

Research report

# The Commissioning Strategy: Provider survey on early implementation

by David Armstrong, Yvonne Byrne, Carol-Anne  
Cummings and Brendan Gallen

Department for Work and Pensions

Research Report No 704

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Dr David Armstrong, Yvonne Byrne, Carol-Anne Cummings and Brendan Gallen

A report of research carried out by Pricewaterhouse Coopers on behalf of the  
Department for Work and Pensions

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# Abbreviations

ALP	Association of Learning Providers
BIS	Business, Innovation and Skills
CEP	Contracted Employment Provision
CPA	Contract package area
DWP	Department for Work and Pensions
EOI	Expression of Interest
ERSA	Employment Related Services Association
EZs	Employment Zones
ESF	European Social Fund
FND	Flexible New Deal
GDP	Gross Domestic Product
ITT	Invitation to Tender
JSA	Jobseeker's Allowance
LLC	Limited Liability Company
LLP	Limited Liability Partnership
LSC	Learning and Skills Council
LSP	Local Strategics Partnership
MIS	Management information systems
NPM	New Public Management
PEM	Provider Engagement Meeting
PQQ	Pre-Qualification Questionnaire
PRaP	Provider Referrals and Payment
PwC	Pricewaterhouse Coopers LLP
SPV	Special Purpose Vehicle
SRM	Supplier Relationship Management

# Glossary of terms

<b>Black box</b>	With respect to the Commissioning Strategy, the adoption of a black box approach refers to the minimal prescription by the Department for Work and Pensions (DWP) on the process which providers undertake with customers to deliver sustainable job outcomes.
<b>Choice contract package area</b>	This is a contract package area in which two prime providers operate. Flexible New Deal (FND) intended to trial the principle of informed customer choice by allowing customers to select which of the providers they would prefer to attend supported by information on provider performance and customer experience, thereby rewarding providers for good performance and customer service with the potential to increase their market share. Due to the termination of FND contracts in June 2011 customer choice will no longer be trialled under FND.
<b>End-to-end provider</b>	An end-to-end provider covers the range of general employment related services a customer receives throughout their journey in FND. These are typically provided by what DWP refer to as Tier one and Tier two providers which are prime providers and larger generalist sub-contractors.
<b>FND legacy programmes</b>	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 (EZs).
<b>Outcome-based funding</b>	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.
<b>Specialist provider</b>	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.
<b>Welfare to work market</b>	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, sought to fundamentally change the Department's relationship with providers of its welfare to work programmes. DWP aims to work more strategically with providers, offering longer contracts and flexibility to tailor service delivery in return for a substantial increase in the number of successful, sustainable job outcomes achieved for the Department's customers. The Commissioning Strategy is based on seven key components:

- **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.
- **Provider capabilities:** specifying specific capabilities and requirements of high-performing supply chains and top-tier providers.
- **Commercial strategy:** rewarding providers on the basis of achieved job outcomes and using competition to drive greater effectiveness.
- **Performance management:** measuring and managing performance in an integrated and transparent manner.
- **DWP capability:** developing DWP's own skill base to enable the Department to make a positive contribution to business partnership.
- **Customer experience:** placing the customer experience as an important part of commissioning provision.

Launched in October 2009, Flexible New Deal (FND) Phase One is the first programme to have been designed, commissioned and implemented under the new Commissioning Strategy. It is being delivered within 14 contract package areas (CPAs) and 24 contracts have been awarded to prime providers and their supply chains. FND Phase One contracts will be terminated in spring 2011 with the introduction of the Government's Work Programme, a new single, personalised welfare to work programme for all client groups.

### Terms of reference

This research focuses on FND Phase One and seeks to establish providers' initial reactions to the Commissioning Strategy and the emerging effects of the Strategy on the welfare to work market. The research covers four types of providers including prime providers (i.e. top tier providers) and sub-contractors who are currently delivering FND Phase One, along with those providers who did not bid or were unsuccessful in their bid for delivering FND Phase One.



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 sub-contractors; and
- provide feedback to inform the future commissioning of employment programmes.

### Approach

The research with providers consists of three stages:

- **Provider baseline survey:** This survey was to provide an overview of the structure and dynamics of the welfare to work market in Great Britain prior to the introduction of the Commissioning Strategy. 593 interviews were completed out of a target population of approximately 797 organisations between September and October 2009.
- **Wave One provider survey:** The primary objective of this survey was to examine how the Commissioning Strategy, through the implementation of FND, has impacted upon providers in Phase One areas and what lessons can be learned. This involved interviews with 12 prime provider organisations and surveys with 130 sub-contractors, 21 unsuccessful bidders and 44 non-bidders. The surveys were completed between October 2009 and January 2010.
- **Wave Two provider survey:** The objective of this survey will be to assess how FND Phase One has impacted upon providers some months into implementation and will involve re-interviewing prime providers and other providers. This research will be conducted in autumn/winter 2010 and will be the subject of a future DWP research report.

In addition, a US study trip was completed in February 2009 to gain an understanding of how similar approaches to commissioning welfare to work programmes are working elsewhere<sup>1</sup>.

This report provides a preliminary assessment, based on the baseline and Wave One Provider Surveys, of whether the components of the Commissioning Strategy have been adopted by providers and whether they are producing intended and/or unintended effects. The report does not represent an impact assessment of the strategy. The research will be used to inform future development of the Department's commissioning approach for Contracted Employment Provision (CEP).

## Key findings

### Profile of DWP welfare to work providers prior to the Commissioning Strategy

The research suggested that the number of welfare to work providers in Great Britain at September 2009 was between 556 and 677 (see Section 2.3.1). No absolute number of providers could be ascertained due to incomplete information available. Of these estimated number of organisations, 447 to 568 provided welfare to work services on behalf of DWP. 416 organisations who provided services to DWP at September 2009 participated in the provider baseline study.

The profile of DWP's welfare to work market prior to the implementation of the Commissioning Strategy illustrates a mature market with a low level of market entrants. For instance, almost 60 per

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<sup>1</sup> The findings from the study trip were published in December 2009 in *Welfare to work in the United States: New York's experience of the prime provider model* and are available in the Department's research report series (Report No. 614).

cent of DWP providers surveyed have been delivering DWP contracts for ten years or longer, whereas only seven per cent of those surveyed have been providing DWP welfare to work programmes for less than two years. The Commissioning Strategy and FND have seen significant market entry at both prime and subcontractor level. With respect to market exit, the research also covered organisations that had ceased providing DWP welfare to work services prior to the Commissioning Strategy. Of those organisations, almost one half were from the third sector, a third from the private sector, with remaining based in the public sector. This suggests that a disproportionately low number of public sector providers ceased providing for DWP in the past, whilst a higher than expected rate of private sector providers ceased providing for DWP before the introduction of the Commissioning Strategy. The majority of these providers (74 per cent) ceased providing DWP services more than one year ago from the time of fieldwork. The main reasons cited for exiting the DWP provider market were contractual in nature – either the size of contract areas were too large or the contractual requirements themselves were too demanding.

This stage of the research focused primarily on DWP welfare to work providers as of September 2009. A sectoral analysis of the data reveals that almost half were third sector organisations, largely charities and training organisations, with the remaining organisations split evenly between private and public sector. Almost half of the respondents providing welfare to work services for DWP derived less than one-fifth of their total revenue through DWP contracts. Approximately one-third of DWP providers surveyed have revenue of less than £1 million and less than 25 employees.

With respect to the future intentions of providers, 90 per cent of all respondents stated that they intend to provide DWP programmes in the future.

## Market structure

**Change in market structure:** more provider organisations are involved in the delivery of FND Phase One than were involved in delivering its legacy programmes. While this is encouraging, it will be important to consider the value and nature of the work undertaken by FND sub-contractors over the duration of the contract before any definitive findings can be reached in this regard.

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

**Supply chains:** FND Phase One prime providers have developed or enhanced their supply chains in direct response to the Commissioning Strategy, either because they felt their bid would be better received by DWP or in response to the size of the contract area, and the need for coverage across the contract package area which they would not otherwise have. Supply chains, at the time of research, were short, i.e. at this time, sub-contractors did not typically out-source services to sub-contractors of their own. Interestingly, significant overlaps exist between supply chains, with seven of the 14 FND Phase One prime providers also operating as sub-contractors and 21 per cent of sub-contractors delivering FND services for more than one prime provider. The research also found that development of supply chains continued following contract award with most prime providers reporting that some of their sub-contractors withdrew from supply chains at this stage. The reasons provided included: not fully understanding the risk associated with outcome-based funding, changes in expected customer volumes or being part of another successful bid.

### Market development and stewardship

**Market entry and exit:** the FND Phase One contracting process brought new entrants into the market at both the prime provider and sub-contractor level. For instance over 250 organisations who attended FND Phase One ‘speed-dating’ events and information seminars were new to the market, and three of the 14 successful prime providers are new to the Great Britain market, with one also new to the welfare to work sector.

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

**Code of Conduct:** the Code of Conduct outlines best practice with respect to relationships between prime providers and sub-contractors. The research with FND sub-contractors found that the Code of Conduct has helped formalise relationships (49 per cent of sub-contractors) along with providing them with more security (for 45 per cent of sub-contractors). However, some sub-contractors saw the Code of Conduct as leading to more administrative burden (45 per cent) and increased financial costs (40 per cent).

### Provider capabilities

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

### Commercial strategy

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

**Outcome-based funding:** most prime providers have previous experience of outcome-based funding, but this is not the case with sub-contractors. Many prime providers reported that outcome-based funding was a significant issue underpinning contract negotiations with sub-contractors. For instance, some sub-contractors requested guarantees around minimum customer volumes in order to mitigate their own financial risk and although prime providers did not feel that they could guarantee volumes they did take into consideration the type of service their sub-contractors were providing. In other words, the nature of provision, i.e. end-to-end provision or specialist provision tended to influence the contract terms between prime providers and sub-contractors, particularly with regards to payment. It is encouraging to note that prime providers are, in some cases, reducing the risk associated with outcome-based contracts for sub-contractors through adopting different terms and conditions.

**Choice CPAs:** at the time of the research customer choice, as specified in FND Phase One specification (where two prime providers are operating in the one contract area) was not in operation. However, providers did not think that the planned introduction of competition in April 2011 would necessarily result in improved service delivery and greater customer choice. This was because, during the initial phase of the FND Phase One contract, the prime providers' percentage of customers is guaranteed<sup>2</sup> and therefore, competition between providers was limited and its potential effectiveness to drive performance reduced. Subsequently, this research has highlighted that, following contract award, the main area of competition, if any, is within, rather than between, supply chains and this is what is driving some provider behaviour.

## **Performance management**

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

**Performance monitoring systems:** all prime providers and almost all sub-contractors reported having performance monitoring systems in place, some of which are very sophisticated. The systems generally enable them to capture both quantitative (job outcomes) and qualitative (customer experience) outcomes. Many prime providers and some sub-contractors have reviewed their monitoring systems, tools and techniques following contract award. In particular, some prime providers have taken action to ensure their systems capture the relevant outcomes right across their supply chains. DWP's new system for interacting with providers, 'Provider Referrals and Payment' (PRaP), experienced a number of 'teething problems' during the early implementation stage of FND Phase One – at which time this research was being conducted – and, as such, came under strong criticism from providers. Corrective action has subsequently been undertaken by DWP to address the issues that were raised and the issue will be revisited at wave two of this research.

**Sharing best practice:** there is a significant level of sharing best practice within supply chains, i.e. between a prime provider and its sub-contractors. A number of prime providers have taken substantial steps to share best practice and develop the capacity of their sub-contractors, particularly smaller third sector organisations. Prime providers are less willing to share best practice with other prime providers and their supply chains, although they are generally content to participate in DWP good practice workshops. However, given the degree of overlap between supply chains it is likely that the sharing of best practice between supply chains will occur naturally as providers interact and work with different providers.

## **DWP capability**

**Developing commercial acumen:** providers have identified a need for DWP staff, such as contract managers and account managers, to continue to improve their commercial acumen, particularly with respect to enhancing their understanding of how the Department's actions impact upon providers, and their ability to implement and deliver welfare to work programmes effectively.

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<sup>2</sup> It was originally outlined in the FND Phase One specification (DWP, 2008b, p12) that for the first 18 months of operation in choice CPAs customers will be allocated on a 50:50 basis. In the subsequent 18 months a provider's market share may 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. However, due to the termination of FND contracts in June 2011 customer choice will no longer be trialled under FND.

For instance, the delay in signing contracts following contract award was a key example highlighted by prime providers in which the Department's actions left them short of time to operationalise their delivery systems before the launch of FND Phase One.<sup>3</sup>

**Improving relationship between DWP and Jobcentre Plus:** providers highlighted an apparent 'disconnect' between DWP and Jobcentre Plus which they felt was evidenced by a lack of clarity on roles and responsibilities. It is likely that the subsequent commencement in January 2010 of Provider Engagement Meetings (PEMs) – regular meetings between prime providers and DWP – will have gone some way to address this concern.

### **Customer experience**

**Improving customer experience:** the key aspect of the Commissioning Strategy which all providers believe will positively affect customers' experience is the new flexibility providers have to tailor service and innovate as they see appropriate. Examples include conducting specialised customer diagnostics, segmenting customers by their needs and ensuring specialist providers are included within the supply chain. However, some FND Phase One sub-contractors (39 per cent) felt the Commissioning Strategy would not have a positive effect upon service delivery. These sub-contractors generally believed that the strategy would result in them spending less time with customers. Sub-contractors who held this view tended to be large, with revenue in excess of £5 million per annum. It is likely that many of these providers previously contracted directly with DWP and perhaps see their change in status to sub-contractor and reported reduction in profit margins as resulting in a negative impact on their customer service.

**Working with hardest to place customers:** many prime providers and around half of sub-contractors (54 per cent) indicated that they had adopted a new way of working to improve service delivery for this customer group. These new ways are directly related to the 'black box' approach and involve making these customers more competitive in the labour market and developing more robust employer relationships. For the prime providers who have not adopted a new way of working with these customers, they are either continuing to utilise proven methods and practices with this customer group or felt it was too early for them to say if new approaches are needed.

**Providers' relationship with Jobcentre Plus:** broadly the relationships between FND Phase One prime providers and Jobcentre Plus were reported by providers as being good, though variable by Jobcentre Plus office and district. In looking at current areas for more immediate Jobcentre Plus development, prime providers highlighted two main issues namely 'warmer' client handovers, i.e. handovers that involve the customer, a Jobcentre Plus adviser and the provider to help smooth or enhance the transition process, and clearing the backlog of customer referrals. With a view to the next 12 months both prime providers and sub-contractors felt that Jobcentre Plus should focus on developing different aspects of partnership working with prime providers and developing the capacity of Jobcentre Plus.

**Providers' relationship with local stakeholders:** prime providers have clearly sought to consult with relevant partner organisations during the bid development but to a lesser extent on contract award. The relatively low levels of consultation after contract award may be timing-related, in that, at the time of the research FND Prime providers were understandably focused on delivering.

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<sup>3</sup> The Department has continually been developing its own capability since the introduction of the Commissioning Strategy and has launched a Provision Management Division since this research was conducted. Providers' views of DWP capability will be revisited during wave two of this research.

## Conclusions and recommendations

As the implementation of the Commissioning Strategy is at an early stage it is too soon to determine whether it is having any discernable impact on successful job outcomes. Notwithstanding this, the findings above indicate that the FND Phase One providers have generally responded in a positive manner to the Commissioning Strategy. This has been evidenced through their approach to developing their supply chains, delivery models and investing in their capabilities. Wave two of the research, which is likely to be conducted in autumn/winter 2010, will seek to build upon and further assess the emerging impact of the Commissioning Strategy.

To assist DWP to monitor and enhance the implementation of the Commissioning Strategy a number of recommendations have been put forward, based on the research findings, and are outlined below.

### **Continue stewardship role**

- Develop integrated and holistic local service provision by encouraging prime providers to be proactive in developing greater integration and cohesion with other organisations operating at a local level to meet customers' underlying needs to overcome unemployment and poverty. The research shows only limited examples of good practice. DWP should seek to understand if barriers to partnership working exist and adopt measures, in conjunction with prime providers, to overcome them.
- Understand current risk/reward profile for provider type to ensure that sub-contractors are being equitably treated and adequately rewarded within supply chains relative to prime providers. A value chain analysis<sup>4</sup> should be conducted to identify where the balance of risk and reward rests within the supply chain and will inform DWP if there is a need to take corrective action.
- Monitor changes in supply chains and any market developments to maintain an understanding of the 'pulse' of the market, its attractiveness, diversity and the development of any potential barriers to entry.

### **Communicate effectively**

- Enhance non-FND Phase One providers' (i.e. non-bidders and unsuccessful bidders) understanding of Commissioning Strategy requirements to ensure that they can find their role in the new provision market.
- Clarify departmental roles and responsibilities of DWP staff further, especially in relation to contract management staff and those staff who interact directly with providers.

### **Develop capacity**

- Within the market: facilitate capacity by continuing to train providers on areas perceived to require development such as supply chain management. In addition, a programme of networking opportunities, either physically or virtually, should be maintained for smaller organisations to facilitate the on-going development of a diverse market.

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<sup>4</sup> A value chain analysis involves examining the activities the provider (either prime provider or sub-contractor) supplies in delivering the FND Phase One programme, and the funding received for this provision, to establish where the reward and risk lies within the supply chain.

- Within DWP: improve understanding of commercialism by broadening or enhancing the commercial experience of key staff, i.e. those staff who have more of a direct interaction with providers or those involved in CEP to ensure that these staff develop their understanding of the practical challenges and commercial implications of departmental actions. Also, DWP should keep abreast of, and share, market information keeping providers informed of changes within the marketplace.
- Within Jobcentre Plus: developing consistency through closer working between providers and Jobcentre Plus, for example develop or revise existing practices to ensure that more 'warm' customer handovers take place and clarify roles between DWP and Jobcentre Plus to counteract providers' perceived lack of cohesion between the two organisations.
- Monitor and manage performance by monitoring performance against job outcome expectations, understanding and applying the lessons from PRaP implementation, facilitating sharing of best practice if this is not naturally occurring and harvesting and disseminating examples of good practice.

