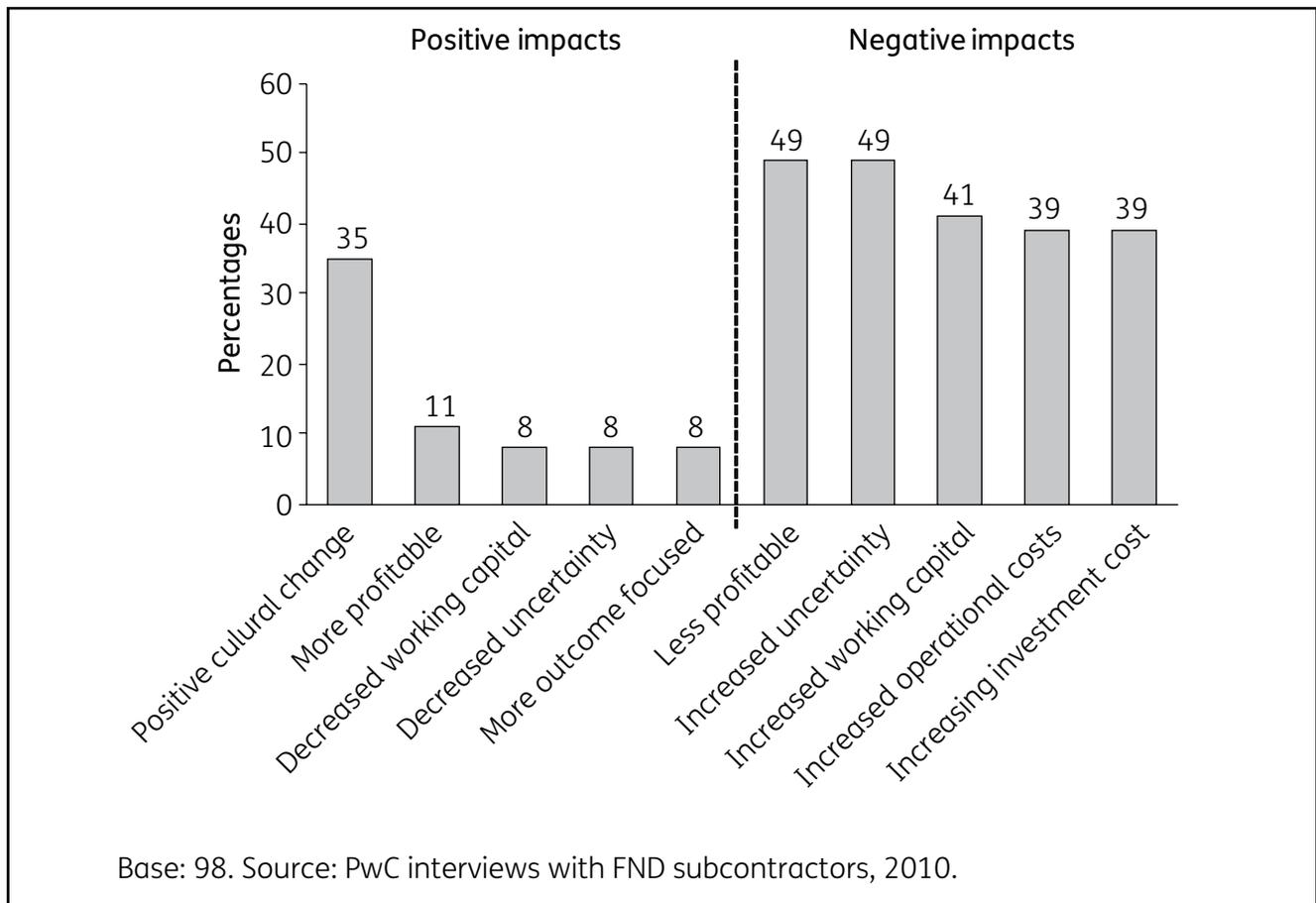
(FND prime provider)

One prime provider did raise a concern that the sustainability aspect of the payment arrangements, for instance full payment after a customer has stayed in a job for six months, may mean that some industry sectors and temporary jobs of a certain length are being given less consideration by providers.

'The way it is structured at the moment, is that you are really only looking for a particular sort of job for your customer. So, if you are going to be paid on a 16 hour job then that is what you are going to have to get. You are not interested in anything else; you are not interested in a temporary job or one that runs out. You are much more target focused but there are going to be huge sectors of the economy that are not going to be addressed.'

(FND prime provider)

Although subcontractors are less positive than prime providers about the move to outcome-based funding, some subcontractors have experienced positive benefits, as illustrated in Figure 7.3. Similar to some prime providers, just over one-third (35 per cent) of subcontractors are undergoing positive cultural change prompted by the move to outcome-based funding. This could be attributed to the more performance orientated focus and better targeted activity that was cited by prime providers in this wave of research. Despite this, almost one-third (32 per cent) of all subcontractors believed that there were no positive impacts of the move toward outcome-based funding. In fact, the negative impacts of outcome-based funding for subcontractors still outweigh the benefits; with a decrease in profitability and an increase in uncertainty within the marketplace being the most commonly noted negative impacts. However, there is an indication that subcontractors have not been as heavily impacted as they had previously anticipated in the Wave One research. For instance, twelve months into delivering FND, fewer subcontractors stated that they had experienced negative impacts than subcontractors had originally anticipated at the beginning of the FND contract.

Figure 7.3 Main impacts for subcontractors from outcome-based funding

7.4.2 The risk/reward equation and the use of financial strategies

Prime providers generally believed that the risk/reward equation for the FND contract was appropriate, which at the time of this research was 40 per cent service fee/30 per cent sustained employment (13 weeks)/30 per cent sustained employment (26 weeks). Although, details had not yet been released at the time of the interviews some prime providers did express concern about the balance of risk/reward equation in the forthcoming Work Programme.

As in Wave One, prime providers were equally split between those that employed financial strategies to manage outcome-based funding and those that did not, generally as they had sufficient internal financial capability to deliver FND under the contract's terms. The financial strategies used by prime providers ranged from revolving credit facilities, overdraft facilities and investment plans with only one provider having to refinance.

In contrast, subcontractors are continuing to find the move toward outcome-based funding more financially challenging than prime providers. This is reflected by the increase in the number of subcontractors raising financial concerns with their prime providers which has risen from 46 per cent in the Wave One research to 60 per cent in Wave Two research. As illustrated in Table 7.2, which notes financial concerns raised by subcontractors, the issue of referrals is the main concern alongside payment arrangements with prime providers. The most commonly raised concerns by end-to-end and specialist providers related to the quality, amount and delays of referrals and providers delivering a specific part of FND were also concerned with payment of their staff.

'The amount of referrals goes up and down each time and we find it hard to place people when a large amount of referrals come in.'

(FND subcontractor)

Table 7.2 Examples of financial concerns raised with prime providers by subcontractors

Subcontractors have raised concerns regarding:

- The quality and type of referrals.
 - Amount of referrals budgeted and delays in receiving referrals.
 - Being unsuccessful in receiving client numbers.
 - The move to payment by results.
 - Payment of staff.
 - The change in payment schedule.
 - Level of service fees and payment amount/terms.
-

Base: 59. Source: PwC interviews with FND subcontractors, winter 2010.

To successfully deliver FND services under outcome-based funding, almost four out of five subcontractors (79 per cent) needed to use some form of financial strategy while just over one fifth (21 per cent) did not use any financial strategies. The most commonly used strategies were utilising balance sheet assets and renegotiating terms with employees or suppliers. There were a small number of subcontractors that used financial strategies (19 per cent) who refinanced mainly through parent companies or through banks.

Although more subcontractors are now raising financial concerns than in the Wave One research, it is interesting to note that the number of subcontractors actually seeking financial assistance, such as changing payment arrangements by their prime provider, has not increased and remains relatively low (13 per cent).

Table 7.3 illustrates some examples of the financial concerns raised by subcontractors with their prime providers, which include the amount and quality of referrals as well as the move towards outcome based payments.

Table 7.3 Examples of financial concerns raised by subcontractors with prime providers

Subcontractors have raised concerns regarding:

- The amount of referrals budgeted and the delays in getting them.
 - The type or/and quality of referrals.
 - Not being successful in achieving client numbers.
 - The move to payment by results.
 - Payment schedules, payment amounts and terms.
-

Base: 14.

Source: PwC interviews with FND subcontractors, winter 2010/11.

7.5 Conclusion

7.5.1 Key findings

Similar to the Wave One research, prime providers are generally positive about the introduction of larger and longer contracts which were viewed as not only viable but also profitable opportunities. It was believed that the duration of contracts such as FND offered a sufficient length of time to reach optimal operational performance and to develop the necessary relationships to successfully and effectively deliver the contract. Referrals seem to be less of an operational concern than in the Wave One research, with prime providers believing that the levels of referrals were sufficient before a recent drop in volume reported by some prime providers. To manage the lower than forecasted numbers and fluctuations, prime providers have taken mitigating actions such as scaling down the size of their operations. While prime providers have generally been able to maintain profitability, achievement against cumulative performance targets has not been maintained, raising questions as to how profits are still being protected when associated conversion rates of starts to outcomes are almost half their predicted levels. This could be due to a number of factors however, if the key issue is that prime providers are finding FND customers more challenging to deal with, this suggests that prime providers did not conduct adequate due diligence into the customer profiles of their contract package areas at bid stage.

Subcontractors continue to be less positive about the viability of the FND contract with their concerns focusing on the level, type and quality of referrals that they were receiving. These concerns were the key reasons why subcontractors did not believe that the terms and conditions they held with prime providers were sustainable. In addition, subcontractors are, as in the beginning of FND, lacking guaranteed referrals from their prime providers which are having an impact on whether they believe their FND operations will remain viable. The lower volume of referrals being a cause of concern for subcontractors is understandable due to the revised forecast levels, the economic recession and the lack of guaranteed referrals from prime providers. However, subcontractors have also expressed concerns regarding the quality and type of referrals from prime providers which raises a wider issue about why subcontractors are raising these concerns. It may be helpful to investigate whether these concerns are linked to how prime providers make referrals to subcontractors, for instance whether they use an automatic quota based referral process or they undertake a manual assessment of the nature of customer referrals before allocation to subcontractors. Conversely, subcontractors' concerns about referral quality and type may not be linked to the referral process but may be because they are finding FND customers themselves a more challenging type of customer.

Although financial strategies were employed by some prime providers to manage the move toward outcome-based funding, similar to Wave One, prime providers in general have experienced little impact with several having previous experience of delivering outcome-based funding contracts. Positive impacts of the move to outcome-based funding have been noted by both prime providers and subcontractors such as an increased focus on performance and positive culture change. Despite this, subcontractors are still more acutely aware of the negative impacts of the move toward outcome-based funding with a reduction in profits and increasing uncertainty within the marketplace the most noted. Although this wave of research shows that more subcontractors are raising financial issues with their prime providers, there has not been an increase in the number of subcontractors who are receiving financial assistance since the introduction of FND. It appears that accessing balance sheet assets and negotiating with suppliers and employers, has assisted subcontractors to manage 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 providers or had to refinance.