# 1 Background

## 1.1 Introduction

This chapter provides an overview of the background to the report and is structured under the following headings:

- Background to the research.
- Strategic and policy context.
- Terms of reference.
- Structure of the report.

## 1.2 Background to the research

The Department for Work and Pensions (DWP) is responsible for employment programmes within Great Britain as part of its remit to maximise employment and opportunity for all and to deliver the Government's welfare agenda.

Within welfare reform, a new approach to commissioning, outlined in the Commissioning Strategy (DWP, 2008a), provides the basis for a more strategic relationship between the Department and its providers. The Commissioning Strategy aims to achieve a step change in performance, ensuring appropriate and sustainable job outcomes for the Department's customers. It seeks to transform the employment services market by introducing more levers to promote competition, to enhance performance and by placing an emphasis on supply chain management. This is expected to be achieved through the use of larger contracts of greater duration which are flexible and outcome-based. These contracts would be drafted in such a way as to encourage the emergence of a core of consistently high performing top tier providers who bring smaller providers with other specialisms into their supply chain. This change in commissioning approach also reflects a general shift in how public services in Great Britain are being procured, characterised by a move away from direct public sector service delivery to a more diverse range of delivery models, for example outsourcing provision of public services, etc.

As the Commissioning Strategy provides 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 Great Britain

Welfare to work policy in Great Britain has evolved through the introduction of a number of initiatives designed to address unemployment. Underpinning these initiatives is the New Public Management (NPM) principle of market orientation of public services, which is predicated on improving cost efficiencies and achieving better value for money. In particular, the New Deal programme, 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, amongst 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. Whilst 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 Great Britain. While recent welfare reforms have been informed by research and evaluation evidence of New Deal, the essence of this structure has remained largely unchanged.

The British welfare to work system starts with Jobcentre Plus, the public body responsible for administering the benefits system. Jobcentre Plus provides basic, work-focused interventions to customers nearest to the labour market. For those further from the labour market, the intensity and personalisation of support increases with the duration of time particular individuals are in receipt of benefits. Under New Deal, customers who had been unemployed between six and 18 months were referred to programmes where they received more intensive support, such as 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 (EZs) (2000) and Pathways to Work (2003) were introduced by the Labour Government to build on the foundations laid down by New Deal. Under these Labour Government initiatives, providers have responsibility for case management and for deciding the type of provision, if any, which is needed to support individuals into employment. EZs, characterised by a three-stage 'work first' model, built on one-to-one support work with claimants, and achieved a new level of personalised support in welfare (Hales, 2003). EZs also operated a primarily outcome-based funding system. The Pathways to Work package of reforms, also involving outcome-based funding, focused on increasing employment among incapacity benefit claimants, with delivery involving both Jobcentre Plus (in a total of 18 areas) and private and voluntary sector agencies (in a total of 31 areas).

Informed by evidence from these programmes, the Labour Government developed the Flexible New Deal (FND). FND reflects the Labour Government's aim to modernise the Jobseekers' Allowance Scheme (JSA) regime to meet the Labour Government's overall objective of achieving 80 per cent employment rate (DWP, 2008a, p4-6) through flexible outcome-based provision. FND replaced a number of different programmes, namely: 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 EZs. Scheduled for introduction in two phases, which began in October 2009, FND is 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 (CEP), 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. Under the new Government these are now in the process of being streamlined into the Work Programme, a single, personalised welfare to work programme for all client groups. Prior to this, the Labour Government had introduced FND which replaced the previous suite of New Deal provision;
- 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 in order to meet the needs of all customers;
- 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.

From the customer perspective, the latest phase of Great Britain's welfare reform programme as implemented by the then Labour Government 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 2008c, 2008d), and the Flexible New Deal (DWP, 2008a). Key themes to 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.

## 1.4 Terms of reference

### 1.4.1 Introduction

As the CEP market moves towards the prime contracting model, the objective of this research is to understand how providers are responding to this change and to incorporate their feedback into policy development as appropriate. The focus of this research is on providers, the new contract model and other delivery partners rather than on customers or service recipients. This report does not examine the impact of services on job outcomes or on recipients; rather it focuses on the impact on providers in terms of business strategy and their behaviour. As such, this research is not an impact evaluation of the Commissioning Strategy 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. This research will contribute towards the overall evaluation of the Commissioning Strategy.

In this context, DWP commissioned Pricewaterhouse Coopers 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 in April 2009;
- assess the impact of the strategy on the market and operations of prime and sub-contractors; and
- provide feedback to inform the ongoing implementation of the strategy.

### 1.4.2 Methodology

The methodology comprises the following three phases of activity:

- **Provider baseline survey:** the primary objective of this survey was to gain an understanding of the landscape of the welfare to work marketplace prior to the introduction of the Commissioning Strategy. This survey was conducted between September 2009 and October 2009, with a target sample of 797 organisations. A total of 593 interviews were completed, which represents a response rate of approximately 74 per cent. Key findings are outlined in Chapter 2 with more detailed information on the sampling frame and methodology included in Appendix A and data tables in Appendix B.

- **Wave one provider survey:** this involved undertaking surveys with prime providers, sub-contractors, unsuccessful bidders and non-bidders. This survey examined the ways in which the Commissioning Strategy, and its implementation through FND, has impacted upon providers in Phase One areas and the lessons, if any, that have been learned to inform future commissioning rounds. For definitional purposes, unsuccessful bidders were those that were unsuccessful in their bid for FND Phase One, either at Pre-Qualification Questionnaire (PQQ) or Invitation to Tender (ITT) stage, and who did not subsequently join a FND Phase One supply chain. Non-bidders were defined as those providers who did not bid at all for the FND Phase One contract, either in their own right or as part of a supply chain. Interviews were undertaken between October 2009 and January 2010 with:
  - 12 (out of 14) prime providers;
  - 130 (of 155) known sub-contractors within the FND Phase One area based on the baseline survey and additional provider lists;
  - 21 unsuccessful bidders; and
  - 44 non-bidders.

Interviews conducted with unsuccessful bidders and non-bidders were not intended to be statistically representative of their provider type, rather their purpose was to provide insight only. Key findings against each component of the Commissioning Strategy for all provider types are outlined in Chapters 3 to 10. Detailed information on the wave one provider survey's sampling frame and methodology are contained in Appendix A and data tables are presented in Appendix B.

- **Wave two provider survey:** this will assess how FND Phase One has impacted upon providers 12 months into implementation. This will involve re-interviewing prime providers and other providers during autumn/winter 2010 and findings will be included in a future DWP research report.

The wave one provider survey focuses on the first programme commissioned under the new strategy, FND Phase One, during the first year of implementation. It will also be important to review other programmes commissioned under the Strategy to gain a holistic view of how the Commissioning Strategy is impacting upon the welfare to work marketplace and to distinguish more clearly between strategy impacts and programme impacts. Table 1.1 summarises the key stages in the research.

**Table 1.1 Overview of the research**

<b>Phase</b>	<b>Activities</b>	<b>Outputs</b>
<b>Provider baseline survey</b> Baseline survey and database development	<b>Scope</b> <ul style="list-style-type: none"> <li>Survey of accredited providers in DWP's MOMENTA database (and other provider lists)</li> </ul> <b>Timing</b> <ul style="list-style-type: none"> <li>Fieldwork took place between September and October 2009</li> </ul>	<b>Interviewing</b> <ul style="list-style-type: none"> <li>593 completed interviews representing an achieved response rate of 74 per cent</li> </ul> <b>Reporting outputs</b> <ul style="list-style-type: none"> <li>Compiled and delivered new Provider Market database</li> <li>Compiled baseline data of marketplace prior to introduction of the strategy</li> <li>Findings published with Wave One Survey findings in summer 2010</li> </ul>
<b>Wave one provider survey</b> Initial survey of providers following launch of FND Phase One	<b>Scope</b> <ul style="list-style-type: none"> <li>Survey of 12 prime providers, which included interviewees at national and district level</li> <li>Survey of 195 other providers (including sub-contractors, unsuccessful and non-bidders) to assess the initial impact of the Commissioning Strategy</li> </ul> <b>Timing</b> <ul style="list-style-type: none"> <li>Fieldwork took place between October 2009 and January 2010</li> </ul>	<b>Interviewing</b> <ul style="list-style-type: none"> <li>21 interviews with 12 prime provider organisations</li> <li>130 sub-contractor interviews (response rate of 84 per cent of known sub-contractors)</li> <li>21 unsuccessful provider interviews and 44 non-bidder interviews</li> </ul> <b>Reporting outputs</b> <ul style="list-style-type: none"> <li>Report on survey findings outlining the initial impact of the Commissioning Strategy published in summer 2010</li> </ul>
<b>Wave two provider survey</b> Tracking survey of providers and consultations with stakeholders and unsuccessful provider organisations	<b>Scope</b> <ul style="list-style-type: none"> <li>Re-interview prime providers and 200 other providers (sub-contractors, unsuccessful bidders and non-bidders)</li> </ul> <b>Timing</b> <ul style="list-style-type: none"> <li>Fieldwork to take place in 2010</li> </ul>	<b>Interviewing</b> <ul style="list-style-type: none"> <li>Workshop for prime providers</li> </ul> <b>Reporting outputs</b> <ul style="list-style-type: none"> <li>Final report providing an update on the impact of the Commissioning Strategy</li> <li>Date of publication to be confirmed</li> </ul>

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

**Table 1.2 Key research questions**

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<p><b>Impact of the Commissioning Strategy on the market for welfare to work provision</b></p> <ul style="list-style-type: none"><li>• Providers' business models for delivering FND: objectives and process of developing them.</li><li>• Impact of the tendering process (responding to PQQs and ITTs) on providers' business strategies.</li><li>• 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"><li>– prime contractors intend to seek and achieve with sub-contractors; and</li><li>– sub-contractors intend to seek and achieve with prime contractors.</li></ul></li><li>• Changes in the profile of providers in FND regions (number, size, sector).</li></ul>
<p><b>Relationships between prime contractors and their sub-contractors</b></p> <ul style="list-style-type: none"><li>• Development and structuring of supply chains by prime contractors:<ul style="list-style-type: none"><li>– who delivers what to whom and how do prime contractors add value to their networks of suppliers?</li><li>– methods of agreeing the value of services provided and the terms of payment;</li><li>– how performance is monitored and managed within networks; and</li><li>– how risk is assessed and managed within networks.</li></ul></li><li>• Perceived business opportunities and threats of partnerships between many small and a few large providers.</li><li>• Impact of adopting the Commissioning Strategy, in terms of business strategy and ethos:<ul style="list-style-type: none"><li>– on the voluntary and private sector; and</li><li>– on smaller providers.</li></ul></li><li>• Cultural differentiation between prime and sub-contracting organisations - trajectories and whether intended or not.</li><li>• DWP's Code of Conduct – influence and consequences, in practice.</li></ul>
<p><b>Impact of the Commercial Strategy</b></p> <ul style="list-style-type: none"><li>• How and why is the prime provider model perceived to be affecting service delivery costs, efficiency of providers, providers' profitability and providers' ability to attract finance and invest in their businesses?</li><li>• Providers' perceptions of being in competition and the influence this has on their business strategies.</li><li>• Views of client choice: where and how is it real, how does it affect service offers, innovation and approaches to business development?</li></ul>

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## 1.5 Structure of the report

This remainder of this report presents the key findings from the provider baseline survey and wave one research and is structured as follows:

- Chapter 2: Profile of the provider market.
- Chapter 3: Initial reactions to the Commissioning Strategy.
- Chapter 4: Market structure.
- Chapter 5: Market development and stewardship.
- Chapter 6: Provider capabilities.
- Chapter 7: Commercial strategy.
- Chapter 8: Performance management.
- Chapter 9: DWP capability.
- Chapter 10: Customer experience.
- Chapter 11: Conclusions and recommendations.

There are also two appendices to this report as follows:

- Appendix A: Methodology.
- Appendix B: Survey data.

# 2 Profile of the provider market

## 2.1 Introduction

This chapter provides an overview of the structure and dynamics of the welfare to work market in Great Britain prior to the introduction of the Commissioning Strategy. This chapter is structured as follows:

- Background.
- Overview of welfare to work providers.
- Provision of DWP welfare to work programmes.
- Non-current providers of Department for Work and Pensions (DWP) programmes.
- Future intentions of welfare to work providers.
- Conclusion.

## 2.2 Background

### 2.2.1 Background to the research

Historically DWP's contracting of employment provision has been devolved to a regional and district level through Jobcentre Plus, and only in recent years, accelerated by the publication of the Commissioning Strategy, has the direction of travel been to procure provision at a national level. There is no national record of contracts, and so limited information is available on the provider market. This chapter reports the results of the first attempt to survey the provider market comprehensively.

The survey's methodology is covered in more detail in Appendix A. There were three sources used to compile the sampling frame:

- The DWP MOMENTA database – this is a national database containing providers who have been accredited to provide services for DWP on the basis of their legal status; insurances; compliance with health and safety legislation; and compliance with equality and diversity legislation. The database does not capture contracts under £50,000 in value.
- A database of providers delivering Contracted Employment Provision (CEP) on behalf DWP in its role as a Co-Financing Organisation in the European Social Fund 2007/13 programme.
- A list of organisations that attended Flexible New Deal (FND) Phase One information events – there may be other organisations with a role in delivering FND.

This, therefore, has been a near comprehensive survey of the provider market. As the characteristics of all providers in the sampling frame are not known it is not possible to be definitive about how representative of the market the results are, although the large size of the sample and high response rate gives confidence of the broad accuracy of the results.

### 2.2.2 Background to the welfare to work market

On the demand side, DWP, as well as being the main welfare policy driver, is also the principal contracting organisation of welfare to work services with other organisations procuring similar employment related services. These other organisations include:

- The Department for Business, Innovation and Skills (BIS);
- The Department for Children, Education, Lifelong Learning and Skills (in Wales);
- Education and Lifelong Learning Directorates (in Scotland);
- local authorities; and
- a range of funding bodies such as the LSC (now replaced by the Skills Fund Agency), the European Social Fund and Business Link.

On the supply side, the providers of welfare to work services typically include the following, amongst a number of others:

- work based learning providers (e.g. A4e, JHP Group);
- third sector providers (often with a specific focus, e.g. Royal National Institute of Blind People);
- public sector organisations (e.g. local authorities and Further Education Colleges); and
- niche providers who specialise in providing services specifically for Jobcentre Plus customers (e.g. Remploy).

The data presented in this chapter focus on the supply side of the market only and draw on data from a provider survey. From a sampling frame of 797 organisations, 593 organisations participated in the survey, representing a response rate of approximately 74 per cent. Some 416 (out of the 593 responding to the survey) were providing welfare to work services for DWP at that time.

The survey findings provide an overview of the welfare to work market prior to the introduction of the Commissioning Strategy. A summary of the data items collected during this research is provided in Table 2.1. Further details of the sampling frames and achieved response rates, along with an outline of the questionnaire, are contained in Appendix A.



**Table 2.1 Overview of baseline data collected**

<b>Data fields</b>
<p>Profile of welfare to work providers</p> <p>All providers</p> <ul style="list-style-type: none"> <li>• Sector.</li> <li>• Nature of business.</li> </ul> <p>Current providers of DWP programmes (organisations holding a DWP contract as at September 2009)</p> <ul style="list-style-type: none"> <li>• Revenue.</li> <li>• Number of employees.</li> <li>• DWP programmes provided.</li> <li>• Geographical coverage of DWP programmes.</li> <li>• Prime provider or sub-contractor status.</li> <li>• Delivery vehicles utilised to provide DWP welfare to work programmes in partnership with other organisations.</li> <li>• Revenue generated through DWP contracts.</li> <li>• Length of time DWP contracts have been delivered.</li> <li>• Other funders.</li> </ul> <p>Non-current providers of DWP programmes (organisations not holding a DWP contract as at September 2009)</p> <ul style="list-style-type: none"> <li>• Previous provision of DWP programmes.</li> <li>• When previous provision of DWP programmes ceased.</li> <li>• Reasons for ceasing provision for DWP.</li> <li>• Future intentions in relation to providing DWP programmes.</li> </ul>

The sub-sections below provide an overview of the welfare to work market as at September 2009. This is based on organisations' self-reported understanding of the welfare to work market. Quality assurance checks have been undertaken on the data at the point of data capture (recording of information provided) and data collected have been verified with a sample of respondents. Notwithstanding this, the accuracy of the data provided has not been checked, given that much of the information provided by respondents in the provider baseline survey is not publicly available and therefore, cannot be validated using an independent source (for example, verifying revenues with annual financial statements).

### 2.3 Overview of welfare to work providers

#### 2.3.1 Number of providers

As noted above, a total of 593 (out of a target population of 797 organisations) participated in the survey. In addition to analysing the survey data, desk-based research was undertaken to ascertain the role of the 204 non-respondents in the welfare to work market. Notwithstanding the limitations of the sampling frame and the inability to weight for non-response, as detailed in Appendix A, this analysis provides a best estimate of the absolute size and nature of the welfare to work market<sup>5</sup>. It is important to note that the analysis did not capture the relative market share of each organisation in the DWP provider market.

Of those who responded to the survey, some 70 per cent (416 organisations) were providing DWP services at that time. A further 18 per cent (109) had previously provided DWP services. Of those organisations that had previously provided DWP programmes, 46 per cent were from the third sector, 32 per cent were from the private sector, with 20 per cent based in the public sector. The remaining 12 per cent (68) that had never provided welfare to work services for DWP were largely from the third sector and they tended to be either charities or training organisations.

Of the 204 non-respondents, desk based research suggested that at least 31 organisations provided welfare to work services on behalf of DWP at the time of fieldwork, and a further 52 organisations were either no longer in operation or not providing services to DWP. There remains a further 121 organisations for which no classification could be applied.

Notwithstanding the fact that the survey population may not have included all welfare to work providers, the research has found that 447 organisations (including 416 responding and 31 non-responding organisations) provided welfare to work services on behalf of DWP at September 2009. It is estimated that the size of the wider welfare to work market is in region of 556<sup>6</sup> to 677<sup>7</sup> organisations.

The data presented below relates to the 593 organisations that responded to the survey. There were a number of questions pertaining either to those organisations providing DWP programmes at the time of the survey ('current providers') or to those who previously provided these programmes. The base number of respondents is clearly indicated in all cases. For ease of reference the maximum base number of respondents per segment of the baseline is outlined in Table 2.2.

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<sup>5</sup> This market includes those who provided welfare to work services for DWP as at September 2009, i.e. current providers and those who are interested and have the capacity to deliver these services, i.e. potential providers (including those who have provided for DWP in the past).

<sup>6</sup> This includes 447 DWP current providers and 109 previous DWP providers.

<sup>7</sup> In addition to the 556 organisations, this includes the 121 organisations that may be part of the welfare to work market but for which sufficient information is not available to classify them appropriately.

**Table 2.2 Overview of baseline data collected by provider segment**

<b>Provider segment</b>	<b>Maximum base</b>
'All providers'	593
– Of which 'DWP current providers'	416
– Of which 'Non-current DWP providers' (All)	177
Of which 'Previous DWP Provider'	109
Of which 'Never provided'	68

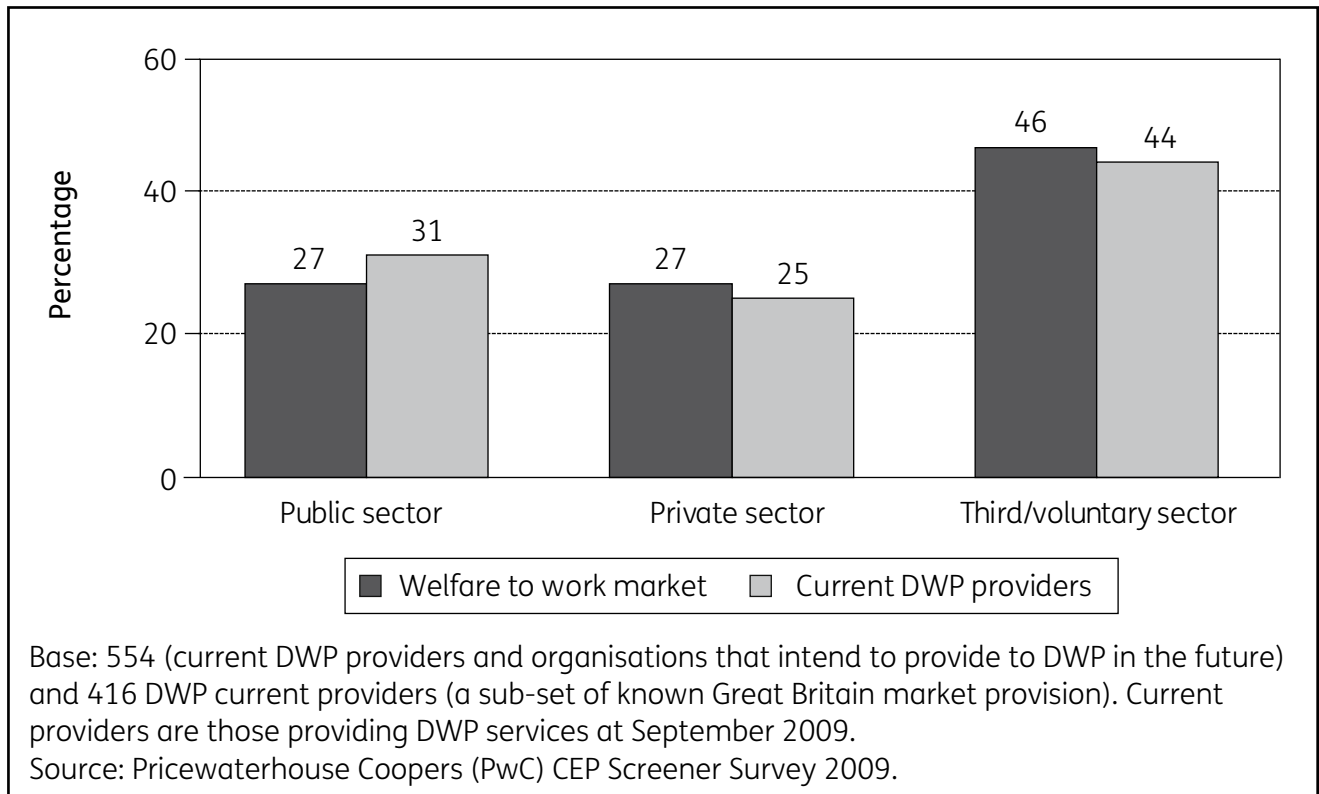
Due to the wide range of programmes available and their geographical coverage, current providers were not always in a position to identify the proportion of their organisation's activity that could be attributed to the delivery of particular welfare to work opportunities. Similarly, they were unable to identify each and every district in which they provided particular programmes. Where this was the case, the base responses for these questions are slightly lower than the maximum. However, given the high response rate achieved, the findings for all aspects of the survey are deemed to be representative of the overall population.

### **2.3.2 Sector profile**

While some of the analysis presented here focuses on what could be considered to be the welfare to work market, i.e. current providers and those who stated that they intended to provide DWP services in the future as at September 2009, much of the analysis that follows focuses solely on the current DWP providers as of September 2009. This focus is because it is hypothesised that the impact of the Commissioning Strategy on current DWP providers can be examined more effectively in comparison to FND Phase One providers rather than examining those providers who indicated an intention or interest to provide DWP services in the future.

A sectoral analysis of both the welfare to work market (those 554 organisations who stated that they provided or intended to provide DWP services in the future), and those organisations that provided DWP welfare to work programmes (416) at the time of the research highlights the important role played by the third sector in welfare to work delivery. Figure 2.1 depicts the sector profile of the welfare to work market alongside those who currently provide welfare to work services for DWP, which is a subset of the market. Figure 2.1 illustrates that the third sector represents over 40 per cent of the baseline in terms of the absolute number of providers. The remainder of the organisations in the market are almost evenly split between the public and private sector. It is important to note that this sectoral profile is based on respondents' self-definition and relates to the number of organisations who responded to the survey and not their market share. Further analysis of Figure 2.1 highlights that the sectoral profile of the welfare to work market is also similar to that of the current DWP providers, although public sector providers have a slightly higher representation amongst the current DWP providers.

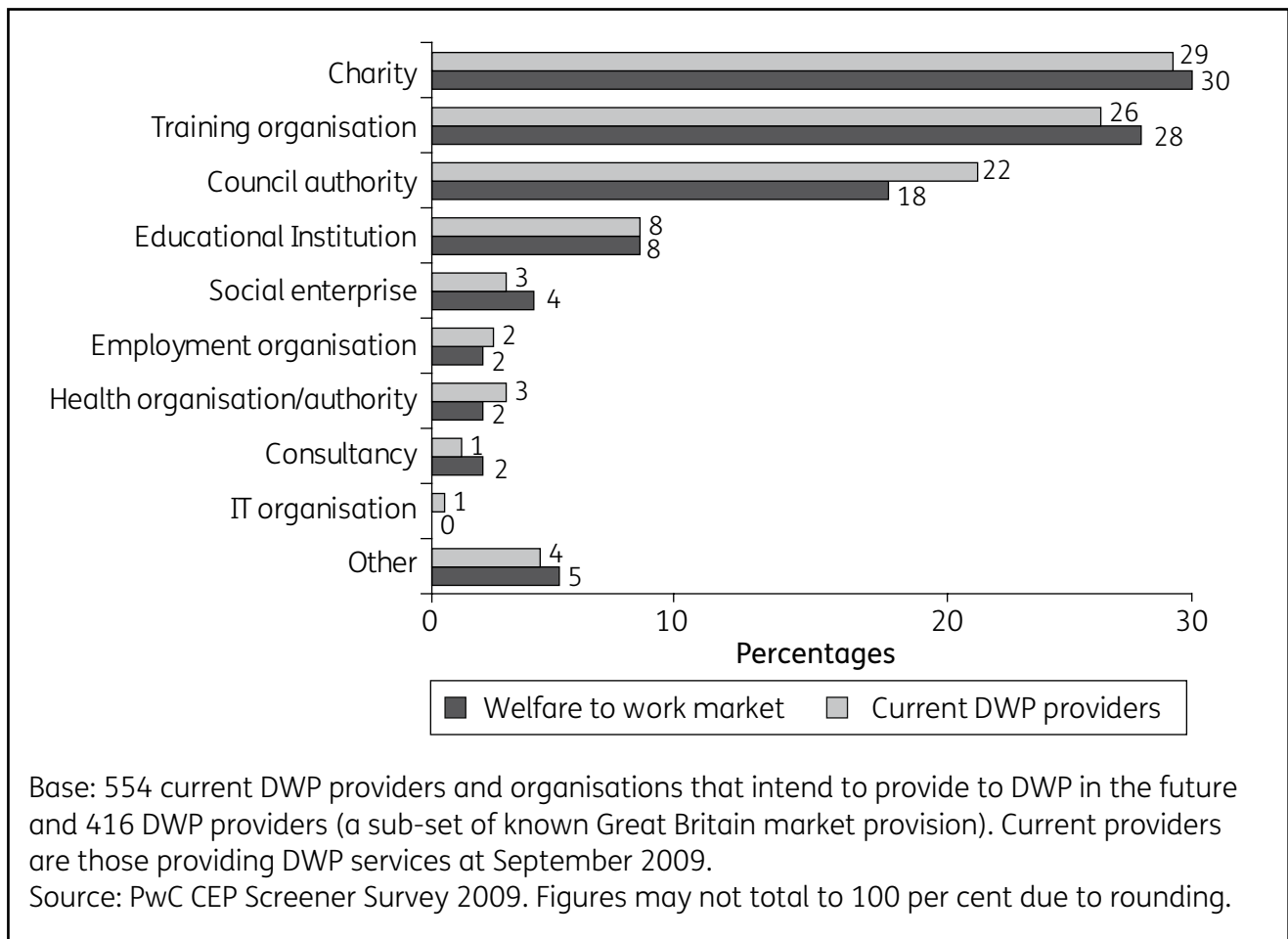
**Figure 2.1 Sector profile of known baseline and DWP welfare to work providers**



### 2.3.3 Nature of business

Figure 2.2 provides an overview of the primary nature of welfare to work providers' business. Almost one-third of organisations self-define the nature of their business as charitable. Training organisations, Council Authorities and Educational Institutions collectively accounted for over one-half of those who responded to this question.

**Figure 2.2 Primary nature of business for welfare to work providers**



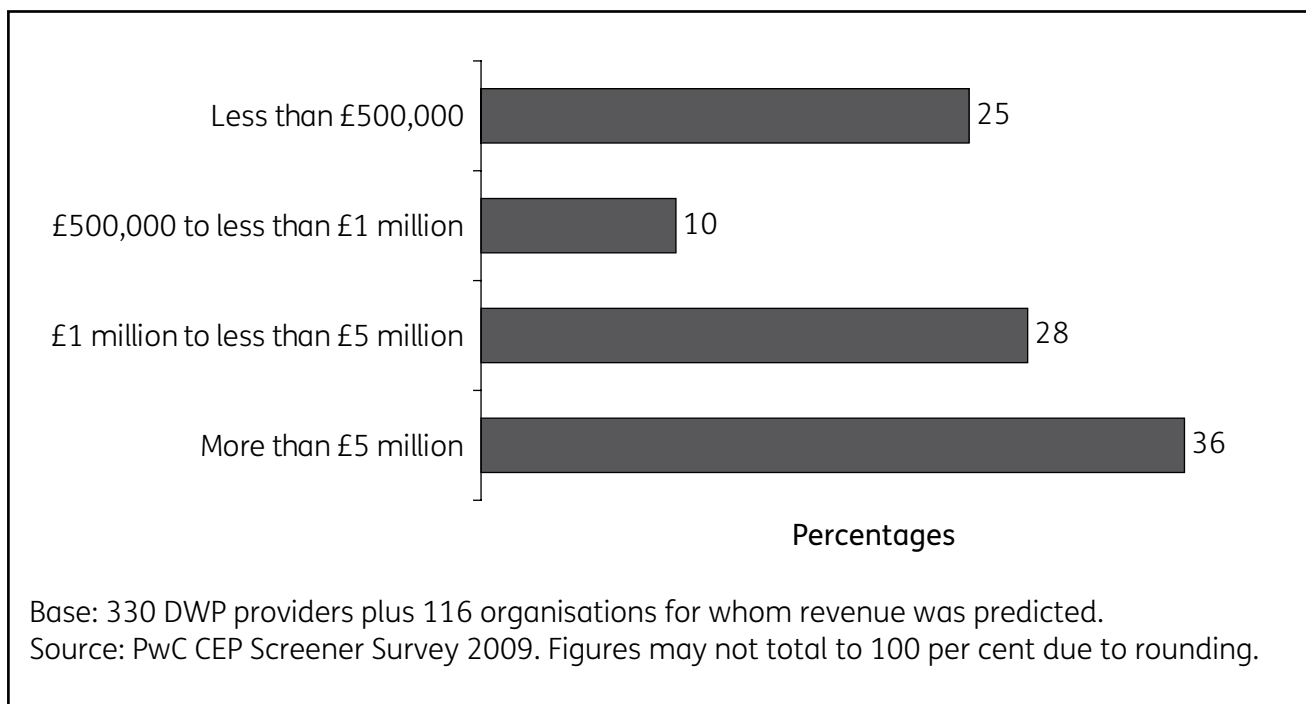
### 2.3.4 Revenue

An analysis of organisational revenue was undertaken for current DWP providers only. To take into account those organisations that did not disclose their annual revenue, a predictive revenue model was developed. This model<sup>8</sup> analysed the typical revenue of organisations by sector and number of employees.

The turnover profile of all current DWP providers is presented in Figure 2.3. This figure illustrates that just under two-thirds of current DWP providers generate revenue up to £5 million, with over one-third generating revenue of up to £1 million. Applying the European Union classification system<sup>9</sup> for turnover or revenue to the DWP welfare to work provider base indicates that it is largely comprised of micro and small organisations. However, it must be noted that this is only an absolute assessment of DWP providers; analysis of market share by provider type would provide a more insightful overview of the DWP provider base.

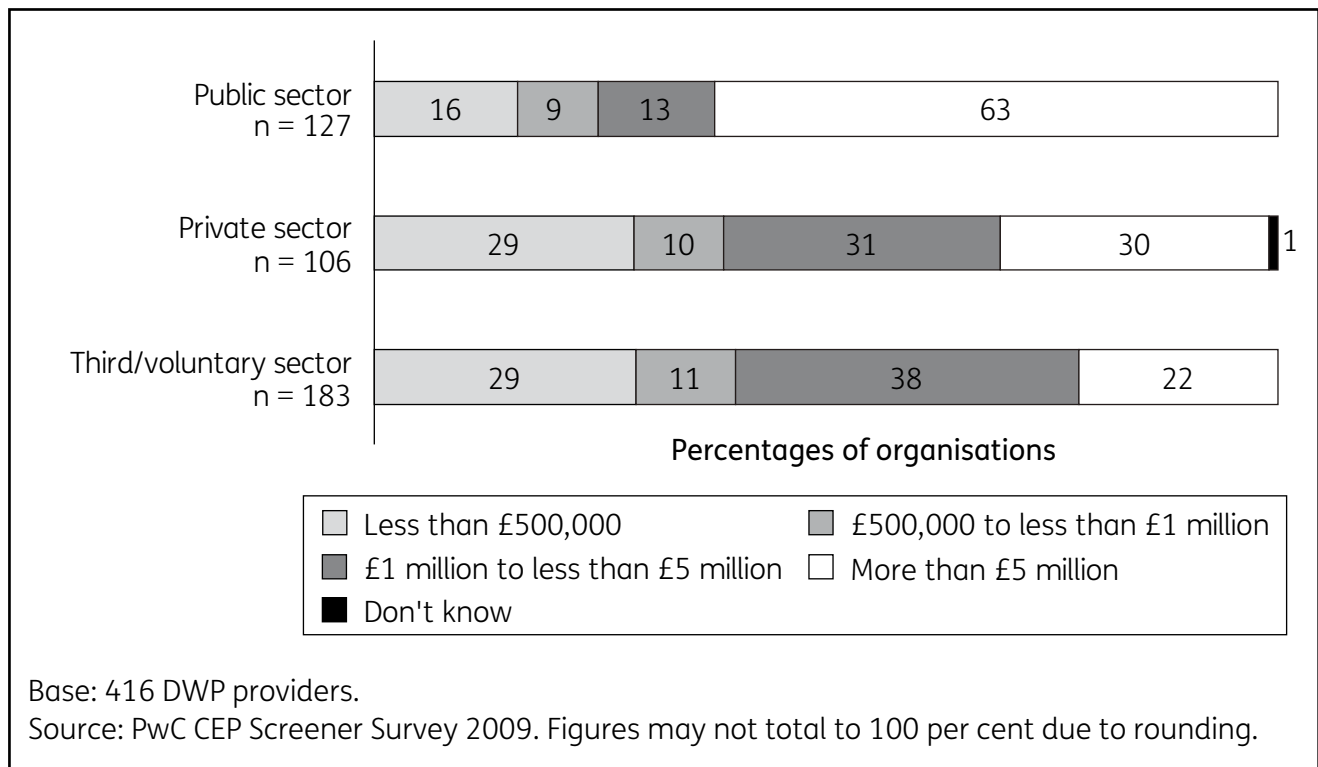
<sup>8</sup> The margin for error using this predictive revenue model for organisations within the sectors is as follows: public sector, 0.926; private sector, 0.848, and; third sector, 0.913. The conditional probability is out of 1.00 in all cases. This means, for example, that the predicted revenue figures for public sector organisations are accurate in 92.6 per cent of cases.