7.5.2 Recommendations

Based on the findings above, the following recommendations are made:

- **Conduct further analysis of the current risk/reward profile within supply chains:** similar to Wave One, subcontractors are more concerned about the financial risks of operating under an outcome-based funding system than prime providers. DWP should conduct an analysis to identify the balance of risk and reward throughout supply chains which will inform the need for any corrective action to be taken or direction give to prime providers. This will help to ensure that subcontractors are being equitably treated and adequately rewarded within supply chains commensurate with the risks they are assuming.

Review the Provider Referrals and Payment (PRaP) system and referral process along with the evidence requirements and continue to work with prime providers in utilising PRaP to its full capability: prime providers have noted marked improvements to PRaP in comparison with the early phase of the FND contract but still desire to see further improvements, for example, less stringent parameters around submitting data on evidence requirements. Prime providers would also like to see the PRaP system developed further in terms of its performance management capabilities, as it was perceived that this would significantly improve the system and the benefits that providers could derive from it. However, DWP in the first instance should continue to work with prime providers to assess whether they need more guidance or training on how to more effectively use PRaP to realise its full potential and how it can be used to help manage referrals. This should also help DWP gain a better understanding of the challenges prime providers are encountering on a day-to-day basis. Any substantial system changes should undergo a cost benefit analysis.

8 The Framework for the Provision of Employment-Related Support Services

8.1 Introduction

Since May 2010 the Coalition Government has undertaken a major programme of reform within the welfare to work sector including how employment-related services are provided. As part of this reform, the Framework for the Provision of Employment-Related Support Services, hereafter called ‘the Framework’, was introduced in June 2010. This Framework is to act as the means by which all the Department for Work and Pensions (DWP) new employment-related services will be sourced and will stay in place for the next four years.

The first programme to be commissioned under these arrangements has been the Work Programme. Although exact details had not been confirmed at the time of writing this report, the Work Programme will subsume many of the existing employability programmes including Flexible New Deal (FND) from summer 2011. Information that has been released with regard to the Work Programme has indicated that some of the central tenets of the Commissioning Strategy will be retained such as the use of the prime provider model, allowing providers flexibility in delivering provision and structuring payments based on providers achieving sustainable job outcomes.

‘We will give providers the flexibility to design support based on customer need, reward providers for keeping people in work and reward providers for helping harder-to-help customers.’

(DWP, November 2010, p2)

Despite the termination of the FND contract, the move toward larger and longer contracts continues, with the Work Programme being offered as a five year delivery contract.

This chapter examines providers’ views on how the introduction of the Framework has impacted the market, the opportunities it presents and the actions providers have taken in response to its introduction. Prime providers’ reactions to the termination of the FND contract and the impact of the Framework on the marketplace will also be explored. The chapter is structured as follows:

- Prime providers’ views.
- Subcontractors’ views.
- Non-FND providers’ views.
- Conclusion.

8.2 Prime providers’ views

The introduction of the Framework has been broadly welcomed by prime providers despite some noting negative impacts from the termination of the FND contract. However, there is a lack of consensus about how it will impact the structure of the marketplace. Several prime providers believed this will depend on the financial details of future employment programmes and/or the

delivery models used by organisations that are successful on the Framework. In general, prime providers see opportunities for their organisations under the Framework and believe that the market is as attractive, if not more attractive with its introduction.

8.2.1 Termination of the FND contract

There were differing opinions from prime providers about the extent to which the termination of the FND contract had impacted their organisations. Whereas a few prime providers stated that they chose to react positively to the announcement, others stated that it had negatively impacted their organisation as they had made investments on the basis of a five year contract. This was particularly the case for new market entrants who did not have any existing infrastructure in place at the start of the contract and had to invest heavily to establish this. A number of prime providers stated that the termination had caused them to change the way they operated the FND programme as they had reduced their levels of investment, reassessed costs and staffing arrangements.

8.2.2 Impact of the Framework

Although the termination of FND had brought some uncertainty most prime providers were positive about the introduction of the Framework and the opportunities that it could offer their organisation.

It is worth noting that at the time of the interviews some prime providers had been notified about the results of the Framework competition whereas others were not aware at the time of their interviews. For a number of prime providers their views were, unsurprisingly, dependant on whether they would be successful in securing a place on the Framework.

‘I think it is going to reduce the number of suppliers. I think everybody is nervous about it, we could lose 50 to 60 per cent of our business if we are not successful.’

(FND prime provider)

Loss of revenue and loss of a close relationship with DWP were cited as the negative impacts if a place on the Framework was not secured. A small number of prime providers did note that if they were not successful then there would still be opportunities to provide services as a subcontractor.

‘...So if a new entrant will come into the market, they will need us, we still think there are opportunities under the Framework as a subcontractor.’

(FND prime provider)

Prime providers held differing opinions about how the Framework would impact on the structure of the marketplace, especially in terms of the number and type of organisations operating within it. For example, while some prime providers believed that the overall numbers of suppliers operating in the marketplace would continue to decrease, others believed that the welfare to work market would open up further and expected to see more new entrants to the marketplace.

‘The Framework is bringing new people into the market, there will be good competition.’

(FND prime provider)

Several prime providers believed that the impact of the Framework on the marketplace would depend largely on the financial details (which had not yet been released at the time of the fieldwork) and also the mix of supply chains and delivery models used. These factors were believed by some prime providers to have an influence on customer experience, hoping that it would improve under the Framework.

'Customer experience will depend very much on what the [delivery] models are and how much money is available within those models.'

(FND prime provider)

There were also a few prime providers that mentioned the importance of having providers on the Framework who would maintain and develop local supply chains and ensuring that the market was not monopolised by a few prime providers.

8.2.3 Opportunities in the marketplace

The welfare to work market has either increased in attractiveness or remains as attractive for most prime providers following the introduction of the Framework. This was because of the larger contract size, opportunities for growth and an increased focus on performance. A number of prime providers did express concern about the risk versus reward balance within future welfare to work programmes, specifically the Work Programme.

'We are quite comfortable taking risks but it only works as long as the reward is commensurate with the risks, if it is not, then it is not a commercial proposition.'

(FND prime provider)

This was echoed by the remaining prime providers who believed that the attractiveness of the market was conditional upon the detail of contract finances such as payment terms and conditions.

'I would like to say more attractive but to be honest there are no details yet so it is hard to say. You need to know what money is available so you know what you can supply to the customer and if that delivery [model] is viable.'

(FND prime provider)

Most prime providers have been actively preparing for the introduction of the Framework. Some providers are analysing and building on their operational capabilities such as staffing, service provision and operating models. Other prime providers are reassessing their financial capacity by negotiating agreements with parent companies or banks. Investing in relationships was also cited by a small number of prime providers who stated that they were building relationships with partners.

The possibility of including non-employment-related services under the Framework was generally welcomed by prime providers and they believed that a range of different areas that link closely to employability could be commissioned under it such as justice provision including services to ex offenders and legal aid, skills training and health provision including mental health services. Despite prime providers mentioning a range of potential areas that could utilise the Framework, a few prime providers did express doubts as to whether inclusion of these would be feasible or likely to occur.

'The framework agreement tender was put together by DWP; it was very much a DWP tender. If I were the Department of Health, or the Department of Business Innovation and Skills, would I necessarily want to make use of that Framework agreement? I don't think that I would, I don't think that it would necessarily mean that the programmes I would want to introduce could be delivered by those people.'

(FND prime provider)

8.3 Subcontractors' views

While subcontractors' reactions to the introduction of the Framework were more mixed than prime providers', most subcontractors believed that the attractiveness of the welfare to work market has not been negatively impacted by the introduction of the Framework. In addition, the overwhelming majority (94 per cent) of subcontractors are hoping to deliver services under the Framework.

8.3.1 Impact of the Framework

The welfare to work market has either increased in attractiveness or remained as attractive for most (62 per cent) subcontractors following the introduction of the Framework.

Although there were some subcontractors that believed the market would be less attractive, almost all subcontractors (94 per cent) still hoped to deliver services under the Framework. In fact there was a minority (13 per cent) of organisations, mostly with large turnovers, which hoped to gain a place on the Framework as a prime provider with only one organisation not wishing to provide services under the Framework.

Subcontractors' desire to remain within the DWP marketplace in the near future has remained largely unchanged with the introduction of the Framework with only a small number of subcontractors stating that they were contemplating leaving the DWP welfare to work market (four per cent) in the future.

8.3.2 Opportunities in the marketplace

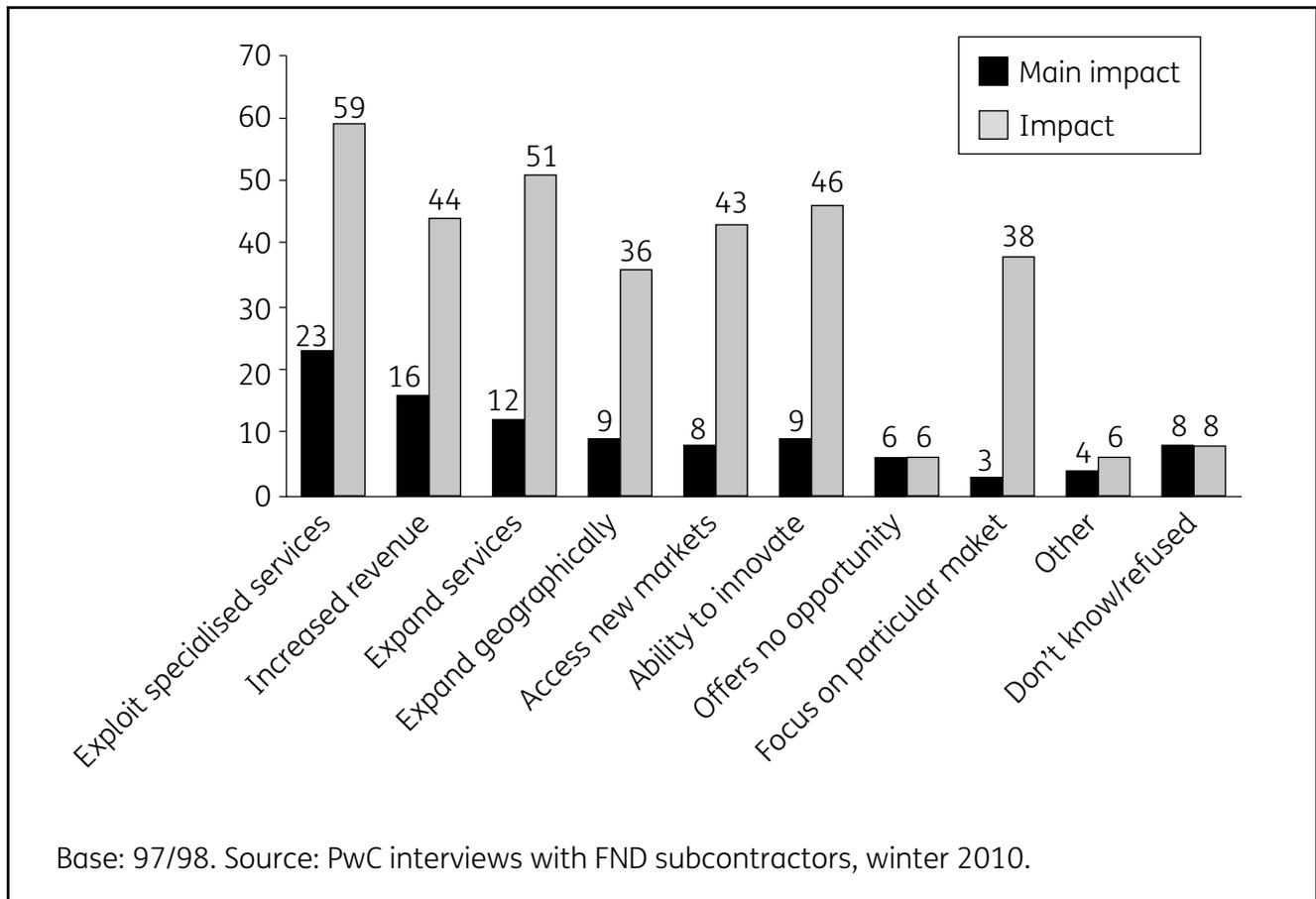
The Framework was perceived by subcontractors as offering a range of different opportunities, as illustrated in Figure 8.1 such as increased revenue, a chance to develop their service offerings and expand. Most subcontractors believed that, similar to the Commissioning Strategy, the Framework offers an opportunity to use specialised services that their organisation offers (59 per cent) and to expand their services (51 per cent).

To deliver services under the Framework and take advantage of these opportunities, most subcontractors (71 per cent) are concentrating on investing in relationships with larger providers. This is particularly the case for smaller subcontractor organisations with a turnover of less than £3m.

There is an indication that those organisations hoping to bid as prime providers were less likely to focus on building relationships. Instead they were focusing on areas they needed to develop in order to meet the requirements of the Framework such as their financial and operational capabilities.

The focus of investment by subcontractors in developing their networks can be seen clearly in their response to the Work Programme where a majority of subcontractors have either responded to approaches by larger providers (89 per cent) or have been actively targeting specific large providers (82 per cent).

Figure 8.1 Subcontractors’ perceived opportunities under the Framework



To assist subcontractors avail of opportunities in the market almost three-quarters (72 per cent) believe that there are actions which DWP, in their role as steward of the market, could be doing differently or should be doing. These and other suggested actions are contained in Table 8.1. Subcontractors’ desire to have resources, such as an approved subcontractor list per contract package area and a database of providers and services, highlights a lack of knowledge among some subcontractors about the structure of the market and also about the existing resources and tools that are currently available to them, e.g. information contained on the Merlin Portal. It also highlights a possible need to enhance existing resources to include additional guidance to assist providers develop in the marketplace, e.g. guidance on how to access potential funding partners and on how to enter the market as a subcontractor. While some of the actions suggested by subcontractors would not necessarily be a direct responsibility of DWP, for example facilitate access or better access to potential funding partners/business development loans, in its stewardship role DWP should work closely with prime providers in considering the subcontractors’ suggested actions to assist their development within the marketplace.

Table 8.1 Actions subcontractors believe DWP could do differently, or undertake to assist them in the marketplace

Action	Percentage
Set-up an approved subcontractor list for each contract package area	68
Facilitate access or better access to potential funding partners/business development loans	66
Develop a database of providers and services	65
Provide financial support for specific capacity building activities	63
Facilitate more provider networking opportunities/events	61
Encourage prime providers to employ more subcontractors	61
Provide guidance on how to enter the market as a subcontractor	55
Provide training, e.g. supply chain management and development, programme and project management etc.	51

Base: 71. Source: PwC research interviews with FND subcontractors, winter 2010.

8.4 Non-FND providers' views

The views of non-FND providers, i.e. leavers, unsuccessful and non-bidders to the introduction of the Framework have been more pessimistic than the prime providers or subcontractors. This is reflected in the majority (60 per cent) of non-FND providers that stated the welfare to work market is now less commercially attractive.

Despite this, the vast majority (88 per cent) of non-FND providers hoped to deliver services as subcontractors under the new Framework with a small number of organisations, mostly with large turnovers (over £3m), actually hoping to deliver as prime providers. There were a small number (seven per cent) of organisations that had not yet decided what action they would take in response to the Framework and an even smaller number (five per cent) that did not wish to deliver services under the Framework. Those organisations hoping to deliver under the Framework also intended to stay in the DWP welfare to work market in the future. Leavers and unsuccessful bidders were more likely to state they intended to stay within the DWP market than non-bidders.

Although each provider type had a different focus on what they considered to be the opportunities presented by the Framework, they were all networking with larger providers to increase their chances to deliver services under the Framework. This can be seen clearly in relation to the Work Programme as non-FND providers were undertaking the same activities as subcontractors by both responding to approaches by larger providers (85 per cent) or targeting specific prime providers and larger providers (79 per cent). To assist providers within the market to avail of opportunities, the majority (83 per cent) of all non-FND providers believe that there are certain actions which DWP could be doing differently or should be doing. These actions are covered in more detail in the following provider type sections.

There were a small number of organisations who did not wish to provide any services under the Framework nor did they wish to become a subcontractor if their bid to become a prime provider failed. Of these, almost half would exit the DWP welfare to work market for a variety of reasons ranging from loss of funding to lack of capacity to cope with contract requirements. Specialist organisations were more likely to state that their exit from the market would leave a gap in provision.

While the research with non-FND providers has been designed to be indicative only, some interesting differences between the provider types can be found in relation to:

- the attractiveness of the market following the introduction of the Framework;
- their intentions regarding the Framework and DWP market overall;
- the perceived opportunities offered by the Framework; and
- their opinions about actions that would assist providers avail of opportunities.

These differences per provider type have been noted below in the following sub-sections.

8.4.1 Leavers

Leavers were the most positive non-FND provider type in relation to the attractiveness of the marketplace. Compared to the other non-FND providers, leavers were also the least likely to think the market had decreased in attractiveness. This is reflected in the fact that all but a small number of this provider type hoped to deliver services under the Framework and stay within the DWP welfare to work market.

For leavers, an increase in revenue was seen as the main opportunity of the Framework, in contrast to non-bidders and unsuccessful bidders who did not consider this to be a notable main opportunity. Alongside non-bidders, some leavers were uncertain what opportunities the Framework offered their organisations despite stating their desire to provide services under it.

Leavers and unsuccessful bidders both believed that DWP could take actions to assist their organisations to gain places within supply chains namely by encouraging prime providers to employ more subcontractors and by setting up approved subcontractor lists for each contract package area.

8.4.2 Unsuccessful bidders

Unsuccessful bidders were the least positive about the attractiveness of the market and were the most likely among non-FND providers to state that the market was now less commercially attractive. Despite this, the majority of unsuccessful bidders still wished to deliver services under the Framework and intended to stay within the DWP welfare to work market.

For unsuccessful bidders, there were two main opportunities offered by the Framework. Similarly to subcontractors, they believed that the Framework offered the opportunity for them to use their specialised services but in addition they believed it would allow them to access new and different target markets. This indicates that unsuccessful bidders may view the Framework as a means for them to continue developing customers in other markets outside of welfare to work such as in training and in education. This is a strategy which many had pursued in response to not delivering the FND contract which is examined in more detail in Chapter 3.

8.4.3 Non-bidders

Although non-bidders were not as negative about the attractiveness of the market as unsuccessful bidders, they were less positive than the leaver provider type. Despite this, the majority of non-bidders did hope to deliver services under the Framework with a small number not yet decided on a course of action. Although non-bidders deliver contracts for DWP, they are less reliant than unsuccessful bidders and leavers on these contracts for their income. It is perhaps for this reason, that a number of non-bidders stated that they did not wish to provide services under the Framework nor did they see themselves staying within the DWP welfare to work market.

For those non-bidders who did wish to deliver services under the Framework the main opportunities identified were a chance to use their specialised services and also to expand the service(s) they offered. Similarly to leavers, there were a number of non-bidders who were unsure about what opportunities the Framework offered them despite wishing to provide services under it.

To assist their organisations avail of opportunities, non-bidders believed that DWP could provide more guidance around how to enter the market. This desire for additional guidance may be as a result of not having experienced the FND bidding process and may have less experience about the commissioning process for such contracts than leavers or unsuccessful bidders. In addition, non-bidders also believed the creation of a database for providers and services would help them avail of the opportunities in the market.

8.5 Conclusion

8.5.1 Key findings

The reaction of providers to the introduction of the Framework is not dissimilar to their overall views about the impact of the commissioning principles. For instance, the more prominent the provider's role in delivering services under FND, the more positive their views about the Framework.

The introduction of the Framework was welcomed by most prime providers although they had some concerns regarding the risk versus reward balance. Continuing to offer large contracts has helped maintain the attractiveness of the market for existing prime providers and also to new entrants. Prime providers were less unanimous about the wider impact on the structure of the marketplace, with a number of prime providers stating that customer experience would depend upon the financial detail and the mix of delivery models and/or supply chains used. While believing that other contracts in the areas of health, education and justice could theoretically be contracted under the Framework, some providers were unsure whether this would actually occur in practice.

The mixed reaction from subcontractors toward the Framework suggests that they are still not as convinced as prime providers are about the merits of the commissioning practices used in recent years, such as those outlined in the Commissioning Strategy and embodied in the Framework. Also, the majority of non-FND providers now view the market as less commercially attractive with the introduction of the Framework, especially those providers that were unsuccessful in their bids to deliver FND.

However, this does not seem to be preventing the majority of subcontractors and non-FND providers from wishing to provide services under the Framework. These organisations are networking and building relationships with larger providers in the hope of securing a place on a prime provider's supply chain for the Work Programme. To assist them in availing of the opportunities in the welfare to work market, they believe that there are a range of actions that DWP could take or do differently, such as provide advice on how to enter the market or setting up a database of services and providers per contract package area.

8.5.2 Recommendations

Based on the findings above, the following recommendations are made:

- Enable providers to access and assess contract opportunities through enhancing existing provider information portals and effectively communicating these to all providers to encourage usage: it will be important for DWP to develop and enhance information resources available to all welfare to work providers through the review of existing information portals and channels. The importance of providing accessible market information such as provider entry and exit data, database of providers and services and communication tools to providers should not be overlooked as it will assist, particularly non-prime providers, to better understand the changes occurring within the marketplace and assist their organisation's planning and development within it. In addition, non-FND providers, despite reservations, still express a desire to deliver services under contracts such as the Work Programme. Enhanced provider information portals should help them find their role in the new provision market and how they can profitably and meaningfully operate within it.