<sup>9</sup> The European Union define a ‘micro’ organisation as an organisation with a turnover or revenue of less than or equal to €2 million (£1.7 million) while ‘small’ organisations are defined as an organisation with a turnover or revenue of between €2 million to €10 million (£1.7 million to £8.7 million).

**Figure 2.3 Revenue of DWP providers for their financial year ended prior to September 2009**

Interestingly, Figure 2.4 illustrates that the revenue profile of the private sector and third sector organisations are broadly similar. Almost two-thirds of public sector organisations reported having revenue in excess of £5 million, which was higher than in either the private (30 per cent) or third (22 per cent) sectors. This is perhaps unsurprising given the high level of involvement of public sector bodies (e.g. local authorities) in welfare to work provision and their relatively large income streams. By way of illustration, the financial statements of three local authorities (Aberdeen City Council, Manchester City Council and Wrexham County Borough Council) were reviewed for the financial year 2008/09. The gross income for that year ranged between £139 million and £1,108 million.

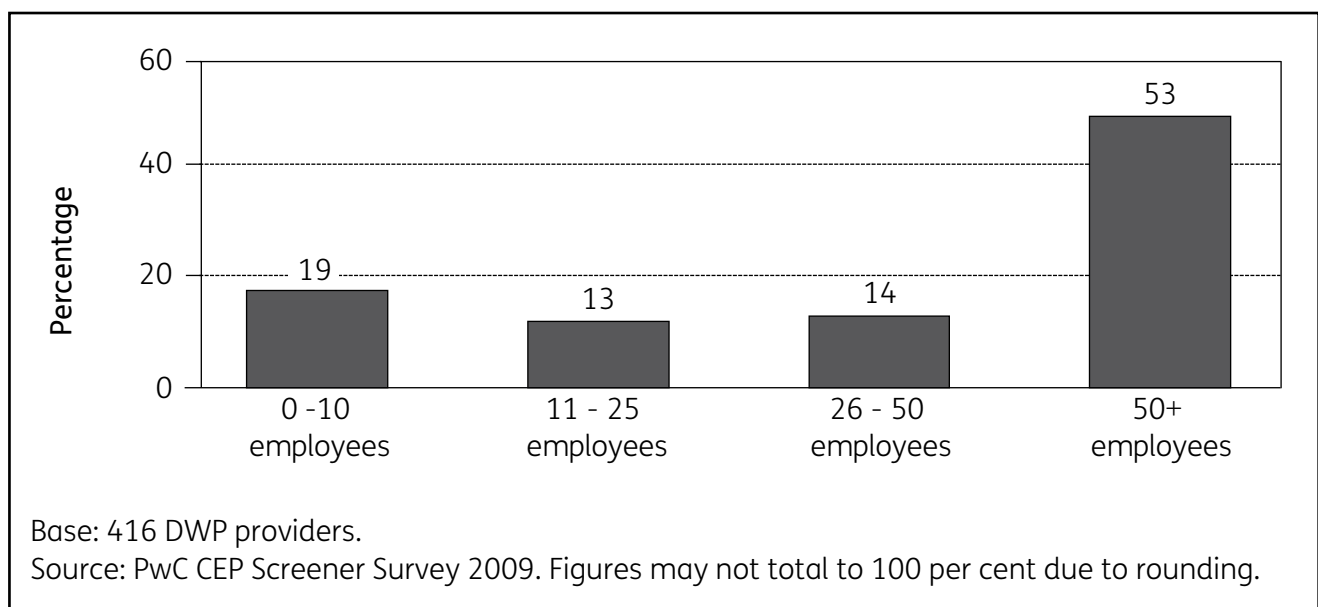
**Figure 2.4 Revenue of DWP providers for their financial year ended prior to September 2009 (by sector)**



### 2.3.5 Number of employees

The number of full-time employees working for DWP providers at September 2009 is illustrated in Figure 2.5 and highlights that just over half of DWP providers surveyed employ more than 50 employees. It is important to note that this is an absolute analysis of the welfare to work providers and does not take into account the respective market value share of each of the providers.

**Figure 2.5 Number of full-time employees of DWP providers as at September 2009**



## 2.4 Provision of DWP welfare to work programmes

### 2.4.1 Programmes provided

Prior to the introduction of the Commissioning Strategy to the welfare to work market, DWP contracted a wide range of programmes. As part of this research, respondents were asked about the nature of their provision in respect of the following key DWP programmes:

- New Deal;
- Pathways to Work;
- Employment Zones (EZs);
- WorkPath<sup>10</sup>;
- European Social Fund (ESF);
- Progress to Work<sup>11</sup>; and
- Programme Centres and Residential training.

Data were also collected on other DWP welfare to work provision that was identified by respondents.

Figure 2.6 illustrates that the programmes with the greatest number of providers are WorkPath, ESF, and New Deal. Almost two-fifths of respondents' organisations were involved in the delivery of the various sub-programmes of WorkPath or in the delivery of the ESF programme. Within WorkPath, the Work Preparation sub-programme was provided to the largest proportion of providers' customers (96 per cent). Just over one-third (36 per cent) of survey respondents were involved in delivering one or more of the sub-programmes of New Deal. Within New Deal, New Deal 18-24 was provided by the largest proportion of respondents (29 per cent), followed closely by New Deal 25 Plus (26 per cent). 'Others' represented an array of programmes delivered by a small number of providers, some of which have a greater local than national profile – for example, Deprived Area Fund and Employability Skills Programmes. A comprehensive list of these programmes is provided in Appendix B.

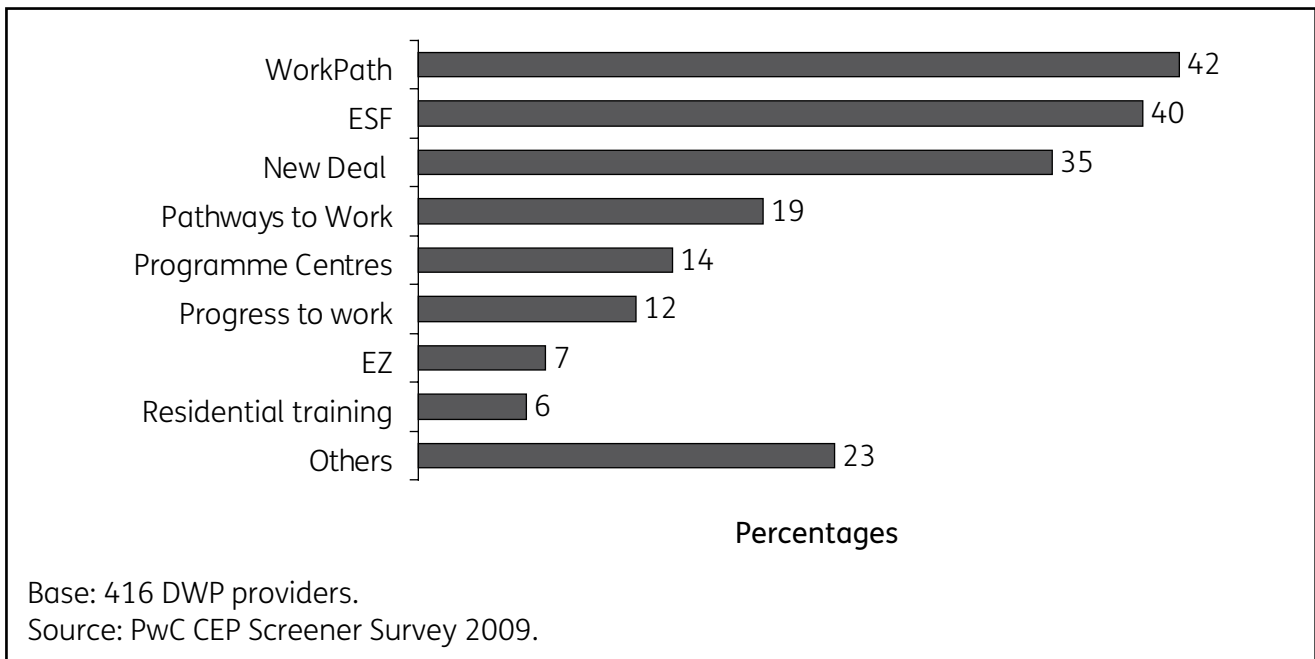
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<sup>10</sup> WorkPath consists of three programmes designed by Jobcentre Plus to help disabled people or those with a health condition to find and/or retain work. The three programmes are Access to Work, Work Preparation and WORKSTEP which offer practical help to programme participants. For further information on these programmes please refer to [http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG\\_173711](http://www.direct.gov.uk/en/Employment/Jobseekers/programmesandservices/DG_173711)

<sup>11</sup> Progress to Work and Progress to Work/Link-Up, which are separate programmes, were not differentiated in this research.

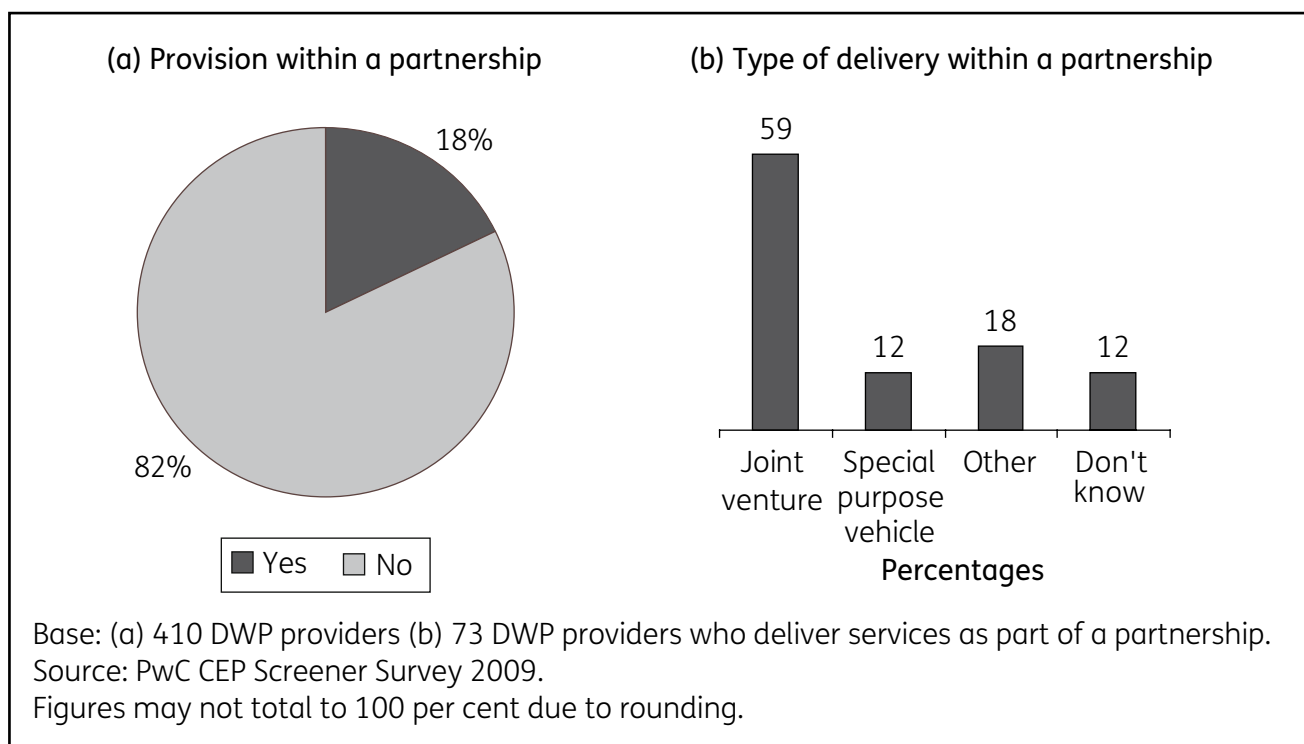


**Figure 2.6 DWP Employment Programmes by Proportion of Providers' Customers Enrolled (September 2009)**



### 2.4.2 Delivery partnerships

Almost one-fifth (18 per cent) of the respondents who were delivering DWP programmes prior to the Commissioning Strategy delivered some of those programmes in partnership with other organisation(s) as outlined in Figure 2.7. For the majority of partnerships, the chosen delivery vehicle was a joint venture, comprising an entity formed between two or more parties to undertake delivery of the specific DWP programme.

**Figure 2.7 Providers delivering programmes within a delivery vehicle (September 2009)**

### 2.4.3 Length of time as a DWP provider

The known DWP welfare to work provider organisations can be characterised as a stable body of providers with minimal new entrants. Table 2.3 demonstrates the longstanding relationships that had been in place between the respondent organisations and DWP. Nearly two thirds of respondents, who were providing DWP services at September 2009, had delivered programmes for DWP for ten years or more. This finding suggests that there is quite a low level of market entry.

**Table 2.3 Length of time DWP contracts have been delivered (September 2009)**

Length of time as DWP provider	%
Less than one year	1
One year to less than two years	6
Three years to less than five years	8
Five years to less than seven years	9
Seven years to less than ten years	15
Ten years or more	59
Don't know	1
<b>Total</b>	<b>100</b>

Base: 410 DWP providers.

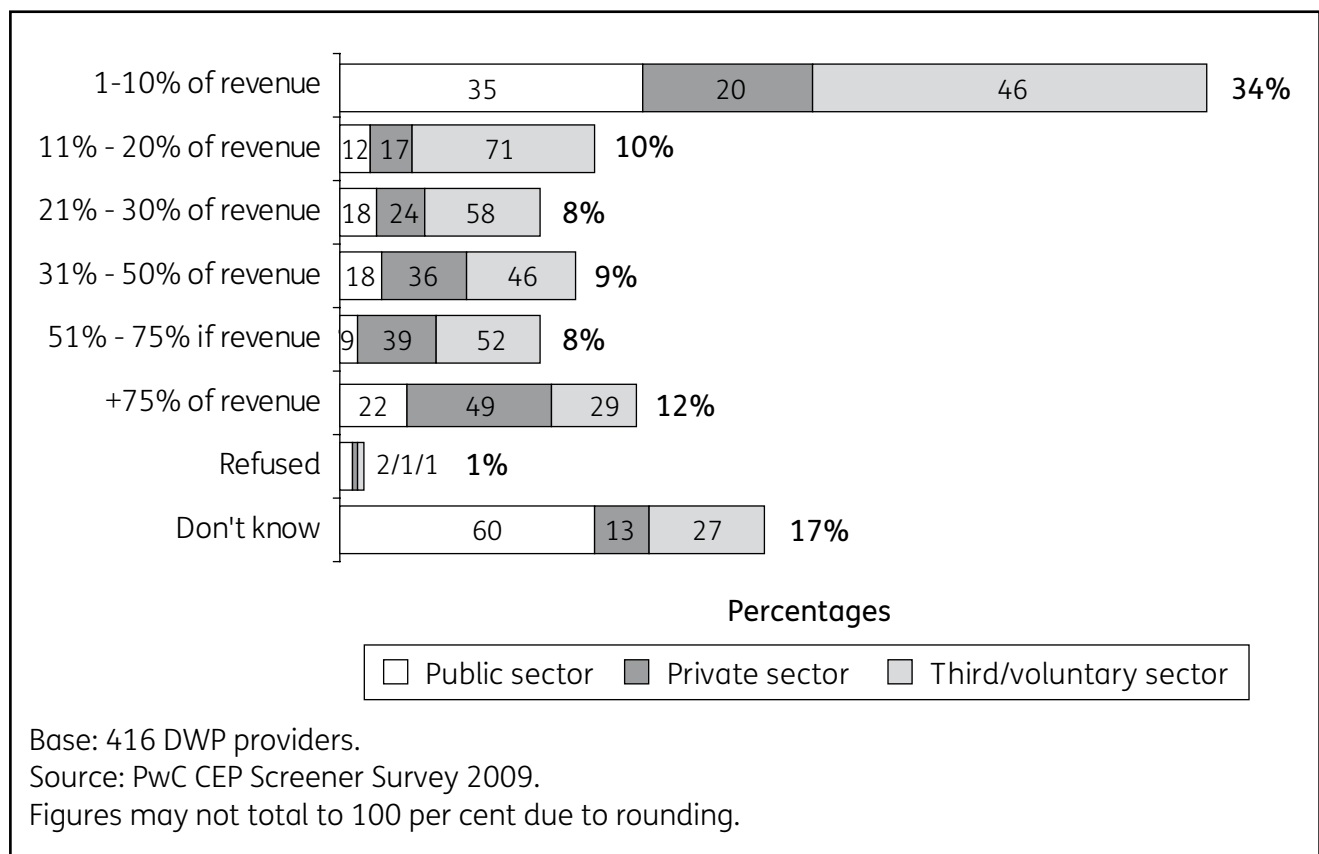
Source: PwC CEP Screener Survey 2009. Figures may not total to 100 per cent due to rounding.

### 2.4.4 Revenue generated through DWP contracts

The data indicates that almost one-half (44 per cent) of the respondents providing welfare to work services for DWP derived less than one-fifth of their total revenue through DWP contracts as shown in Figure 2.9. Interestingly, one-fifth (20 per cent) of providers surveyed derived over half of their revenue from DWP welfare to work contracts.

As depicted in Figure 2.8, third sector organisations appear to be overrepresented in deriving 11-30 per cent of their revenue from DWP and under-represented in the over 75 per cent revenue income bracket. This would indicate that third sector providers have other streams of income outside providing DWP services. In contrast, private sector organisations are underrepresented in the lower income brackets and overrepresented in over 75 per cent revenue income bracket, suggesting that a greater proportion of private sector providers provide solely or primarily to DWP.