9 Conclusions and recommendations

9.1 Introduction

This report explores the impact of Department for Work and Pensions (DWP's) new approach to commissioning contracted employment provision through interviews with providers and non-providers of Flexible New Deal (FND), the first programme to be designed and commissioned under the principles of the Commissioning Strategy. It has sought to update the findings of the early implementation of FND and provide insight into the effect of DWP's commissioning principles during live running of a programme. The commissioning principles, as outlined in the Commissioning Strategy, are designed to maximise levels of sustained employment among the long-term unemployed. This will be achieved through offering providers longer contracts covering a larger area with minimal prescription on the content of service provision. Providers will be compensated by way of an outcome-based payment system, rewarding providers for enabling customers to secure sustainable employment. In return, DWP requires providers to invest in their capability, to develop strong and high performing supply chains and to ensure customers can access a suitable range of services.

9.2 Key findings

9.2.1 Market structure

The key aim of the introduction of longer, larger contracts to the welfare to work market is to attract non-public welfare to work providers to deliver employment programmes. This will be achieved by making the contracts commercially attractive, encouraging investments into providers' systems and processes resulting in high performance. The investments highlighted by prime providers in Wave One of the research have continued throughout the year of FND delivery, as prime providers continued to invest in their infrastructure and delivery models.

As FND was the first programme to be contracted under the Commissioning Strategy, the impact on the provider market can be assessed by comparing the FND providers over the two waves of research. This involves examining the early implementation stage and one year on in delivery with the providers who delivered the legacy programmes which FND replaces in the 14 contract package areas. As outlined in Section 3.3, such a comparison reveals that there has been a growth in the number of providers of 84 to 116 from FND legacy providers (116-148) through the FND bidding process (153) to delivering the FND contract (232). The significant growth in numbers appears to be from providers of specialist services as they mainly deliver small subcontracts. This is encouraging as DWP, in its market stewardship role, seeks to develop an attractive and diverse market. However, it should be monitored under future contracted provision as, based on DWP provider data, 29 per cent of subcontractors left FND supply chains between bid submissions in April 2009 to delivering the contract from October 2010. These subcontractors left because they found the FND contract unattractive, both financially and in terms of risk. However, they have continued to provide employment-related services for both DWP and non-DWP organisations. There is also some evidence of sifting out of poorer performing providers during live running which has been a factor in limiting their opportunities. It will be important for DWP to keep a watching brief on the profile of all provider types within the wider welfare to work marketplace.

The initial vision of the Commissioning Strategy was that supply chains would be long, i.e. subcontractors would use their own subcontractors encouraging the inclusion of a diverse range of providers and flexibility of service provision in responding to customers' needs. However, FND supply chains remain short one year into delivery i.e. subcontractors still do not typically out-source services to subcontractors of their own under FND, with virtually all contracts held directly between the prime provider and the subcontractor. This shortness in supply chains may have been influenced by the reduction in the length of the FND contract from five years to eighteen months which has not allowed sufficient time or inclination to develop supply chains further. It will be important for DWP to monitor how supply chains develop in the future, for example under the Work Programme, i.e. whether the direct contracting with prime providers as seen under FND continues or whether subcontractors begin to use their own subcontractors. This will help establish if long supply chains are required to encourage a variety of providers to operate within the marketplace or whether direct contracting with prime providers facilitates the inclusion of a wide range of providers and flexibility of service provision and is therefore not constrained through short supply chains.

Prime providers manage the contract as a whole while also delivering part of the service alongside a relatively small number of 'end-to-end' providers. These end-to-end providers deliver generalist employment brokering services and provide services to the customer throughout their journey. On almost all occasions prime providers use specialist subcontractors or delivery partners to deliver more niche and/or complementary services such as debt counselling or who focus on a particular career or sector interest such as self-employment or music. In addition, some prime providers are using subcontractors to deliver specific parts, such as mandatory work-related activity or a particular period of time of FND, for example 12 weeks.

The extent to which services are delivered in-house or outsourced varies between contracts and prime providers. It is driven not only by the prime provider's delivery model but also by the profile of the contract package area which has resulted in variations in the level of subcontracting even among a prime provider operating in more than one contract package area. For example, prime providers who were operating across a number of contract package areas recruited more subcontractors to cover a rural area than an urban area. At opposite ends of the spectrum, one prime provider delivers all programmes in-house with one prime provider outsourcing virtually all programmes to subcontractors. While the number and quality of referrals has been cited as an issue by FND subcontractors, the development of supply chains along geographical and specialist service requirements suggests that prime providers are limited in their ability to be selective over customers within their referral pool. In other words, this research would indicate, as in Wave One, that prime providers appear to be sharing all customers across their supply chains as allocation of referrals is based on either geographical and/or specialist provision rather than on the quality of a referral, i.e. how close or far a customer is away from the job market. However, where there have been developments since Wave One in the allocation of referrals, this has been in relation to subcontractor performance where prime providers have moved referrals to elsewhere within their supply chain if a subcontractor is underperforming. The referral process is an area which DWP may wish to continue to monitor to ensure that subcontractors are not at a disadvantage within the supply chain.

There continues to be significant overlap between supply chains, with seven of the 14 FND prime providers also operating as subcontractors. While there has been a reduction in the number of subcontractors delivering FND services for more than one prime provider, it remains relatively high at 15 per cent. This is likely to benefit market development from the perspective of developing significant delivery experience under the new commissioning principles among a core of welfare to work providers. In doing so, this ought to have a positive contribution towards a stated objective of the Commissioning Strategy. This concentration of provision does not appear to have created the

perception that the market is less open to other providers, as reflected in the relatively high level of movement in and out of FND supply chains. However, it will still be important for DWP to gauge how open the market is to attracting and keeping a diverse range of high performing providers, as it moves towards the establishment of a quasi-market within the contracted employment provision marketplace in Great Britain (GB).

In summary, the commissioning principle of developing a market structure that will lead to a well-functioning quasi-market appears to be impacting upon the market as intended. It will be important to continue to monitor the referral process and its impact upon subcontractors along with movements within prime providers' supply chains and activities of those operating outside these.

9.2.2 Market development and stewardship

Wave one research highlighted that DWP had been successful in engendering interest and facilitating entry to the welfare to work market, through changing the nature of contracts to be larger and longer, as well as through a number of information and networking events to facilitate the development of supply chains. After a year of delivering FND it can be seen that there are numerous service providers within this area and market entry and exit appear to be relatively straightforward as reflected in the movements of subcontractors in and out of FND supply chains.

One of the key aims of DWP's commissioning principles is to have high performing supply chains managed by a top tier of providers. This second wave of research shows that prime providers have continued to invest considerably in developing and managing their supply chains in the delivery of FND. These investments have taken various forms, ranging from 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. Most prime providers have experienced some level of underperformance from their subcontractors during live running. Where underperformance did occur, prime providers generally worked through the area(s) of concern with the subcontractor and in some instances moved referrals elsewhere. Competition plays a role in some supply chains in driving performance, for example, monthly performance tables are published for all providers within a supply chain and removing or reducing referrals from underperforming subcontractors. However, in others, quality performance is driven by an ethos of collaboration and sharing of best practice. It should be noted that despite this level of investment and focus on performance management by prime providers FND performance, in terms of securing sustainable outcomes, has not met the expectations that prime providers outlined in their bids for the contract.

Prime providers have also played a role in addressing subcontractors' financial concerns with the introduction of outcome-based funding. Where financial concerns have been raised, normally in relation to the flow and volume of referrals and cash flow, prime providers have addressed these through changing payment arrangements such as paying a flat fee or phasing in a new payment schedule.

The majority of FND providers have actively pursued working with a range of delivery partners outside supply chains, both formally and informally as they believed this approach led to improved customer service. Examples of organisation and services accessed by FND providers include:

- further education colleges and other learning providers;
- organisations that deliver help and guidance, e.g. drug, alcohol, health, disability;
- local community and regional groups;

- charities; and
- private business networks and employers.

This level of working with other organisations and services outside supply chains is encouraging, as it goes some way to meeting one of the aims of the commissioning principles of developing effective partnership working and supply base development at a local level. DWP may wish to continue to monitor the impact of this in customer experience and the consistency of approach across all geographical areas and supply chains.

As part of DWP's market stewardship role it introduced the Code of Conduct which outlines best practice with respect to relationships between prime provider and subcontractor. Since Wave One, the Merlin Standard has been introduced in a pilot phase 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. The Standard incorporates four fundamental and integrated principles including supply chain design, commitment, conduct and review and these areas were assessed with FND prime providers between March to May 2010 during this pilot phase of Merlin.

Prime providers are generally supportive of the Merlin Standard with some process or operational-related suggestions for improvement, for example publication of results was felt by prime providers to give the Merlin assessments more weight. Subcontractors are less clear about what the Merlin Standard is and what it is trying to achieve. In general, most FND providers did not believe that the introduction of the Merlin Standard had fundamentally altered prime providers' approaches to supply chain management as they believed they were generally acting in line with the Standard. Therefore, while there have been some positive findings about the Merlin Standard and its introduction through this research, it will be important to revisit its impact in other contracted programmes, both through the assessment/metric process and the awareness of its role among subcontractors.

In summary, evidence from this research indicates that DWP's intentions of facilitating high performing supply chains managed by a top tier of providers is perhaps not occurring to the extent it should. The investments made by prime providers in managing and developing their subcontractors and working with delivery partners outside their supply chains show a willingness on the part of prime providers to fulfil their role as a top tier provider delivering provision. However, the effectiveness of this provision has yet to be seen as prime providers are not delivering the outcomes that they had stated in their bids for the FND contract. DWP may also wish to examine how the Merlin Standard can be more effectively used to promote and sustain excellent relationships within supply chains, for example extending the use of the Merlin Standard Portal as a communications tool, as subcontractors are unclear about the Standard and its aims and many have concerns about financial viability of contracts such as FND.

9.2.3 DWP capability

DWP, as part of its commitment to these commissioning principles, seeks to develop its own skills base and play an active role in supporting providers. As such, DWP has undertaken a number of actions, including internal restructuring around the Provision Management Division (PMD) and the introduction of Provider Assurance Team (PAT) Reviews, to help DWP to realise its role within the welfare to work marketplace. Evidence from this wave of research suggests that these actions have had a positive impact upon prime providers as they reported improved relationships through better partnership working – certainly more prime providers believe DWP's capability has improved over the last twelve months than during the first wave of research. Other initiatives such as Provider

Engagement Meetings which involve prime providers and representatives from DWP and Jobcentre Plus, appear to have helped improve provider relationships with Jobcentre Plus although prime providers have undertaken their own initiatives too in this regard, such as inviting Jobcentre Plus to their sites. However, generally there appears to be less of a ‘disconnect’ between DWP and Jobcentre Plus than was evidenced in Wave One of this research. This research would suggest that while much progress has been made in developing relationships with prime providers that the strategic element of these could be developed further. For example, prime providers are not yet associating the new roles such as Account Manager with bringing benefits such as cost efficiencies and innovation. In addition, new market entrants would welcome more support from DWP regarding assistance in developing relationships with Jobcentre Plus and other networks of provision.

Prime providers have reported significant improvements with PRaP, the system introduced by DWP at the beginning of FND to manage referrals and payments, since its introduction but all would like to see the accuracy of the information within the system and its functionality improved. As the referral process is key to the effective and efficient running of contracted provision and an issue for both prime providers and subcontractors, it will be important for DWP to continue to develop its own capabilities in this regard.

In summary, this research highlights that generally prime providers perceive that DWP has developed its own capability since implementation of FND. However, as DWP itself recognises, it is important to keep improving and developing its capabilities in order to continue playing a strategic role within the contracted employment provision marketplace.

9.2.4 Provider capability

A key element of the new commissioning principles is focused on facilitating high performing supply chains through a top tier structure. Provider capabilities considered to be important in achieving this include:

- financial strength;
- effective partnership working;
- supply chain management; and
- local credibility.

This wave of research suggests that, after one year of delivering FND, prime providers have begun to settle into their role as top tier providers aided by the significant investments they have made in a number of areas including their infrastructure, supply chain management, improving customer experience and employer relationships. Examples of investments made include:

- **Infrastructure:** development of IT and information systems to aid more accurate referral forecasting.
- **Supply chain management:** training subcontractors in processes and systems as well as sharing of best practice and expertise.
- **Improving customer experience:** investment in novel diagnostic tools and working more closely with specialist providers.
- **Employer relationships:** working closely with local employers to avail of pending opportunities as well as inviting employers to visit provider offices to give customers information about their sector/business.

In summary, this wave of research highlights that providers have increased and developed their capabilities since the introduction of the new commissioning principles, mainly due to the high levels of investments made by prime providers as well as through their experiences of delivering the FND contract. However, it will only be through customer feedback and performance measurement that an overall view of provider capabilities, their appropriateness and their strength will be obtained.

9.2.5 Commercial and financial issues

Key to attracting and keeping high performing providers in the marketplace is to balance the level of risk and reward and this is achieved through the introduction of larger, longer contract areas and outcome-based funding which rewards providers for enabling customers to secure sustainable employment.

Prime providers have continued to respond positively to the larger, longer contracts and outcome-based funding, viewing the balance of risk and reward under FND as appropriate. Longer contracts allow, not only for investments to be made, but for providers to reach optimal operational performance. Many prime providers were already familiar with outcome-based funding through other contracts with the impact of this type of funding resulting in what providers described as positive culture change within their organisations and an increased focus on performance targets.

Similar to findings from the Wave One research, subcontractors have strong concerns over the move towards outcome-based funding and are less positive than the prime providers about the viability of contracts such as FND. This appears to be linked to the level, type and quality of referrals subcontractors are receiving under FND with the majority of subcontractors not receiving guaranteed levels of referrals from their prime provider. The Wave One research showed that outcome-based funding was a key issue underpinning contract negotiations between prime providers and subcontractors, for example subcontractors requested guarantees around minimum customer volumes in order to mitigate their own financial risk.

The level and type of referrals may be explained by what has happened over the last 12 months of delivering FND as forecasted volumes were revised, sometimes dramatically, and the impact of the economic recession upon the job market was worse than predicted. In addition, while subcontractors are showing more concerns about finances, the number actually requesting financial assistance from their prime provider has remained consistent from the contract's implementation. However, the quality of referrals is of more concern as it may be linked to the referral process itself, i.e. prime providers are 'cherry picking' or it could be subcontractors are finding FND customers a more challenging type of customer. However, as detailed in Section 9.2.1, prime providers appear to have limited ability to be selective over customers within their referral pool suggesting that cherry picking is not generally occurring. In addition, subcontractors' concerns over the quality of referrals may be linked to the fact many subcontractors are being used by prime providers to deliver specialist services and therefore these customers tend to be further away from the job market.

In summary, 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. As mentioned previously, it will be important for DWP to monitor how referrals are managed under future contracted employment to ensure that subcontractors are being equitably treated within supply chains.

9.2.6 The Framework

The establishment of a Framework for the Provision of Employment-Related Services (the Framework) in June 2010 and the introduction of the Work Programme, a major multi-client employment programme, continue the government's policy of developing a well-functioning quasi-

market for contracted employment provision within GB. Part of this research sought to gather providers' views on how the introduction of the Framework will impact upon the market and their organisations as DWP continues to monitor and evaluate market development. Similar to providers' reactions to the introduction of the Commissioning Strategy, the more prominent a provider's role in delivering services under FND the more positive their views are about the Framework.

Prime providers, while expressing concerns about the risk/reward balance believed that the longer contracts offered under the Framework would keep the market attractive for their organisations. However, they had mixed views on how the marketplace overall and the customer's experience would be impacted stating that this would depend upon the financial detail of contracts and the mix of delivery models and/or supply chains used. Due to the timings of this research the exact details of the Work Programme were not available to respondents.

Subcontractors were less convinced than prime providers, indicating that they are still adjusting to the new commissioning principles while the majority of non-FND providers now believe the market is less commercially attractive with the introduction of the Framework. However, the majority of subcontractors and non-FND providers expressed a desire to provide services under the Framework and have been proactive in networking and building relationships with larger providers.

In summary, non-prime providers appear to be taking longer to adjust to the new commissioning principles. It will therefore be important for DWP to keep a watching brief on the number and types of providers operating under the Framework, assessing movements in and out of supply chains to ensure that they reflect natural market forces such as competition and attrition rather than domination of a small number of large organisations.

9.2.7 Conclusion

This research has provided an update into 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. However, it will be important to match prime provider performance across the different contract package areas along with their delivery models, customer profiles and customer feedback to ascertain whether there has been a step change in performance. 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, i.e. many service providers, easy entry and exit along with providers being motivated by economic incentives such as outcome-based funding. 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 to assess costs, quality and equality of customer treatment. A number of recommendations have been proposed, based on the research findings, and are outlined in the next sub-section for consideration by DWP.

9.3 Recommendations

9.3.1 Continue stewardship role

Balancing risk and reward

- **Conduct further analysis of the current risk/reward profile within supply chains:** similar to Wave One, subcontractors are more concerned about the financial risks of operating under an outcome-based funding system than prime providers. DWP should conduct an analysis to identify the balance of risk and reward throughout supply chains which will inform the need for any corrective action to be taken or direction given to prime providers. This will help to ensure that subcontractors are being equitably treated and adequately rewarded within supply chains commensurate with the risks they are assuming.
- **Monitor the risk/reward balance in a changing marketplace:** prime providers have readily embraced the sustained employment outcome-based funding under the new commissioning principles, but there is some concern among providers as to what the potential impact of this could be in what is a changing market environment due to the current economic climate. In the forthcoming period it will be important to monitor the appropriate risk/reward balance for providers with a particular emphasis on ensuring that all providers within supply chains are equitably treated.
- **Continue to monitor the change in supply chains:** DWP should continue to monitor market developments: entry, exit, mergers, acquisitions and alliances to maintain an understanding of the 'pulse' of the market, its attractiveness, diversity and the development of any potential barriers to entry. Delivery models, length of supply chains and changes within them should be aligned to contract package areas, prime providers' outcomes and customer feedback to ensure that movements in supply chains are occurring naturally because of market forces.
- **Review the balance between regulation and flexibility in service delivery:** prime providers have welcomed the autonomy and added flexibility afforded to them under the Commissioning Strategy; however they wish to have even more freedom and responsibility in terms of how they manage the nature and type of services delivered. For example, prime providers would like to see the level of DWP regulation, particularly with respect to existing requirements concerning fortnightly appointments and the mandated elements of the work-related activity placements, relaxed further with full responsibility devolved to prime providers. DWP should continue to monitor the performance outcomes and customer feedback across different supply chains and contract package areas to gauge the optimal balance between regulation and flexibility in service provision.

Developing a partnership approach

- **Continue to develop a partnership approach with prime providers through PMD, utilising both Account Managers and Provider Performance Reviews (PPR) to move relationships onto a more strategic level:** prime providers have welcomed the introduction of the new functions under PMD which have helped to improve relationships and working practices with DWP. However, prime providers have yet to associate the roles, such as Account Manager, with bringing benefits of cost efficiencies and facilitating innovation. New market entrants would welcome more support from DWP regarding assistance in developing relationships with Jobcentre Plus and other networks of provision. There is therefore the potential for DWP to work with prime providers more strategically. In addition, prime providers would like to see these new DWP structures embedded for consistency purposes.

9.3.2 Communicate effectively

Continue to enhance the understanding of non-prime providers about their role in the market

- **Enhance subcontractors' understanding of their role in the marketplace through using the Merlin Standard both as a mechanism to embed DWP's market stewardship role as well as a tool to drive an effective top tier provider model through monitoring its effectiveness:** while many subcontractors stated that they believed the prime provider role to be valuable, the research indicates that they are missing the direct relationship with DWP. Continued communications with subcontractors – either through information portals such as the Merlin Standard Portal or through prime providers themselves – should focus on reinforcing DWP's market stewardship role and its rationale of leading to more effective and efficient service provision. This may help subcontractors fully appreciate the change in emphasis in contractual relationships, particularly in terms of how prime providers have assumed responsibility for the active management of supply chains from DWP and of the positive impact that this should have for subcontractors. In addition, the Merlin Standard should continue to be used as the main mechanism to assess prime providers' communications and actions with their supply chains to ensure that prime providers are facilitating sustainable and excellent subcontracting relationships. Published Merlin assessments should not only drive excellence between prime providers' supply chains by engendering a level of competition but should also provide subcontractors with an open process to assess which supply chain they would like to be a part of. As the Merlin Standard embeds within the marketplace as a recognised industry standard, its implementation along with its communication to all providers presents a good opportunity to help subcontractors gain a greater understanding of their role, the prime provider's role and DWP's role within the new top tier market structure.
- **Enable providers to access and assess contract opportunities through enhancing existing provider information portals and effectively communicating these to all providers to encourage usage:** it will be important for DWP to develop and enhance information resources available to all welfare to work providers through the review of existing information portals and channels. The importance of providing accessible market information such as provider entry and exit data, database of providers and services and communication tools to providers should not be overlooked as it will assist, particularly non-prime providers, to better understand the changes occurring within the marketplace and assist their organisation's planning and development within it. In addition, non-FND providers, despite reservations, still express a desire to deliver services under contracts such as the Work Programme. Enhanced provider information portals should help them find their role in the new provision market and how they can profitably and meaningfully operate within it.

9.3.3 Develop capacity

Monitor and manage performance

- **Review the Provider Referrals and Payment (PRaP) system and referral process along with the evidence requirements and continue to work with prime providers in utilising PRaP to its full capability:** prime providers have noted marked improvements to PRaP in comparison with the early phase of the FND contract but still desire to see further improvements, for example, less stringent parameters around submitting data on evidence requirements. Prime providers would also like to see the PRaP system developed further in terms of its performance management capabilities, as it was perceived that this would significantly improve the system and the benefits that providers could derive from it. However, DWP in the first instance should continue to work with prime providers to assess whether they need more guidance or training on how to more effectively use PRaP to realise its full potential and how it can be used to help manage referrals. This should also help DWP gain a better understanding of the challenges prime providers are encountering on a day-to-day basis. Any substantial system changes should undergo a cost benefit analysis.
- **Continue to facilitate the sharing of best practice in terms of measures to assist the hardest to place customers:** the research has illustrated the various measures that providers have adopted to assist the hardest to place customers, for example the development of novel diagnostic approaches and external expert partnerships and collaborations. DWP may wish to consider the further facilitation of the sharing of good practice methods in this respect both within and between supply chains in order to help raise overall levels of performance.