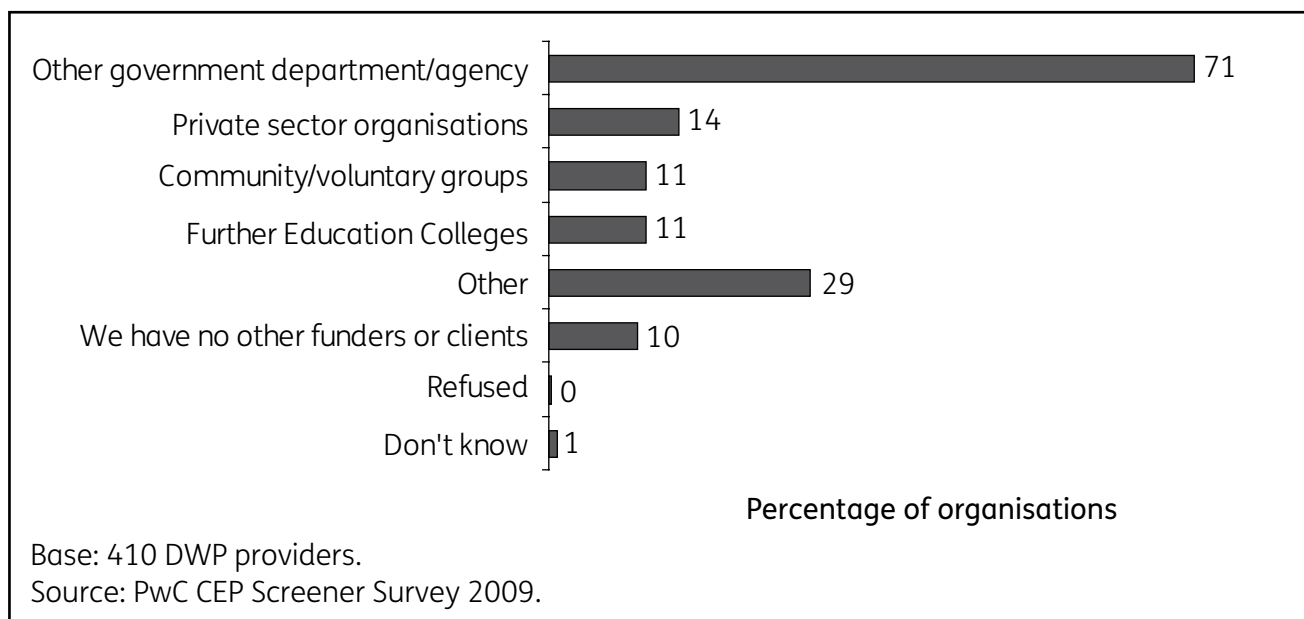
**Figure 2.8 Percentage of revenue generated through DWP contracts September 2009**



### 2.4.5 Other funders

There is a strong reliance on other government departments or agencies for funding or business as illustrated in Figure 2.9. Almost three-quarters (73 per cent) of DWP providers sourced business or revenue from other Government departments or agencies such as, for example, the Learning and Skills Council (LSC).

Analysis of the responses by sector illustrates the relatively smaller client list of public sectors, with almost one in five (18 per cent) public sector DWP providers stating they did not have any other clients or funders apart from DWP in September 2009.

**Figure 2.9 Other clients/funders to DWP providers prior to the Commissioning Strategy**

In summary, our survey findings suggest that the DWP provider base is very mature with the majority of organisations (that currently provide DWP programmes) having provided DWP welfare-to-work programmes for over ten years (59 per cent). Overall, the provider base is well represented by third sector organisations: almost one-half (46 per cent) of these respondent organisations were providing DWP welfare to work services. Furthermore, our research indicates that charities account for almost one in every three organisations providing DWP welfare-to-work programmes. When this is considered alongside metrics such as revenue and number of full-time employees, our research suggests that smaller charities represent a sizeable proportion of the known provider base relative to the total numbers of providers. As noted above, these data do not allow for an analysis of market share to be undertaken. Thus, the data provide only a high level description of the DWP provider landscape at the time the research was undertaken.

## 2.5 Non-current providers of DWP programmes

For those organisations that did not provide any DWP programmes in September 2009, prior to the introduction of the Commissioning Strategy, a number of questions were asked to understand whether programmes had previously been provided by them and their reasons, if any, for them not providing DWP programmes.

### 2.5.1 Profile of those previously providing DWP services

For those who previously provided DWP programmes, almost one half (46 per cent) were from the third sector, almost a third (32 per cent) from the private sector with the remaining (20 per cent) based in the public sector. Table 2.4 compares confidence intervals for the sectoral composition of current DWP providers and for those providers who had previously provided for DWP but did not do so at the time of fieldwork. Comparing these figures reveals a difference across sectors in terms of the types of provider who ceased providing for DWP prior to the Commissioning Strategy:

- third sector providers ceased providing in proportionate numbers;
- a disproportionately high number of private sector providers ceased providing to DWP;
- a disproportionately low number of public sector providers ceased providing to DWP.

**Table 2.4 Confidence intervals for previous and current DWP providers, by sector**

	Third Sector %	Private Sector %	Public Sector %
Previous DWP providers	42-50	28-36	17-23
Current DWP providers	42-47	23-27	29-33

Base: 416 DWP providers, 162 previous DWP providers.

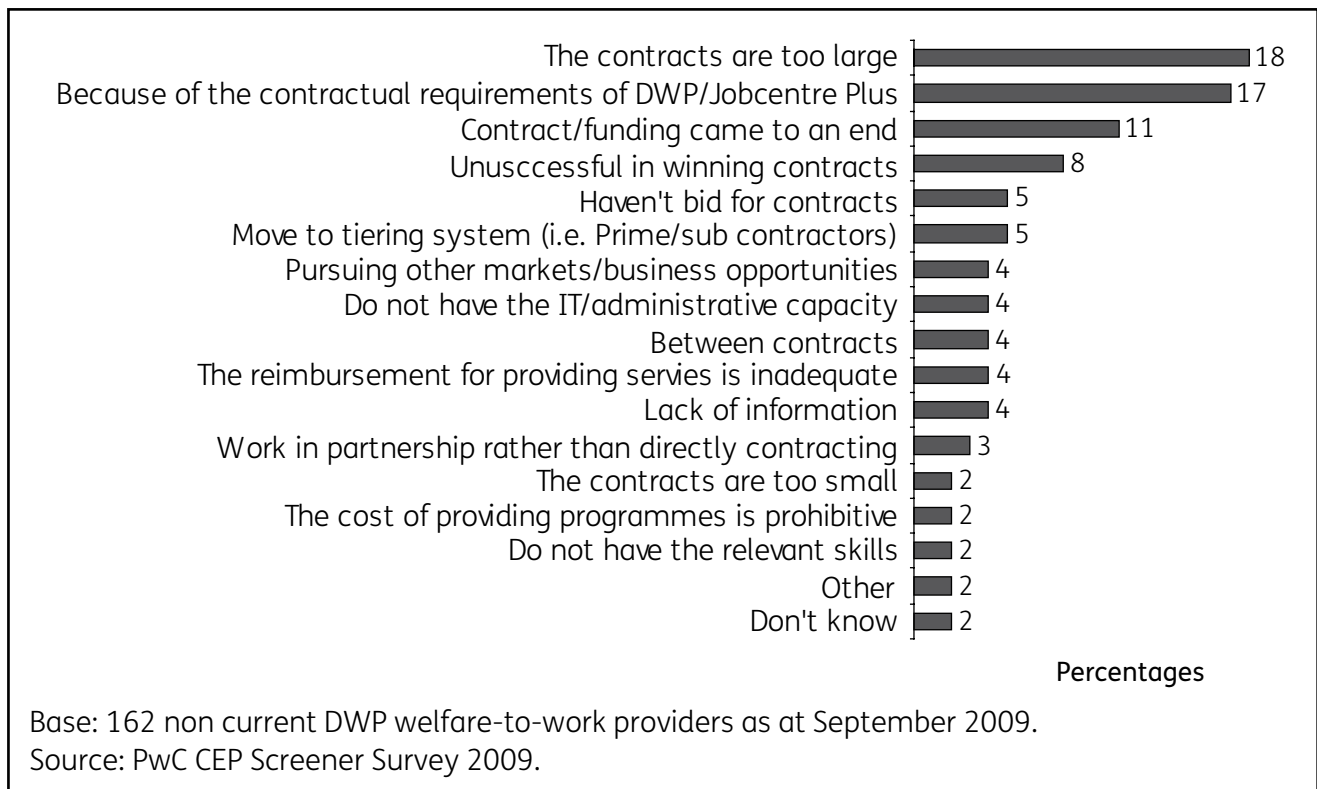
Source: PwC CEP Screener Survey 2009. The confidence intervals were calculated at the 95 per cent level. Current provider refers to those providers who provided for DWP at September 2009.

### 2.5.2 Time lapsed since providing DWP services

For those who previously provided DWP programmes, the majority (74 per cent) had ceased providing these programmes more than one year ago. A further 13 per cent ceased providing DWP services within the last six months, with the remaining 13 per cent ceasing to provide DWP services between six months and one year ago.

### 2.5.3 Reasons for ceasing provision of DWP programmes

There was a wide array of reasons cited by respondents as to why provision of DWP programmes had ceased. These are illustrated in Figure 2.10. The large size of contracts and the contractual requirements of DWP and Jobcentre Plus were most commonly cited reasons for ceasing provision.

**Figure 2.10 Reasons for ceasing to provide DWP programme provision**

## 2.6 Future intentions of welfare to work providers

The vast majority (90 per cent) of those surveyed stated they intend to provide DWP programmes in the future.

It is interesting to note that the sectoral profile of those who intend to provide in the future is similar to the current known DWP provider profile, in that 46 per cent are from the third sector with the public and private sector being represented in equal proportion. At the time the research was undertaken, FND Phase One contracts had recently been awarded and the implications of the Commissioning Strategy, and associated move to outcome-based funding, were becoming increasingly apparent within the market. This finding, therefore, suggests that DWP's provider base remain optimistic about their role in providing welfare to work services for DWP in the future.

## 2.7 Conclusion

### 2.7.1 Key findings

Based on this research the number of welfare to work providers in Great Britain at September 2009 was estimated to be between 556 and 677. The research focused mainly on DWP providers prior to the introduction of the Commissioning Strategy.

The survey of DWP providers points to a provider group which is mature. This is illustrated by the low level of market entrants. For instance, almost 60 per cent of DWP providers surveyed have been delivering DWP contracts for ten years or longer, whereas only seven per cent of those surveyed have been providing DWP welfare to work programmes for less than two years. There are

also a significant proportion of third sector organisations, for the most part charities and training organisations, delivering DWP welfare to work programmes. Almost half of the respondents providing welfare to work services for DWP derived less than one-fifth of their total revenue through DWP contracts. Approximately one-third of DWP providers surveyed have revenue of less than £1 million and less than 25 employees.

With respect to market exit, of those organisations that had previously provided DWP programmes, almost one half were from the third sector, a third from the private sector, with the remaining based in the public sector. The majority of these providers ceased providing DWP services more than one year ago. The main reasons cited for exiting the DWP provider market were contractual in nature – either the size of contract areas were too large or the contractual requirements themselves were too demanding.

With respect to the future intentions of providers, the majority of all respondents stated that they intend to provide DWP programmes in the future.

Taking into account the noted limitations of the data, this analysis provides the context against which to benchmark any changes, if any, that might materialise in the marketplace following the introduction of the Commissioning Strategy. These changes are discussed in the remaining chapters of this report.

# 3 Initial reactions to the Commissioning Strategy from the market

## 3.1 Introduction

This chapter looks at the provider market's initial reactions to the Commissioning Strategy following the roll out of Flexible New Deal (FND) Phase One and provides a high level overview of initial impressions of the Commissioning Strategy from a provider perspective. This chapter is structured as follows:

- Prime providers' views.
- Sub-contractors' views.
- Unsuccessful bidders' views.
- Non-bidders' views.
- Conclusion.

Each section below examines the opportunities afforded by the introduction of the Commissioning Strategy for each provider segment along with their views on any perceived changes that have subsequently occurred within the marketplace.

## 3.2 Prime providers' views

### 3.2.1 Opportunities offered

All prime providers interviewed saw the introduction of the Commissioning Strategy and FND Phase One as having provided their organisation with an opportunity to expand their existing activity, both geographically and in the range of services they are able to offer. Indeed, this growth opportunity was seen by many providers as the key reason for them having bid to deliver FND Phase One. This is also reflected by the fact that three out of the 14 prime providers are new entrants to the Great Britain welfare to work marketplace.

*'I think it's brought a significant and important set of new providers into the market. [It has] mixed it up a bit.'*

(FND Phase One prime provider)

Various financial methods have been used to maximise the financial opportunity within the contracts whilst also managing the working capital and cost burden created. Many providers are developing revenue models which de-risk their proposition away from pure welfare to work by, for example, providing government sponsored skills training or other adjacent services directly to private sector customers. This diversification model is considered to be advantageous to providers that are seeking to increase outside investment, with many of them considering this model as a way to quickly build scale. Another important lever in managing the contracts is balancing the risk/benefit transfer to the sub-contractor base, and how this is managed varies from provider to provider.



The attractiveness of FND Phase One for prime providers lay in the size and length of the contract. This has allowed organisations to invest more in delivering the programme and to extend their geographical reach through the introduction of new contract areas. It has also enabled them to transform service delivery either by broadening their offering or by tailoring provision to individual groups.

*'It's an opportunity for us to grow as an organisation and grow into broader, general areas; it provides an opportunity to link different programmes together.'*

(FND Phase One prime provider)

The majority of prime providers stated that due to the increased flexibility in delivering the contract they are now able to tailor provision of services on a case-by-case basis to meet individual need. This ability to innovate in service provision was one of the main reasons cited by providers as their reason for wanting to deliver FND Phase One. Examples of services tailored to individual need included life coaching and debt counselling. Providers also welcomed having what they viewed as a more appropriate timeframe to work with customers who have multiple barriers to job market entry. Under FND Phase One, providers have up to 12 months to work with its customers to find sustained employment compared to the limited time frame providers had with customers under the different stages of the New Deal programme).

*'For us the significant change is to focus the provision around individuals, the outgoing provision was prohibitive, we couldn't work in the way we needed. For FND, the best thing is the way we can now work much more on a one-to-one basis.'*

(FND Phase One prime provider)

### 3.2.2 Changes to the market

Prime providers felt that the most important changes to the market linked to the Commissioning Strategy were the approach to performance measurement alongside restructuring of the marketplace. Whilst prime providers generally viewed the restructuring of the marketplace positively, a number of them raised concerns for smaller providers and sub-contractors whom they believed could lose out under the new arrangements, for example, due to the challenge of a small organisation having to form a partnership with a prime provider or the financial risk involved with outcome based funding. For those who saw it as positive development, they believed that the Commissioning Strategy had enabled new providers to enter the market and allowed for providers, both large and small, to work together:

*'May lose a lot of good smaller organisations – private and third sector, may lose public sector organisations as well.'*

(FND Phase One prime provider)

*'It has forged partnerships that wouldn't normally be there.'*

(FND Phase One prime provider)

### 3.3 Sub-contractors' views

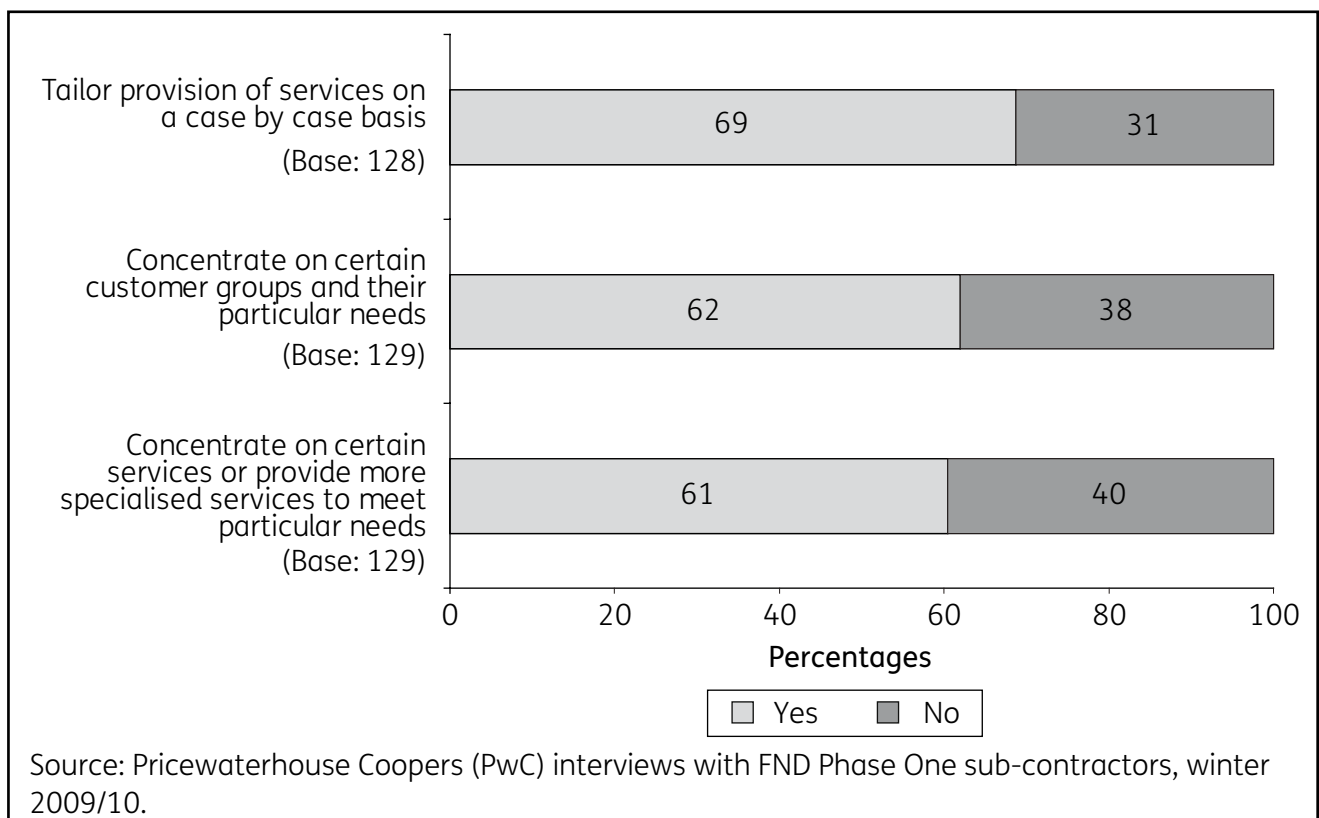
#### 3.3.1 Opportunities offered

The majority of sub-contractors believed that the Commissioning Strategy and FND Phase One have presented an opportunity for business growth: nearly two-thirds (62 per cent) stated that it provided their organisation with the prospect of expanding their existing activity either geographically or with regards to services offered. However, with over one-third of sub-contractors not viewing the Commissioning Strategy as an opportunity for growth, sub-contractors' initial reactions are not as unanimously positive as prime providers.