Appendix A

Methodology

Introduction

This appendix details how the sample frames for Wave Two of the provider research into the new commissioning principles were composed and contains summarised versions of the research instruments used. These research instruments were then designed, piloted and agreed with Department for Work and Pensions (DWP) prior to commencing fieldwork for this study. The following research instruments are included in Appendix A:

- Wave two provider research: Flexible New Deal (FND) prime providers' topic guide;
- Wave two provider research: FND subcontractors' questionnaire summary; and
- Wave two provider research: non-FND providers' questionnaire summary used for:
 - FND leavers;
 - FND unsuccessful bidders; and
 - FND non-bidders.

Full questionnaires and topic guides are available on request from DWP.

Composition of sample frame and response rates for Wave Two of the commissioning principles provider research

The primary objective of the Wave One and Wave Two provider surveys is to see how the new commissioning principles, through the implementation of FND, have impacted upon providers and what lessons could be learned for future programme implementations.

There were two aspects to the interviews held with providers; in-depth interviews with prime providers and a quantitative survey with FND subcontractors and other providers (FND leavers, unsuccessful FND bidders and FND non-bidders). As in the Wave One research, the focus of the non-prime provider interviews was on the FND subcontractors with 'soundings' from others, i.e. leavers, non-bidders and unsuccessful bidders.

Qualitative interviews were conducted with prime providers to allow for probing and exploration of areas and issues arising from the introduction of the Commissioning Strategy after one year of delivering the FND contract. Due to the small numbers of prime providers within the FND areas and the prominent role that they would play within the market, it was important to be able to cover a range of areas in depth. In addition, any issues which required further exploration could then be included in the survey of non-prime providers. A quantitative survey was conducted with subcontractors and other providers to provide empirical evidence on their reactions and responses to the commissioning principles.

This section describes the methodology used to develop a sampling frame for Wave Two of the research into the commissioning principles.

Establishing the sample frame – qualitative interviews

Depth interviews were conducted with prime providers who had won the contract to deliver FND. The sample frame consisted of 14 prime providers including both national and district level contacts.

Establishing the sample frame – quantitative survey

The sample for the quantitative telephone survey with subcontractors and other non-prime providers as part of the Wave Two provider survey came out of our findings from the provider baseline survey along with providers who had attended DWP events, the list of FND subcontractors published by DWP and from organisations provided through interviews with providers themselves. As explained in more detail below, the sample frame for the provider Wave Two survey was compiled by collating:

- all providers supplying services within the FND areas as identified in the provider baseline survey;
- organisations who had attended various DWP events regarding the contract along with published lists of successful prime providers and subcontractors;
- the list of successful FND subcontractors published by DWP post contract award; and
- snowball sampling; whereby respondents were asked to provide contact details for the organisations to which they subcontracted FND programmes or services. These were likely to be Tier 3 or Tier 4 subcontractors as tenderers were not obliged to provide these details. While all providers were asked to provide these details, it must be noted that, as in the Wave One research, the number of respondents sourced through snowball sampling was minimal due to an observed lack of subcontracting among providers.

This resulted in a sample frame of 567 non-prime providers.

Responses to the Wave Two provider survey – qualitative interviews

For the depth interviews with prime providers we spoke with all of the 14 organisations at a national level between November 2010 and January 2011.

Respondents came from senior level management, for example, Chief Operating Officer, Managing Director, Commercial Director and Director of Business Development all were familiar with their organisation's management or delivery of FND.

Responses to the Wave Two provider survey – quantitative survey

As noted above, the viable sample frame for the telephone interviews with subcontractors, leavers, unsuccessful bidders and non-bidders was 567 organisations. An overall sample of 180 was agreed with soft quotas placed on the sample frame as the exact nature of the market is unknown. Over the fieldwork period (November 2010 and December 2010) all 567 organisations were contacted.

The focus of the quantitative survey was on subcontractors currently providing FND services (54 per cent of sample). Forty-five per cent (98/218) response rate was achieved. Soft quotas for leavers, unsuccessful bidders and non-bidders were set to ensure that a sufficient total number of organisations among these provider types were achieved in order to provide an overview as well as ensuring that there was a spread of size and types of organisations. Findings from these interviews with leavers, non-bidders and unsuccessful bidders were designed to give a 'sounding' of those not involved in FND. Response rates for the Wave Two provider survey are provided in Table A.1.

Table A.1 Response rates for the Wave Two provider quantitative survey

	Number	Population in scope of study %
Total number of sample in scope of study	567	100
Refused	146	26
Unobtainable	105	19
Incomplete interviews (did not meet criteria/quota met)	136	24
Completed:	180	32
• FND subcontractors	98	17
• FND leavers (during bid stage and delivery of the contract)	30	5
• Unsuccessful FND bidders	22	4
• FND non-bidders	30	5

Please note that figures may not add to 100 per cent due to rounding.

Respondents came from senior level management, for example, Chief Executive, Managing Director, Business Development Manager, Contract Manager and Operations Manager and all were familiar with their organisation's management or delivery of FND.

Understanding the non-respondents

Ninety-eight interviews were achieved out of 218 known subcontractors (excluding those subcontractors who are also prime providers) within FND areas. While 218 organisations may not represent the complete subcontractor FND market, the sample frame was augmented minimally as the survey progressed (only eleven additional subcontractors were identified by respondents) which would imply that this sample frame captured the majority of subcontractors delivering the FND contract.

For the remaining non-prime providers, i.e. leavers, unsuccessful bidders and non-bidders, non-response bias is not deemed relevant as this research was designed to gather soundings from these three segments, rather than statistically representative data.

DWP provider data

In addition to these surveys, DWP provided separate data which comprised of 403 (after removal of duplicates) records of subcontractors that were included within prime providers' supply chains. This supply chain data had been collected by DWP from prime providers in two phases, firstly, during the FND bidding process and then secondly in August 2010, almost one year after the commencement of FND. This supply chain data was examined alongside the data collected in the Wave Two prime provider interviews and subcontractor survey and used to inform the analysis of the marketplace structure and supply chain movement.

Confidence intervals for FND providers by sector

Table A.2 compares the 95 per cent confidence intervals for the sectoral composition of FND legacy providers with both Wave One and Wave Two FND providers. Comparing these figures reveals a difference across sectors in terms of both the types of provider who ceased providing and those who have proportionally increased the number of services that they are providing to DWP.

- A disproportionately high number of public sector providers have ceased providing to DWP.
- A disproportionately high number of third sector providers have begun providing to DWP.
- The proportion of private sector providers has remained broadly the same.

Table A.2 Confidence intervals for FND legacy providers, FND providers (Wave One and Wave Two) by sector

	Public sector %	Private sector %	Third sector %
FND legacy providers	19-25	39-47	31-39
FND providers: Wave One	13-17	37-43	43-49
FND providers : Wave Two	7-15	39-53	37-51

Wave Two provider research: FND prime providers’ topic guide

Section A: Delivery model

- Overview and rationale of the delivery model and supply chain being used and whether it has changed since the implementation of FND.
- Typical contracting, funding and payment arrangements held with subcontractors.
- Management of subcontractors including competition within supply chains, dealing with financial concerns, areas of contention, underperformance and the Merlin Standard.
- Relationships held with non-subcontractor organisations such as delivery partners or employers and whether other services have been combined with the delivery of FND.

Section B: DWP capability

- Respondent’s views on DWP including relationships, functions and processes, e.g. the account management role, provider performance reviews and provider assurance reviews.
- Respondents views on the operation of the Referrals and Payments (PRaP) system.
- Working relationships with Jobcentre Plus during the operation of FND.

Section C: Finances

- Commercial attractiveness of the welfare to work market.
- Profitability and viability of contracts such as FND.
- Impact of outcome-based funding on prime providers.

Section D: Delivery/performance management

- Management of risks, capacity and challenges faced.
- Performance monitoring – verifying and claiming outcomes.
- Client satisfaction – impact of commissioning principles on customer experience, customer feedback systems and approaches to helping harder to reach customers.
- Sharing best practice and willingness to share information.

Section E: Overall impact

- Key impacts of the commissioning principles and the termination of the FND contract on the welfare to work marketplace and providers.
- Views on the level of prescription and regulation from DWP.

Section F: Looking forward

- Views on how the introduction of the Framework for employment-related services will impact the marketplace and providers.
- Actions that have been taken in response to the Framework and views on what other services could be contracted through the Framework.

Wave Two provider research: FND subcontractors' questionnaire summary

Background information

- Confirmation of respondent's name.

Screening questions to ascertain relationship with DWP

- Organisational profile questions: classification of subcontractors, leavers, unsuccessful bidders and non-bidders.
- Sector, size of turnover and employee numbers within the organisation.

Section A: Current provision of FND

- Confirmation of delivery (districts served and services provided, e.g. end-to-end).
- Understanding the subcontractors' FND supply chain.
- Relationships with prime providers and other organisations such as local authorities, delivery partners and employers.

Section B: DWP capability

- Views on the capability of DWP since introduction of the commissioning principles.
- Views on the introduction of the Merlin Standard.

Section C: Finances

- Attractiveness of the welfare to work market.
- Impact of outcome-based funding.
- Profitability – profitability associated with delivering FND programmes and services.
- Terms and conditions held with prime providers.

Section D: Delivery/performance management

- Subcontractor capacity such as operational challenges faced during FND.
- Performance monitoring such as performance information collected and by subcontractors and the management of performance by prime providers.

- Measuring client satisfaction and managing the hardest to reach customers.
- Sharing best practice and willingness to share information.

Section E: Overall impact

- Impact of the commissioning principles on their organisation.
- Perceived opportunities within the market and any obstacles that may exist.

Section F: Looking forward

- Initial views on how the introduction of the Framework for employment-related support services will impact on the level of opportunities available and intentions toward the market.
- Actions taken in response to the Framework and actions DWP could be taking.

Wave Two provider research: non-FND providers' questionnaire summary (used for leavers, unsuccessful bidders and non-bidders)

Background information

- Confirmation of respondent's name.

Screening questions to ascertain relationship with DWP

- Organisational profile questions: classification of subcontractors, leavers, unsuccessful bidders and non-bidders.
- Sector, size of turnover and employee numbers within the organisation.
- For leavers only: the prime provider's supply chain they were part of or was in the bid with and the reasons for either leaving the bid or for stopping delivery of FND services.

Background

- An understanding of the services and contracts the organisation delivers.
- An understanding of the organisation's response to not being involved in FND.
- Details of any new customers and markets that the organisation is delivering to and the expected turnover from them.

Section E: Overall impact

- Impact of the commissioning principles on their organisation.
- Perceived opportunities within the market and any obstacles that may exist.