Similar to prime providers, sub-contractors, who saw the strategy as an opportunity for growth, stated that they would use a range and combination of methods to finance any planned expansion. The most popular method cited was organic growth (88 per cent) followed by increased participation in Joint Ventures and Special Purpose Vehicles (SPV) (73 per cent). Interestingly, 44 per cent of sub-contractors stated that they would increase their own use of sub-contractors to facilitate growth, contributing in the process to the development of their own supply chain. However, this is only likely to occur after the methods of organic growth or Joint Ventures/SPVs have been exhausted. Supply chain development is further explored in Chapter 4.

The ability to tailor provision of services on a case by case basis to meet the individual needs of customers was the opportunity that most (69 per cent) sub-contractors saw the Commissioning Strategy and FND Phase One as presenting them with as shown in Figure 3.1. The most popular methods used to achieve this would be tailored action plans followed by one-to-one assistance.

**Figure 3.1 Opportunities presented by the strategy and FND Phase One**



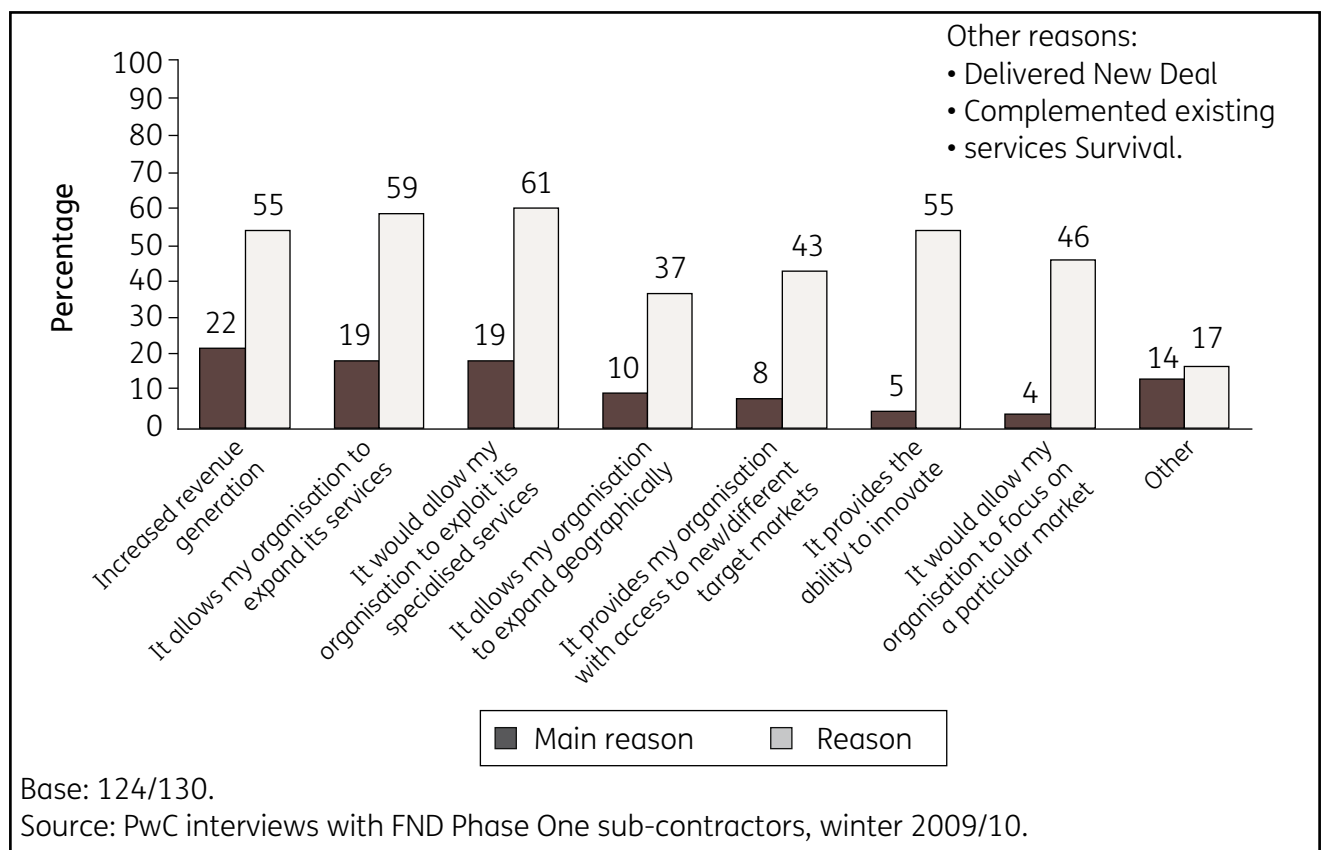
The second dominant opportunity for sub-contractors provided by the new commissioning approach was the opportunity to concentrate on specific customer groups (62 per cent) such as customers aged 25+, customers aged 50+ and lone parents. Similarly, just under two-thirds (61 per cent) of sub-contractors surveyed stated that the new arrangements offer providers the flexibility to concentrate on certain services or provide more specialised services to meet particular needs including: short job-focused training, mentoring and basic employment training. Interestingly, one-quarter (25 per cent) of sub-contractors saw the Commissioning Strategy as offering them the opportunity to develop their own networks within the marketplace:

*‘The relationships we are developing as part of the [Commissioning] Strategy...It is attracting prime providers to us who would not have originally wanted to work with us, better serving the client.’*

(FND Phase One sub-contractor)

Sub-contractors found the welfare to work market less attractive than prime providers: almost two-fifths (39 per cent) believed the market was attractive in comparison to almost all of the prime providers. Though they are still prepared to operate in the market, the views held by sub-contractors could be an initial reaction to the move to outcome-based funding and possible concerns about its impact. Sub-contractors’ main drivers for bidding for the FND Phase One contract were to increase revenue generation, optimise the specialised services they offer and expand their service range. Other key drivers for bidding included having the flexibility to innovate in service delivery and to expand the organisation’s existing services as reflected in Figure 3.2.

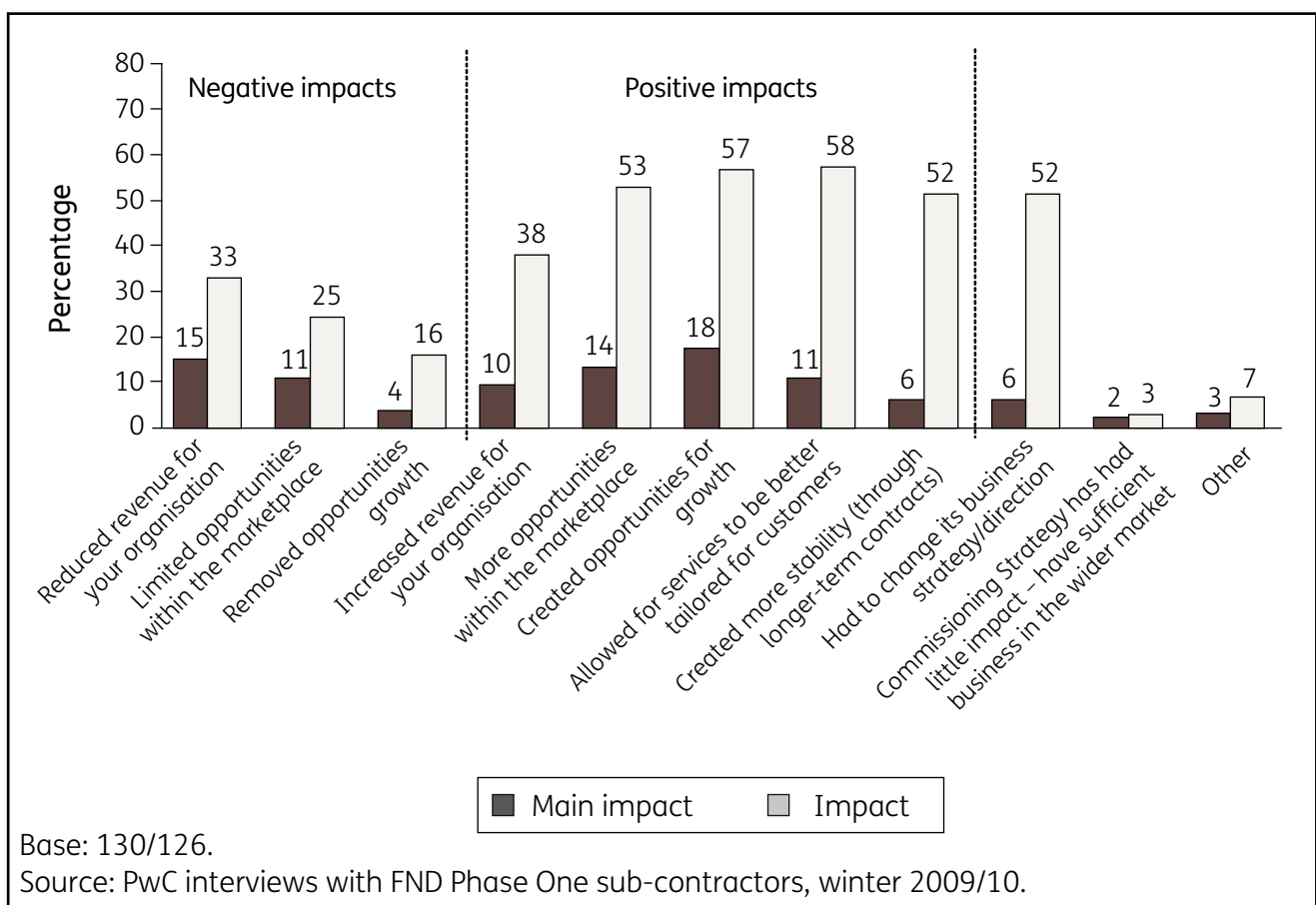
**Figure 3.2 Drivers for sub-contractors in delivering FND Phase One**



### 3.3.2 Changes to the market

Sub-contractors were divided on what they saw as the major impact of the Commissioning Strategy with slightly more sub-contractors viewing the impacts of the strategy as positive rather than negative. As illustrated in Figure 3.3, two-fifths (40 per cent) stated that it had created opportunities for growth and increased revenue, while just under one-third (30 per cent) believed that it had reduced opportunities within the marketplace alongside decreased revenue. Examining these organisations in more detail suggests that size of business does not appear to be a factor in how the introduction of the strategy was viewed, although organisations with revenues of more than £3 million appeared more likely to be positively disposed towards the strategy than smaller businesses. Other significant impacts included the ability to tailor services for customers more effectively alongside the creation of market stability through the creation of longer-term contracts. To minimise duplication, research findings regarding market entry are discussed further in Chapter 5.

**Figure 3.3 Impacts of the Strategy upon sub-contractors**



### 3.4 Unsuccessful bidders' views

Unsurprisingly, most unsuccessful bidders interviewed tended to view the Commissioning Strategy negatively as they believed it contributed to reduced opportunities and revenue within the marketplace. This was attributed to the increase in size of the contract package areas (CPAs) and the enhanced capability required to deliver larger contracts.

The major impact of the introduction of the Commissioning Strategy for those unsuccessful bidders interviewed was the limited opportunities these providers now perceived within the welfare to work

marketplace. Linked to this were reduced revenue and the need for organisations to now change their business strategy and direction. In addition, most unsuccessful bidders believed that there were fewer opportunities now in the marketplace due to the larger contract areas and the financial requirements outlined under the Commissioning Strategy. Consequently, many unsuccessful bidders believed that Department for Work and Pensions (DWP) should reduce the size of the contract areas. In addition, some unsuccessful bidders believed that an approved sub-contractor list should be drawn up for each contract area and that DWP should take steps to encourage prime providers to employ more sub-contractors, especially local providers.

### 3.5 Non-bidders' views

Non-bidders did not view the impact of the Commissioning Strategy as negatively as unsuccessful bidders. There was a spread of opinion amongst this provider type about the major impact of the strategy. A number of non-bidders believed that it had reduced revenue and opportunities within the marketplace and a few stated that they had to subsequently change their business strategy in response to the introduction of the Commissioning Strategy. In contrast, some non-bidders believed that the strategy has had little impact upon their organisation to date, whilst a small number recognised that the new commissioning approach has had a positive impact through creating opportunities for growth and allowing for services to be better tailored to the needs of individual customers.

There were mixed views from non-bidders regarding whether the introduction of the Commissioning Strategy has had a positive or negative impact on the marketplace as explored in more detail below. For the most part, non-bidders believed that the introduction of the Commissioning Strategy had resulted in fewer opportunities within the market, which was attributed to the new larger contract areas and the financial capability requirements. Similar to unsuccessful bidders, these non-bidders believed that DWP should reduce the size of contract areas and should not commission any other employment programmes under the strategy. However, a number of non-bidders believed that the introduction of the Commissioning Strategy had resulted in greater or similar amounts of opportunities within the marketplace through the introduction of contracts of greater duration and the flexibility of service/outcome-based funding.

For the most part, non-bidders decided not to bid as soon as they had reviewed the Commissioning Strategy. A number of others abandoned the process as soon as they had reviewed the terms of the FND Phase One contract and what was involved in delivering the contract. The main reasons cited for not bidding for any of the FND Phase One contracts related to perceived inability of organisations to cover the entire geographic region within the CPA followed by the provider having insufficient resources to submit a bid. Encouragingly, many non-bidders stated that they would consider bidding for FND when the contract was up for renewal. However, whilst some stated it was because they would have sufficiently developed their capabilities to meet DWP's requirements, others argued that their bidding would be dependent on the extent of changes, if any, in the contracting requirements. While the research with non-bidders is not representative of this provider group, it does suggest that non-bidders still remain interested in these types of contracts but remain cautious about their capability to tender.

## 3.6 Conclusion

### 3.6.1 Key findings

It is important to understand and appreciate the views and reactions of providers to the Commissioning Strategy as this in turn will drive providers' behaviour and impact on their decisions to remain in the market; invest in their capability, and; develop their supply chain and their service delivery. The collective decisions on the part of the providers will in turn influence the success, or otherwise, of DWP's contracted welfare to work programmes. This chapter has explored providers' initial reactions to the Commissioning Strategy and the key findings are outlined below.

The more prominent a provider's role in the delivery of FND Phase One, the more positive their views on the Commissioning Strategy are. This is reflected in the initial reactions of prime providers to the strategy which have been mainly positive in contrast to the mixed reactions of FND Phase One sub-contractors. The most appealing attributes of the Commissioning Strategy for providers, both prime providers and sub-contractors, were the larger and longer contracts and the flexibility to innovate and tailor service provision. Prime providers, in particular, believe these changes will enhance service delivery and ultimately the customer experience. Whilst this research cannot show conclusively that the changes brought about by the Commissioning Strategy have strengthened the market, it does appear to give an early indication that providers are developing and investing in their capacity and capability to deliver.

In contrast, the majority of non-FND providers (i.e. non-bidders and unsuccessful bidders) believed that the Commissioning Strategy and implementation of FND Phase One contract have had a negative impact on them. Although a number of non-bidders could see positive effects such as greater opportunities for growth, for most FND non-providers, the strategy has introduced requirements that make bidding for contracts prohibitive. More specifically, the larger and longer contracts favoured by the prime providers and the necessary financial capabilities required to enter into outcome-based payment contracts of this size and geographical coverage were found to be barriers to entry with this provider type.

**Table 3.1 Summary of initial reactions to the strategy**

Type of provider	Positive impact/development	Negative impact/development
Prime provider	<ul style="list-style-type: none"> <li>• Real opportunity for growth</li> <li>• Larger/longer contracts</li> <li>• Ability to innovate</li> </ul>	<ul style="list-style-type: none"> <li>• Some perceived risk to smaller providers</li> </ul>
Sub-contractor	<ul style="list-style-type: none"> <li>• Many saw opportunity for growth</li> <li>• Ability to tailor provision/innovate</li> <li>• Opportunity to exploit specialised services</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced opportunities</li> </ul>
Unsuccessful bidder	N/A	<ul style="list-style-type: none"> <li>• Prohibitive bidding criteria including, for example:                             <ul style="list-style-type: none"> <li>o larger contracts;</li> <li>o financial requirements; and</li> <li>o larger geographical coverage</li> </ul> </li> <li>• Reduced opportunities</li> </ul>
Non-bidder	<ul style="list-style-type: none"> <li>• A small number saw opportunity for growth and ability to better tailor services for customers</li> </ul>	<ul style="list-style-type: none"> <li>• Prohibitive bidding criteria, for example, larger contracts, financial requirements and larger geographical coverage</li> <li>• Reduced opportunities</li> </ul>

Source: PwC research interviews with FND Phase One prime providers (21) and sub-contractors (130), autumn/winter, 2009/10.

### 3.6.2 Recommendations

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

- **Enhance non-FND providers’ (i.e. non-bidders and unsuccessful bidders) understanding of Commissioning Strategy requirements:** Not surprisingly non-FND Phase One providers are the least enthusiastic about the new strategy. This appears to be driven by a lack of understanding of what the Commissioning Strategy is striving to achieve, as illustrated by their desire to reduce contract sizes both in terms of volumes and geographical coverage. However, there is willingness for non-FND Phase One providers to remain in the marketplace. This would imply that some non-FND Phase One providers would benefit from further awareness raising of the aims of the Commissioning Strategy and how they could find a role for themselves in the new provider landscape. DWP should consider what part it could play in this process.

# 4 Market structure

## 4.1 Introduction

This chapter outlines the component of market structure as set out in the Commissioning Strategy and is structured under the following headings:

- Background.
- Dynamics of the market.
- The role of sub-contractors.
- Delivery models.
- Conclusion.

## 4.2 Background

This component of the Commissioning Strategy largely reflects the recommendations made by Lord Freud in his report *Reducing dependency, increasing opportunity: options for the future of welfare to work* (Freud, 2007). Among his recommendations, Lord Freud stated that welfare to work contracts should be long-term and allocated to prime contractors who would ‘be responsible for marshalling an appropriate blend of sub-contractors to deliver the services required’ (Freud, 2007, p7).

Furthermore, Lord Freud recommended that prime contractors should be required to work with local organisations and City Strategy Partnerships to ensure provision was tailored to meet local priorities and needs.

*‘We want a stronger, more consistent base of top-tier providers who can work closely with regional and sub-regional partners to deliver sustainable jobs for unemployed people.’*

(Department for Work and Pensions (DWP), 2008a, p9)

The component of market structure attempts to address the key aim of the Commissioning Strategy which is to maximise levels of sustained employment. This is facilitated through a move to longer, larger contracts and outcome-based payments. According to Lord Freud (Freud, 2007, p52), length of contract for providers is a key issue for welfare to work provision. Previous arrangements, where contracts of two years duration were quite typical, were felt by providers to be inadequate to implement the sort of systems required for high performance. This timeframe, Freud argues, did not enable them to cover the cost of investment due to the short nature of the contract. Consequently, the Commissioning Strategy specifically sets out to address this with the award of longer contracts – five to seven years in the case of Flexible New Deal (FND).

A number of principles underpin the component of market structure. These are as follows:

- contracts will be commissioned on a larger, longer lasting basis to a top tier of providers. Essentially, the top tier of providers will play a larger role in leading and managing diverse supply chains;
- contracts will be based on city regions but will ensure that rural areas are effectively covered;
- linkages with local delivery infrastructure will be forged through contract packages in order to deliver sustained jobs. This will involve prime providers working alongside a range of local stakeholders such as Jobcentre Plus District Managers or Customer Service Directors, Local and Multi Area Agreements and City Strategy partnerships;



- it is envisaged that the market will consist of a stable core of around 80 per cent of reliable providers. This would then leave space for new entrants. Achieving this balance of providers would require that the providers who have demonstrated their capacity to deliver innovative quality provision are able to participate in the market regardless of sector;
- core providers should demonstrate their capability of delivering multiple contracts across Great Britain to a high standard and on a consistent basis. This responsibility will apply throughout the supply chain, requiring sophisticated performance and quality management systems, extensive audit and verification procedures and practices that allow for continuous improvement. All of these structures should allow for integration with existing inspection regimes where applicable; and
- smaller providers are expected to act mainly as sub-contractors for prime providers, with excellent sub-contractual relationships becoming the norm. It is envisaged that contractual terms between prime providers and sub-contractors will not always reflect those between DWP and the prime provider, with risk/reward fairly assigned across the supply chain to enable smaller and specialist providers to be involved in welfare to work provision.

To avoid duplication and overlap, the focus of this chapter is on the changing structure of the market, brought about by the strategy. The remaining principles are discussed in later chapters: outcome-based funding model is explored in more detail in Chapter 7; local delivery linkages are discussed in Chapter 10, and; provider capabilities are explored in Chapter 6.

### 4.3 Dynamics of the market

#### 4.3.1 Market structure changes

The emerging changes which have occurred to date within the DWP welfare to work market are best viewed in respect of FND Phase One. As outlined in Chapter 1, FND replaces New Deal 18-24, New Deal 25 Plus and Employment Zones (EZs) and subsumes Private Sector led New Deal, New Deal 50 Plus, New Deal for Musicians and New Deal for Self-Employed. Estimation of the number of programme providers in FND Phase One has been extracted from the provider baseline survey and compared against the number of FND Phase One prime providers and known sub-contractors.

As identified in Chapter 2, the provider baseline survey data, while representative of the welfare to work market, does not include all current DWP welfare to work providers. A two step approach was used to calculate the number of providers delivering FND legacy programmes within FND Phase One areas resulting in an estimated range of 116 to 148<sup>12</sup>.

When comparing the estimated range of FND Phase One legacy providers (116 to 148) against the 169 known FND Phase One providers<sup>13</sup> the analysis suggests that the market, in absolute terms, has grown. Whilst the market may appear to be expanding, it is important to note that assessing the change in market structure based on the number of providers delivering their services provides only a partial picture. In wave two of this research, it will be important to assess the value of services delivered by the sub-contractors both individually and collectively to capture the scale of changes in market structure which are emerging. In addition, this apparent expansion is based on one

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<sup>12</sup> Details of how this number of FND legacy programme providers was calculated can be found in Appendix A.

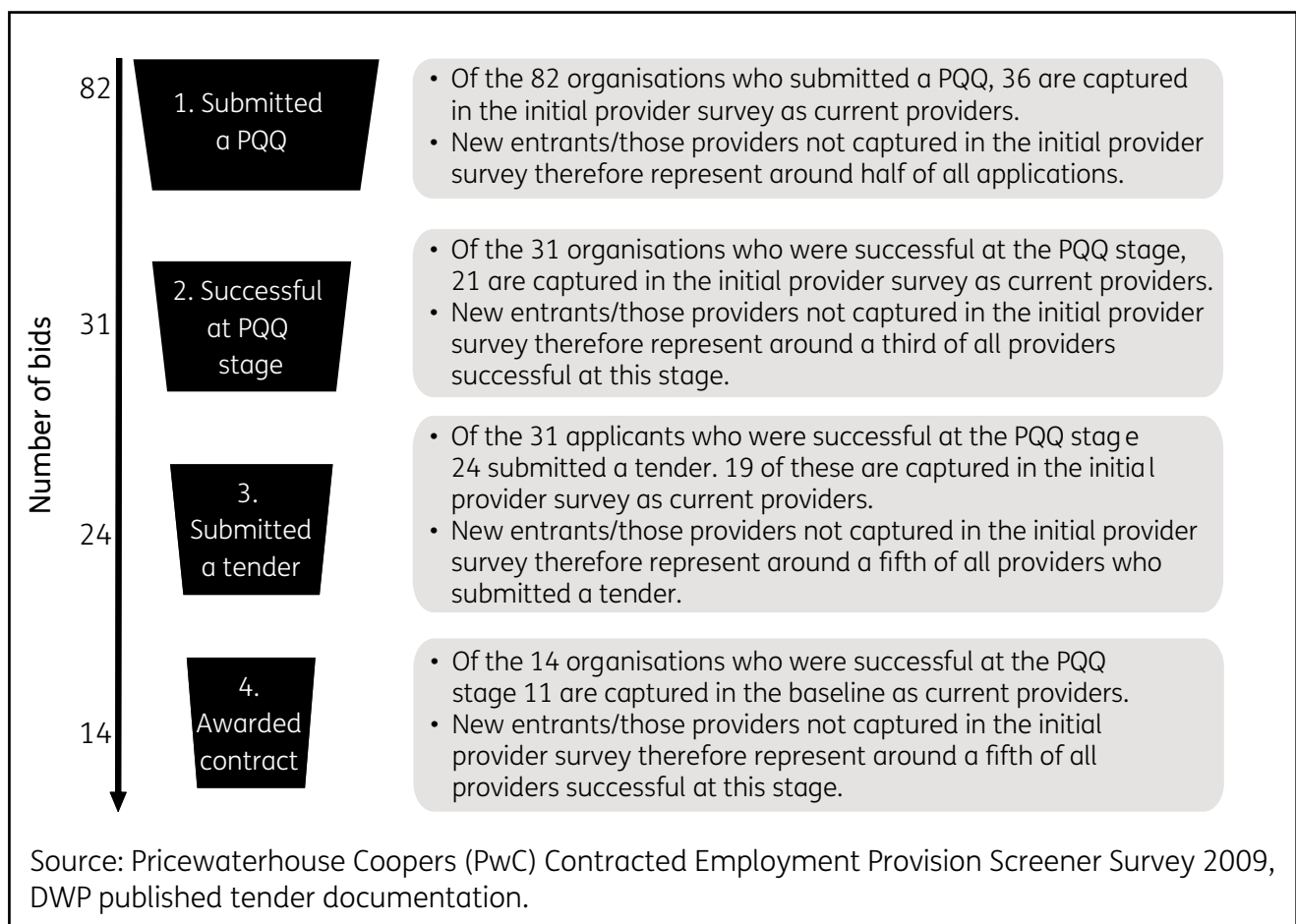
<sup>13</sup> 169 known FND Phase One providers includes 14 prime providers along with 155 known sub-contractors within the FND Phase One area based on the baseline survey/additional provider lists.

contracting round and therefore, this finding would need to be compared with the outcomes of future commissioning rounds.

Analysis of the FND Phase One tendering stages can reveal more information in terms of how the market change has occurred. Figure 4.1 indicates that 82 organisations responded at the first tendering stage by submitting a Pre-Qualification Questionnaire (PQQ). Bids which met the minimum capability requirements at this stage qualified to submit a full tender. It is at this stage that the largest attrition occurs, with more than 60 per cent of bids failing to demonstrate the required capabilities to operate as a prime provider. The scope of the research did not include examining the reasons why these bids were unsuccessful. However, this high attrition rate supports the findings in Chapter 3, which suggest that unsuccessful bidders may not have fully understood the requirements of being a top-tier provider.

Figure 4.1 also reveals that market incumbents have a higher success rate than potential new entrants at each of the tendering stages. Although the tendering process allowed bidders to demonstrate their capabilities through experience in other markets, it is likely in any tendering process that incumbents will have an advantage due to greater knowledge of the market and understanding of DWP requirements.

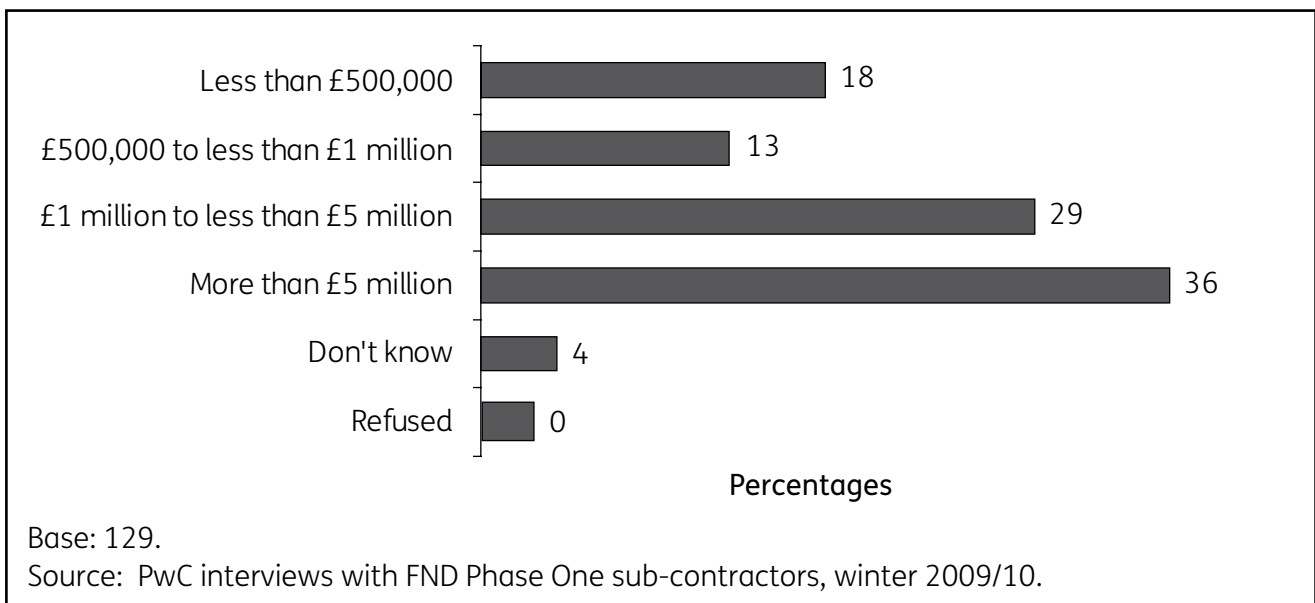
**Figure 4.1 Overview of FND Phase One bidders, by tender stage**



## 4.4 The role of sub-contractors

The Commissioning Strategy envisages that smaller organisations will act mainly as sub-contractors to prime providers (DWP, 2008a, p11). As stated in Section 4.3.1, the research indicates that more organisations are involved in the delivery of FND Phase One than those involved in delivering FND legacy programmes with the FND Phase One contract areas. The revenue profile of sub-contractors shown in Figure 4.2 illustrates that approximately two-thirds of FND Phase One sub-contractors have revenue of £1 million or more. This is broadly similar to the profile of the provider baseline as depicted in Figure 2.3. While this is perhaps encouraging for many welfare to work providers, it illustrates only a partial picture of the changes which have occurred. The research also sought to establish the role of the sub-contractor in and between supply chains (i.e. whether they act for more than one prime provider or in more than one contract package area (CPA)) and the nature of work now undertaken as part of delivering FND Phase One. These findings are discussed below.

**Figure 4.2 Revenue profile of FND Phase One sub-contractors**



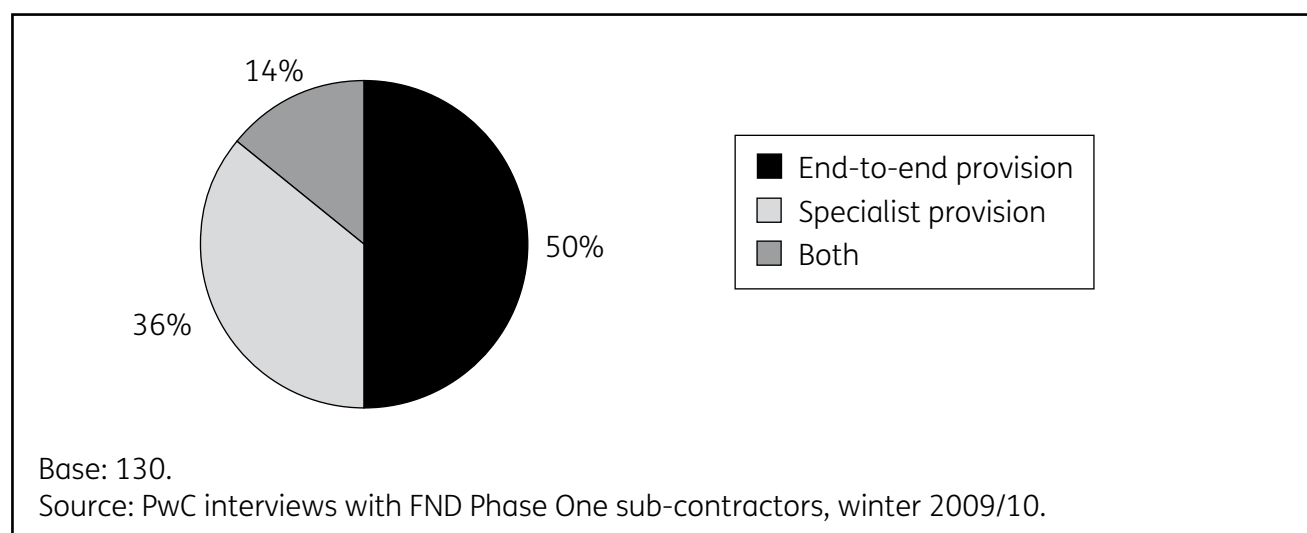
### 4.4.1 Nature of sub-contracted services

FND services can be categorised in two broad groups – ‘end-to-end’ services and ‘specialist services’. End-to-end services cover the range of general employment related services a customer might receive throughout their journey in FND, for example, job search training and motivational training. These are typically provided by what DWP refer to as Tier one and Tier two providers which are prime providers and larger generalist sub-contractors. A sub-contractor providing end-to-end services will also have a degree of responsibility for delivering the customer’s journey, for example working with a customer to determine their needs and the most appropriate programme of support (within the prime provider’s delivery model). Specialist provision typically includes niche services such as provision of support for those wanting to become self-employed. It may also include support related to a customer’s health or underlying issues such as drug rehabilitation or debt management. These services are undertaken by Tier three and Tier four providers as per DWP’s classification outlined in Table 4.1. During this research prime providers were asked about all levels of sub-contracting within their supply chain.

**Table 4.1 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 sub-contractors 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. Sub-contractors 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 Phase One sub-contractors was identified during the research. Figure 4.3 suggests that sub-contractors tend to either be end-to-end providers or specialist providers with only a small minority providing both service types. It would be informative to monitor whether this profile changes as the FND market matures.

**Figure 4.3 Sub-contracted provision by type**

#### 4.4.2 Contractual terms

The nature of change in contractual arrangements between FND prime providers and sub-contractors is mixed. A number of prime providers were negotiating contracts with their sub-contractors for the first time either because they were new to the market or new to the district. A number of other prime providers reported that they did not change the nature of their contract with their sub-contractors. Therefore, understanding the impact of the 'change' in contractual terms

as a result of the Commissioning Strategy is perhaps less relevant than understanding the nature of the difficulties which emerged during the negotiation process.

Many prime providers reported that a number of issues arose with sub-contractors during contract negotiations. The issues were wide ranging and included: sub-contractors requesting guarantees around minimum volumes; distribution of the management fees, and; sub-contractors initially underestimating the risks involved with the delivery of the FND Phase One contract.

Three main approaches to the management of outcome-based payments are emerging within the FND Phase One supply chains. These are:

- DWP terms with the prime provider are passed on in full to end-to-end sub-contractors (i.e. they are based on achieving sustainable outcomes);
- payments to specialist one-off providers are based on services provided rather than outcomes; and
- some initial payments are made upfront by prime providers to specialist providers who require them.