Section F: Looking forward:

- Initial views on how the introduction of the Framework for employment-related support services will impact on the level of opportunities available and intentions toward the market.
- Actions taken in response to the Framework and actions DWP could be taking.

Appendix B

Survey data

B.1 Flexible New Deal subcontractor survey data

Table B.1 When did you start delivering FND services?

When did you start delivering FND services?	%
October 2009	58
November 2009	5
December 2009	4
January 2010	14
February 2010	4
March 2010	4
April 2010	4
May 2010	4
June 2010	1
Don't Know	1

Base: 98. Figures may not add to 100 per cent due to rounding.

Table B.2 In what contract package areas do you currently provide FND?

In what contract package areas do you currently provide FND (Flexible New Deal)?	%
Birmingham and Solihull	8
The Black Country	8
Cambridgeshire and Suffolk, Norfolk and Lincolnshire and Rutland	9
Central London, Lambeth Southwark and Wandsworth	13
Coventry and Warwickshire, The Marches and Staffordshire	5
Devon and Cornwall	3
Edinburgh, Lothian and Borders, Lanarkshire and East Dunbartonshire, Ayrshire Dumfries, Galloway and Inverclyde	12
Greater Manchester Central and Greater Manchester East and West	15
Leicestershire, Northamptonshire and Nottinghamshire	5
North and East Yorkshire and Humber and Tees Valley	10
North and Mid Wales and South East Wales	8
South Wales Valleys and South West Wales	7
South Yorkshire and Derbyshire	7
Surrey, Sussex and Kent	7

Base: 98 (multiple responses).

Table B.3 To what extent has your prime provider assisted your organisation to develop its capabilities?

To what extent has your prime provider assisted your organisation to develop its capabilities?	%
Minor assistance	17
Some assistance	60
A lot of assistance	19
Major assistance	4

Base: 52.

Table B.4 Can you please tell me how much you agree with the following statement: ‘My prime provider gives me all the information I need to meet DWP’s requirements’

Can you please tell me how much you agree with the following statement: ‘My prime provider gives me all the information I need to meet DWP’s requirements’	%
Strongly disagree	4
Disagree	6
Neither/nor	21
Agree	42
Strongly agree	26
Don’t know	1

Base: 98.

Table B.5 Can you please tell me how much you agree with the following statement: ‘My prime provider has a robust relationship with DWP’

Can you please tell me how much you agree with the following statement: ‘My prime provider has a robust relationship with DWP’	%
Strongly disagree	0
Disagree	4
Neither/nor	24
Agree	31
Strongly agree	22
Don’t know	18

Base: 98. Figures may not add to 100 per cent due to rounding.

Table B.6 Can you please tell me how much you agree with the following statement: My prime provider is able to assist me with all my requirements to deliver FND

Can you please tell me how much you agree with the following statement: My prime provider is able to assist me with all my requirements to deliver FND	%
Strongly disagree	6
Disagree	16
Neither/nor	29
Agree	36
Strongly agree	12
Don't know	1

Base: 98.

Table B.7 What improvements, if any, have you observed in DWP capability since the introduction of the new commissioning principles?

What improvements, if any, have you observed in DWP capability since the introduction of the new commissioning principles?	%
Roles and responsibilities of staff have been clarified	3
DWP staff are enhancing/increasing their skills base	1
There is an improved ability to provide feedback through provider meetings	2
Improved contract management skills	6
Improved knowledge of the marketplace and contractor's needs	1
Improved management of the marketplace	3
Cannot comment has have limited contact with DWP	3
Closer relationship/more consultative approach	3
Increased Flexibility in delivery	1
Increased level of scrutiny	1
Better supply chain/system in place	2
Reduction of costs	1
Improved communication	2
Other	6
Nothing/very little	61
Don't know	16

Base: 98 (multiple responses).

Table B.8 In your opinion, in which of the following areas could DWP enhance their capability?

In your opinion, in which of the following areas could DWP enhance their capability?	%
Roles and responsibilities of staff should be clarified further	5
DWP staff need to enhance/increase their skills and knowledge base	5
There needs to be improved contract management skills	4
There needs to be improved knowledge of the marketplace and contractor's needs	14
Improved processes, for example referrals, communications	19
Increase capacity to provide information/clarification quickly	5
More accurate client profiling/improved referrals	3
Contracting/dealing directly with local providers rather than prime providers	3
DWP should get more directly involved in the market place	1
Broaden the market	1
Let contracts run their duration	2
Increased consultation with providers	2
Improve the network of specialist providers	2
Improve their forecasting/statistical information	4
Better understanding of the programme/their requirements before they launch it	4
Should be more flexible/open	5
Better alignment of DWP contracts/value for money.	3
Work directly with third sector organisations	6
Invest in supply chain stewardship	2
Other	9
Cannot comment as have limited contact with DWP	7
There are no areas where DWP need to enhance their capability	3
Don't know	15
Refused	0

Base: 98 (multiple responses).

Table B.9 Could you give me two key actions that DWP need to do to address these areas? What would your first key action be?

Could you give me two key actions that DWP need to do to address these areas? What would your first key action be?	%
Improved understanding of the third sector/their clients	7
Allow ESOL classes	1
Improve point of contact with Department	9
More comprehensive/clear communication	7
Improve referral process, e.g. quicker, warm handovers, accurate customer details	8
Better communication about benefits	3
Ensure people are better off in work	1
Contract with subcontractors directly	3
Reduce contract size	7
Monitor more closely prime providers' management of/communication to subcontractors	9
Improve the knowledge/skill of their staff	3
Invest in training/support to providers	3
Ensure that the Skill Funding Agency programmes are allowed to enhance FND	1
Improved service by Jobcentre Plus	5
Refine sanction process	1
Spend more time with their customers	1
Improve response times	1
Partnership managers to hold multi-agency meetings	8
Look at sub regions/local authorities/local employment partnerships for delivery	4
Other	14
Don't know	3

Base: 74 (multiple responses).

Table B.10 What would your second action be?

What would your second action be?	%
Allow programmes more time to embed before making changes	1
Reducing levels of management	1
To have a better understanding of the market structure	3
Keeping to their timescales better	1
Review benefit system, e.g. scale down benefit over a period of time	1
Review of prime contractors' referral arrangements	3
Reduce the procedures and bureaucracy, e.g. job outcomes.	3
Re-examine outcome payments, e.g. how does seasonal employment fit, full cost delivery model etc	3
Monitor the service performance of prime providers	3
Assessing an organisation's capability as to what it says it will do	7
Setting realistic performance targets	1
Greater transparency of the benefits system	3
Electronic newsletter with updates	3
Improve working knowledge of the contract	6
Set up innovation fund for selected areas that can be replicated elsewhere	3
Should have support funding in place for subcontractors	1
Recognising the delay in implementing new policies and programmes by primes in these arrangements	1
Publication of historical performance data	3
Should be more prescriptive with some prime providers	4
Have less providers in the supply chain	3
Consultation with providers about the programme	10
Other	10
None/Do not need to change anything	11
Don't know	15

Base: 74 (multiple responses).

Table B.11 How commercially attractive is the welfare to work market?

How commercially attractive is the welfare to work market?	%
Not attractive	6
2	7
3	13
4	7
5	15
6	14
7	14
8	15
9	1
Extremely attractive	2
Don't know	3
Refused	1

Base: 98. Figures may not add to 100 per cent due to rounding.

Table B.12 Thinking of your company's profitability over the last year, on a scale of 1 to 10 where 1 is not at all happy and 10 is extremely happy, in your opinion, how happy are you with the terms and conditions that you have with your prime provider?

Thinking of your company's profitability over the last year, on a scale of 1 to 10 where 1 is not at all happy and 10 is extremely happy, in your opinion, how happy are you with the terms and conditions that you have with your prime provider?	%
Not happy at all	11
2	6
3	8
4	6
5	29
6	16
7	8
8	7
9	0
Extremely happy	5
Don't know	2
Refused	1

Base: 98. Figures may not add to 100 per cent due to rounding.

Table B.13 Did you experience any operational challenges over the last year in delivering FND?

Did you experience any operational challenges over the last year in delivering FND?	%
Yes	78
No	22

Base: 98.

Table B.14 Which of the following key operational challenges, if any, have you encountered in delivering FND Phase One?

Which of the following key operational challenges, if any, have you encountered in delivering FND Phase One?	%
Obtaining and managing office space	24
Human resources: recruitment	59
Human resources: up-skilling staff	28
IT systems	51
Management resource and attention	25
Working for more than one provider	20
Level of referrals	16
Dealing with customers, e.g. client knowledge	1
Human Resources: reducing/reallocating staff	4
Funding issues/accessing support	4
Geographical/weather challenges	3
Financial liability	1
Level of administrative work	1
Capacity	1
Other	13
None	3

Base: 76 (multiple responses).

Table B.15 Which of the following has been your main operational challenge?

Which of the following has been your main operational challenge?	%
Obtaining and managing office space	8
Human resources: recruitment	38
Human resources: up-skilling staff	9
IT systems	18
Management resource and attention	2
Working for more than one provider	8
Level of referrals	3
Human Resources: reducing/reallocating staff	1
Geographical/weather challenges	3
Financial liability	1
Level of administrative work	1
Other	4
None	3

Base: 76. Figures may not add to 100 per cent due to rounding.

Table B.16 How did you manage this main operational challenge?

How did you manage this main operational challenge?	%
Staff development/training/recruitment	32
Did nothing/moved out of the market	3
Investment, e.g. time/money	4
Using external agencies/consultants/contractors	9
Working with employers	3
Using different methods of communication	7
Monthly analysis, e.g. Jobcentre Plus	1
Operating at a deficit	3
Working with prime providers	8
Providing incentives	1
Flexible in service delivery/internal structures	8
Contract Management	3
Other	22
Don't know	3

Base: 76 (multiple responses).

Table B.17 What is the frequency of performance reporting to your prime provider?

What is the frequency of performance reporting to your prime provider?	%
Daily	22
Weekly	42
Monthly	32
Every three months	1
Less frequently than once a year	1
Don't know	2

Base: 98.

Table B.18 In addition to the data recorded above, are you collecting other data/information with respect to programme delivery and outcomes?

In addition to the data recorded above, are you collecting other data / information with respect to programme delivery and outcomes?	%
Yes	62
No	35
Don't know	3

Base: 98.

Table B.19 Can you provide examples of the types of other data/information you are collecting with respect to programme delivery and outcomes?

Can you provide examples of the types of other data/information you are collecting with respect to programme delivery and outcomes?	%
Outcomes	7
Customer satisfaction/performance	7
In work tracking	5
Customer skill profiles, e.g. level of literacy/numeracy	3
Customer personal background profiles, e.g. ethnicity, lone parents etc	30
Training/qualifications, e.g. record, cost, feedback about training	5
Quality/compliance data	2
Fail to attend rates/progression rates	2
Financial monitoring e.g. work experience expenditure, training	7
Number of job applications/interviews	2
Referrals/number of customers	7
Everything	3
Other	18
Don't know	3
Refused	2

Base: 61 (multiple responses).

Table B.20 Is your performance data audited or independently verified by your prime provider?

Is your performance data audited or independently verified by your prime provider?	%
Yes	88
No	9
Don't know	3

Base: 98.

Table B.21 How frequently does your organisation review progress against the FND contract with your prime provider?

How frequently does your organisation review progress against the FND contract with your prime provider?	%
Daily	3
Weekly	27
Monthly	52
Every three months	11
Every six months	1
Once a year	1
Don't know	4
Refused	1

Base: 98.

Table B.22 If there is underperformance/failure to meet targets or contractual obligations how is this managed by the prime provider?

If there is underperformance/failure to meet targets or contractual obligations how is this managed by the prime provider?	%
Regular meetings to review performance with actions to address areas	60
Provision of support from the prime provider in the area underperforming	5
Reduction in number of referrals	5
This is managed by another subcontractor who would contact us	1
Payments are withheld	1
Performance improvement/payment plan	6
Other	8
Our prime provider has not had to take any actions to date	18
Don't know	6

Base: 98 (multiple responses).

Table B.23 Do you currently have processes, policies or systems in place which enable your organisation to measure customer satisfaction?

Do you currently have processes, policies or systems in place which enable your organisation to measure customer satisfaction?	%
Yes	94
No	5
Don't know	1

Base: 98.

Table B.24 How do you currently measure customer satisfaction?

How do you currently measure customer satisfaction?	%
Regular customer satisfaction survey	60
Feedback forms are included as part of every service	59
Regular informal feedback	36
Complaint forms	10
Conducting focus groups	15
Mystery shoppers	2
Feedback to website or contact centre	13
Feedback from employers	11
In-learning questionnaire	1
Interviews/one-to-ones with customers	2
Prime visits the workplace	1
Forums	1
Comments board	1
Staff review	1
Job outcome targets	1
Regional performance teams	1
Other	8

Base: 92 (multiple responses).

Table B.25 Did your organisation’s processes for measuring customer satisfaction change when you became a subcontractor delivering FND?

Did your organisation’s processes for measuring customer satisfaction change when you became a subcontractor delivering FND?	%
Yes	15
No	85

Base: 92.

Table B.26 If so, what techniques did you introduce to measure customer satisfaction?

If so, what techniques did you introduce to measure customer satisfaction?	Count
Regular customer satisfaction survey	2
Feedback forms are included as part of every service	7
Regular informal feedback	2
Complaint forms	1
Introduced a human interface	1
Workshops	1
Feedback to website or contact centre	1
Feedback from employers	1
Using the prime provider’s methods	1
Other	2

Base: 14 (multiple responses).

Table B.27 Have you adopted any new approaches or systems for managing customers that are hardest to place?

Have you adopted any new approaches or systems for managing customers that are hardest to place?	%
Yes	54
No	44
Don’t know	2

Base: 98.

Table B.28 If YES, what approaches have you taken?

If YES, what approaches have you taken?	%
Dealing with customers' underlying problems (e.g. health, housing, skills etc)	9
Refocusing them areas where employment opportunities exist (call centres, retails, etc)	4
Undertaking additional assessments with customers	19
Offering increased mentoring and in-work support to customers	28
Offering financial incentives to customers	2
Referring customers to partners or other providers who offer more suitable programmes	17
Offering basic training opportunities	21
Use of work placements	6
Working with skills/training providers in the areas	6
Use different tools	9
Enhanced action planning	2
Sanctions	2
Link to other organisations	2
Change working environment with clients, e.g. one-to-one	4
Using trained staff	2
Not force them into job if not ready	6
Self-employment	2
Other	15
Refused	2

Base: 53 (multiple responses).

Table B.29 If no, why not?

If no, why not?	Count
Existing systems in place/experience	29
All customers treated the same	1
Customers are dealt with individually	1
Other	9
Not applicable	3

Base: 43.

Table B.30 Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?

Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?	%
Low	6
2	4
3	2
4	6
5	16
6	7
7	19
8	15
9	4
High	14
Don't know	5

Base: 98 Figures may not add to 100 per cent due to rounding.

Table B.31 If your bid to be a Prime Contractor was unsuccessful will you seek to deliver services as a subcontractor under the new framework?

If your bid to be a Prime Contractor was unsuccessful will you seek to deliver services as a subcontractor under the new framework?	Count
Yes	13
Don't know	4
Refused	1

Base: 18.

Table B.32 Do you see yourself providing welfare to work services for DWP in

Do you see yourself providing welfare to work services for DWP in:	%
One year's time	21
Three year's time	6
Five year's time	64
Don't know	8
Refused	1

Base: 97.

Table B.33 Overall, do you see your organisation staying within the DWP welfare to work market or moving out of the DWP welfare to work market?

Overall, do you see your organisation staying within the DWP welfare to work market or moving out of the DWP welfare to work market?	%
Staying in market	87
Moving out of DWP market	4
Don't know	8
Refused	1

Base: 97.

B.2 Flexible New Deal leaver survey data

Table B.34 Which prime provider did your organisation provide services for or which prime provider's bid with was your organisation part of?

Which prime provider did your organisation provide services for or which prime provider's bid with was your organisation part of?	Count
A4e	11
Maximus	1
Fourstar (formerly Mentor Employment and Skills)	1
Pertemps People Development Group	1
Remploy	4
Seetec	1
Serco	7
The Wise Group	5
TNG	3
Ingeus (formerly Work Directions)	5
Working Links	14
Don't know	5

Base: 30 (multiple responses).

Table B.35 What types of employment-related services do you currently provide?

What types of employment-related services do you currently provide?	Count
Basic employment training	20
Basic skills training	18
Longer occupational training	11
Mentoring	23
Self-employment	12
Short job focused training	13
Specialist services such as debt counselling, alcohol, drug advice	17
Work placements	24
Qualifications	1
In-work support programmes	1
Other	7

Base: 30 (multiple responses).

Table B.36 How has your organisation responded to not being involved in the delivery of FND?

How has your organisation responded to not being involved in the delivery of FND?	Count
Staying within the welfare to work market but looking for new opportunities with DWP	26
Developing relationships with prime providers	27
Developing customers other than DWP within the wider welfare to work market	25
Expanding your range of services	22
Specialising in a particular service	14
Expanding your geographical coverage	10
Diversifying into other markets other than welfare to work	18
Pursuing opportunities around the Work Programme.	3
Other	2

Base: 30 (multiple responses).

Table B.37 Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?

Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?	Count
Low	1
2	3
3	4
4	3
5	3
6	4
7	4
8	3
9	2
High	1
Don't know	2

Base: 30. Figures may not add to 100 per cent due to rounding.

Table B.38 Do you see yourself providing welfare to work services for DWP in

Do you see yourself providing welfare to work services for DWP in:	Count
One year's time	13
Three year's time	4
Five year's time	10
Don't know	2

Base: 29.

B.3 Flexible New Deal unsuccessful bidders survey data

Table B.39 What types of employment-related services do you currently provide?

What types of employment-related services do you currently provide?	Count
Basic employment training	16
Basic skills training	14
Longer occupational training	12
Mentoring	18
Self-employment	14
Short job focused training	14
Specialist services such as debt counselling, alcohol, drug advice	13
Work placements	16
In-work support programmes	1
Other	6

Base: 22 (multiple responses).

Table B.40 How has your organisation responded to not being involved in the delivery of FND?

How has your organisation responded to not being involved in the delivery of FND?	Count
Staying within the welfare to work market but looking for new opportunities with DWP	17
Developing relationships with prime providers	18
Developing customers other than DWP within the wider welfare to work market	17
Expanding your range of services	15
Specialising in a particular service	14
Expanding your geographical coverage	13
Diversifying into other markets other than welfare to work	17

Base: 22 (multiple responses).

Table B.41 Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?

Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?	Count
Low	3
2	3
3	5
4	2
5	5
6	2
8	1
9	0
High	1

Base: 22. Figures may not add to 100 per cent due to rounding.

Table B.42 Do you see yourself providing welfare to work services for DWP in

Do you see yourself providing welfare to work services for DWP in:	Count
One years' time	9
Three years' time	1
Five years' time	7
Don't know	4

Base: 21.

B.4 Flexible New Deal non-bidder survey data

Table B.43 Does your organisation currently provide other DWP welfare to work programmes/services?

Does your organisation currently provide other DWP welfare to work programmes/services?	Count
Yes	22
No	8

Base: 30.

Table B.44 What types of employment-related services do you currently provide?

What types of employment-related services do you currently provide?	Count
Basic employment training	19
Basic skills training	21
Longer occupational training	13
Mentoring	17
Self-employment	11
Short job focused training	19
Specialist services such as debt counselling, alcohol, drug advice	11
Work placements	19
Specialist services	4
Skills assessment	2
Other	9
Don't know	1

Base: 30 (multiple responses).

Table B.45 How has your organisation responded to not being involved in the delivery of FND?

How has your organisation responded to not being involved in the delivery of FND?	Count
Staying within the welfare to work market but looking for new opportunities with DWP	15
Developing relationships with prime providers	20
Developing customers other than DWP within the wider welfare to work market	23
Expanding your range of services	17
Specialising in a particular service	11
Expanding your geographical coverage	12
Diversifying into other markets other than welfare to work	17
Becoming involved in rehabilitation initiatives for ex military and veterans	1
Other	1
Don't know	4

Base: 30 (multiple responses).

Table B.46 Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?

Thinking of the wider welfare to work market in this context, on a scale of 1 to 10 where 1 is not attractive at all and 10 is extremely attractive, how commercially attractive will this market be to your organisation?	Count
Low	4
2	2
3	2
4	3
5	7
6	1
7	5
8	3
9	0
High	0
Don't know	3

Base: 30.

Table B.47 Do you see yourself providing welfare to work services for DWP in

Do you see yourself providing welfare to work services for DWP in:	Count
One year's time	8
Three year's time	3
Five year's time	10
Don't know	4

Base: 25.

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Under the Commissioning Strategy (February 2008) the Department for Work and Pensions (DWP) fundamentally changed its approach to commissioning employment provision. Through working more strategically with providers, commissioning principles were designed to achieve a step change in provider performance whilst at the same time ensuring appropriate and sustainable job outcomes for DWP's customers. This is to be achieved through offering providers longer contracts covering a larger geographical area with minimal prescription on the content of service provision.

Providers are being paid on the basis of outcomes, rewarding providers for enabling customers to secure sustainable employment. In return, DWP requires providers to invest in their capability, and encourages them to develop strong and consistently high performing supply chains, to ensure that customers can access a suitable range of services.

In implementing this approach to commissioning contracted employment provision, it is important for DWP to understand how providers are responding to the change and to incorporate feedback from providers into policy development. This report considers the impact of the commissioning principles from a provider perspective by examining the welfare to work market in Great Britain during live running of Flexible New Deal (FND), the first programme commissioned under the new strategy. It also updates findings of the early implementation of FND as reported in Research Report No 704, *The Commissioning Strategy: Provider survey on early implementation*.

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DWP Department for
Work and Pensions

Published by the
Department for Work and Pensions
June 2011
www.dwp.gov.uk
Research report no. 757
ISBN 978-1-84712-993-2