Therefore, despite changes occurring to contracts due to the move towards outcome-based payments as outlined in the Commissioning Strategy, outcome-based payment terms have not been passed on to all sub-contractors. It is apparent that it is the nature of provision – either end-to-end provision or specialist provision – that dictates contract terms (particularly payment terms) between prime providers and sub-contractors. Thus the payment terms seek to reflect the extent of a sub-contractor’s involvement in the customer journey. For example, contracts between prime providers and direct end-to-end service providers tend to follow similar outcome-based terms as those between DWP and the prime providers. This reflects the fact that end-to-end providers have a long-term relationship with the customer and have, therefore, ‘invested’ in their success. In contrast, specialist providers, for example those that provide a medical assessment, will tend to be paid a service fee for provision reflecting the ‘one off’ basis on which this is provided.

A number of prime providers have also taken further steps to minimise the financial risk faced by sub-contractors by agreeing to pay them ahead of receiving payment from DWP. The impact of this on prime providers’ cash flow was felt to be negligible, thus supporting the aim of the Commissioning Strategy to create a ‘stable core of reliable providers’. In these instances, the prime providers have demonstrated their financial capability to support sub-contractors directly irrespective of the payment schedule prime providers have agreed with DWP.

The move to outcome-based payments did raise concern amongst the unsuccessful bidders and non-bidders contacted as part of the research. Around one-half of those organisations believed changes to payment terms had created a barrier to entry in the welfare-to-work market.

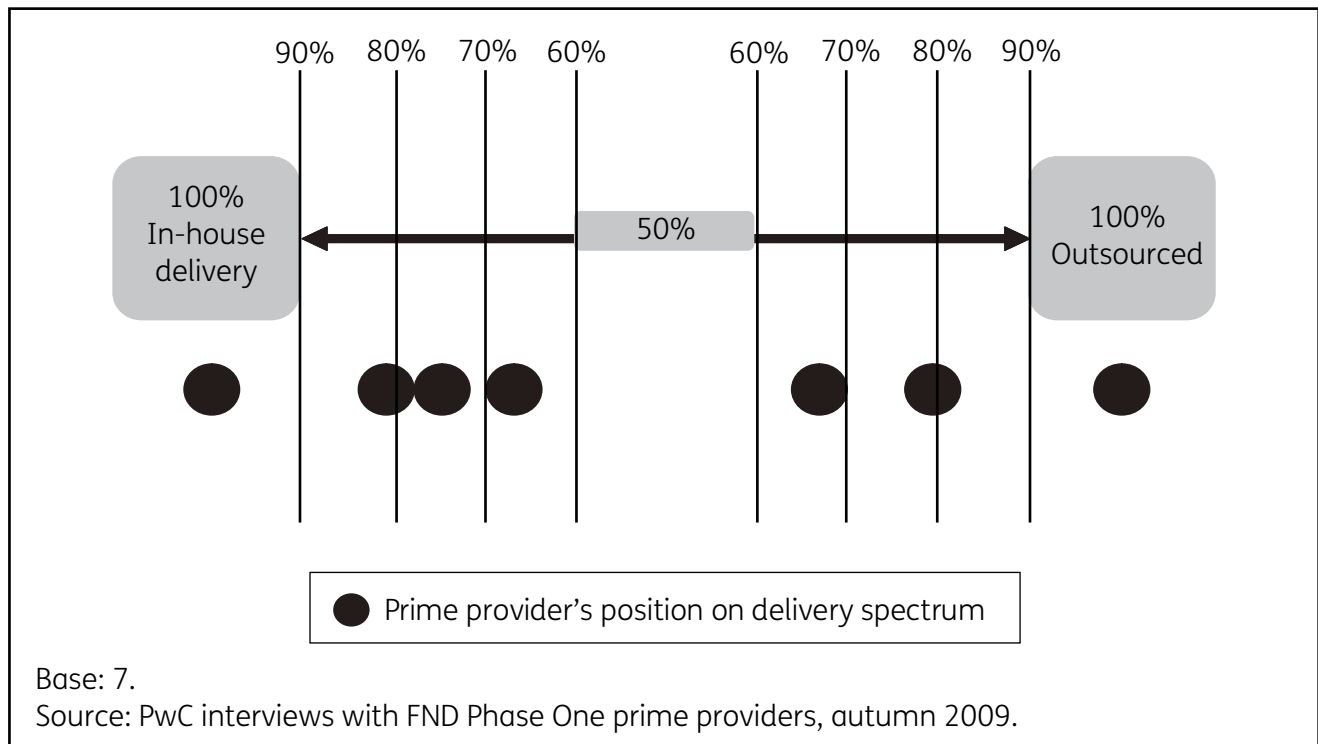
## 4.5 Delivery models

### 4.5.1 Development of delivery models

Based on consultations with FND Phase One prime providers, a picture of how FND Phase One is being delivered has emerged. Figure 4.4 maps the spectrum or extent of sub-contracting 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 sub-contractors and the right of the spectrum represents 100 per cent out-sourcing, i.e. the prime provider acts as a managing agent and all customer services are delivered by sub-contractors. Of the prime providers for whom

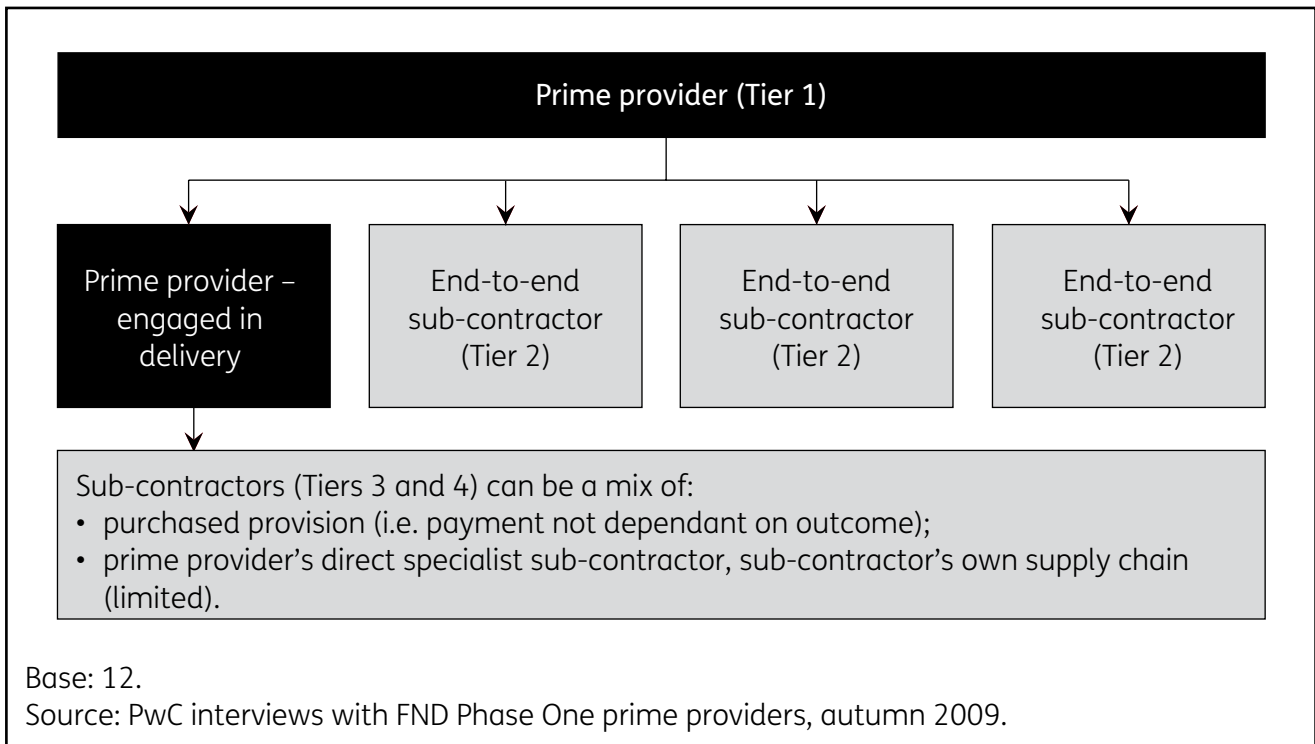
this information was provided most operate a mixed model of both directly delivering some services while also managing service delivery by sub-contractors.

**Figure 4.4 FND Phase One prime provider delivery spectrum**



The difference between the quantity of services outsourced and their value in monetary terms was not examined due to the fact that the research was conducted at such an early stage of implementation. Any such differences could be due to a number of factors such as the level of prime provider management fees and charges and the value and profile of services delivered by sub-contractors – for example, split between high value costs and more ‘volume’ services such as training. This is an area which DWP may wish to review more closely in wave two of the research programme.

Further information provided by prime providers illustrates the current FND Phase One supply chains. Figure 4.5 depicts a ‘typical’ delivery model for FND Phase One prime providers. The prime provider (Tier one) will deliver ‘end-to-end’ services along with a relatively small number of delivery partners (Tier two providers). The prime provider will also have the direct contractual relationship with the specialist providers in Tier three and Tier four, who in some cases will work with other Tier two providers to deliver a full range of services to the customer. This latter point is supported by findings from the research with sub-contractors where 97 per cent of the FND Phase One sub-contractors stated they did not have any contractual or partnership arrangements with sub-contractors of their own to deliver FND services.

**Figure 4.5 Typical FND Phase One prime provider delivery model**

It is important to put the analysis presented above into context. Firstly, the research was undertaken at an early stage of FND Phase One implementation. The realities of delivering (i.e. the actual time and resources required to undertake work) and the needs presented by customers may see further sub-contracting as time progresses. Secondly, at the time of the research the anticipated customer volumes had not materialised. This, in itself, will limit both prime providers’ and sub-contractors’ ability to widen and/or deepen the supply chain.

*‘I worry about the second and third Tier providers because I don’t think we will be able to fulfil what I thought we were going to be able to with those providers.’*

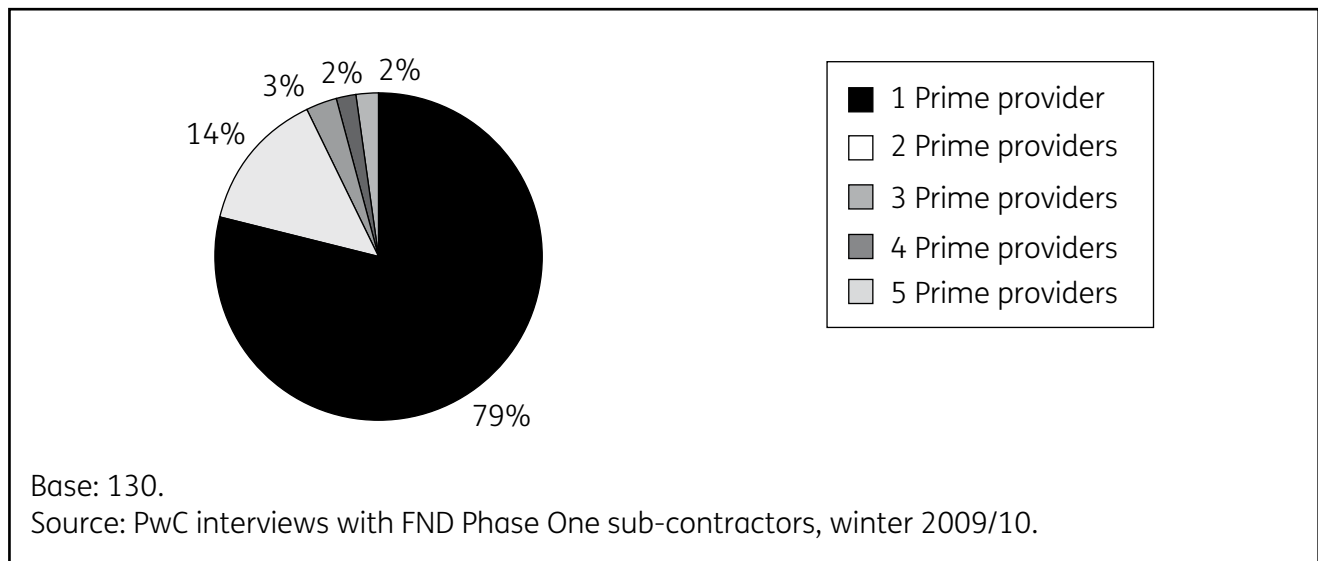
(FND Phase One prime provider)

This is an area that will be revisited in wave two of the research when FND Phase One delivery and supply chains become more established.

#### **4.5.2 Overlaps in supply chains**

Significant overlap between supply chains exists. The published list of sub-contractors indicates that one-half of FND Phase One prime providers act as sub-contractors in other areas. Data presented in Figure 4.6 illustrates that 21 per cent of sub-contractors deliver FND Phase One services for more than one prime provider. The extent of the inter-linkages between supply chains has both an upside and potential downside to it. On the upside, it will facilitate the organic spread of best practice between supply chains. However, the extent of the overlap may give the impression that the market is less open to new entrants. As DWP seeks to develop the market, they may wish to establish whether this is in fact the case.

**Figure 4.6 Percentage of sub-contractors and the number of contractual relationships with prime providers**



## 4.6 Conclusion

### 4.6.1 Key findings

Providers of all types have expressed concerns that the Commissioning Strategy will reduce the opportunities in the marketplace, particularly for smaller and third sector organisations. Whilst it would seem premature to form a judgement on the basis of the first contract let under this strategy, an analysis of the FND Phase One market indicates that the number of organisations involved in delivery has increased significantly, from between 116 to 148 organisations to just fewer than 170.

A comparison of the provider baseline survey against both waves of research on FND Phase One provider landscape will, in due course, provide a more comprehensive picture of the change in market structure emerging as a result of the Commissioning Strategy.

Delivery models typically consist of a proportion of programmes and services delivered directly by the prime provider with the remainder delivered by sub-contractors. The extent to which services are delivered in-house or are outsourced varies between contracts and prime providers. At opposite ends of the spectrum, one prime provider delivered all programmes in-house, whilst one prime provider outsourced all programmes to sub-contractors.

FND Phase One prime providers have developed or enhanced their supply chains in direct response to the Commissioning Strategy, either because they felt their bid would be better received by DWP or in response to the size of the contract area, and the need for coverage across the contract package area which they would not otherwise have. Sub-contractors have been used by prime providers for both end-to-end provision and specialist provision. The resulting geographical and technical delineation in a number of the supply chains would suggest that prime providers are sharing all customers across their supply chain as allocation of referrals is based on either geographical and/or specialist provision.

At the time of this research, the supply chains were short, i.e. at this time, sub-contractors did not typically out-source services to sub-contractors of their own. However, this may change as FND Phase One becomes more established and will be the subject of further exploration in wave two of



the research. Interestingly, significant overlaps exist between supply chains, with seven of the 14 FND Phase One prime providers also operating as sub-contractors and 21 per cent of sub-contractors delivering FND services for more than one prime provider.

In addition, a number of prime providers have taken the necessary steps to ensure that the both the payment terms and timing of payments accommodate smaller, specialist providers and are, therefore, more reflective of their role in the customer journey.

### 4.6.2 Recommendations

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

- **Monitor the change in supply chains:** DWP should 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.

# 5 Market development and stewardship

## 5.1 Introduction

This chapter examines the impact that the Commissioning Strategy has had thus far in achieving the aims set out in the market development and stewardship component. This chapter is structured under the following headings:

- Background.
- Supporting market entry.
- Supporting market development.
- Ensuring excellence in sub-contractual relationships.
- Communication between the Department for Work and Pensions (DWP) and providers.
- Conclusion.

## 5.2 Background

The market development and stewardship component of the Commissioning Strategy is linked to the market structure component as discussed in Chapter 4. The development of the tiering system, discussed previously, whereby large prime providers sub-contract service provision to smaller or specialist providers has led to some concerns (DWP, 2008a, p35), that this might operate to the detriment of smaller providers. To mitigate this, the Commissioning Strategy also introduced the Code of Conduct. The Code of Conduct outlines the standards of behaviour expected between providers, whether prime provider or sub-contractor. This underpins the ‘capabilities and requirements that make up a high-performing supply chain’ (DWP, 2008a, p17).

DWP places great value on having a diverse market of providers. Lessons learned from elsewhere, for example the United States, and New York City in particular, suggest that the move to longer, larger contracts and outcome-based payments can result in a less diverse and contracted market (DWP, 2009). Thus, the principles outlined in the market development and stewardship section of the Commissioning Strategy are viewed to be important in ensuring a diverse and high performing range of providers within the market.

*‘We will play an active and transparent role to ensure that smaller, local providers, who have the capabilities we need and who perform well, can flourish and develop.’*

(DWP, 2008a, p12)

A number of principles underpin this component, namely:

- supporting the entry of new providers to the market who bring innovation and value. Central to this principle is the removal of barriers to new entrants by taking into account providers’ successful delivery in other sectors or of other services. DWP has also committed to holding events to provide information about procurement exercises;

- supporting the development of the wider market. This will involve the use of DWP's capabilities framework and DWP networking events to ensure that high quality, high performing, smaller and specialist providers are involved in contracts;
- ensuring excellent sub-contractual relationships exist between the top-tier, third sector and other organisations. This will be achieved through the Code of Conduct which describes best practice with regard to the treatment of sub-contractors and other partners or suppliers. This principle also involves reviewing the management and treatment of sub-contractors, ensuring that prime providers live up to any commitments made to delivery partners at the time of contract award and facilitating good practice through collaboration and sharing of information;
- taking into account evidence of effective partnership working and supply-base development at local level in awarding business to prime providers;
- providers working within the wider government agenda. Under this principle, it is expected that providers will understand and behave in a way that recognises they are delivering part of the government's wider agenda;
- contracting, inspection and management of contracts against the DWP capabilities framework. This principle outlines how contracts are awarded, inspected and managed to facilitate a healthy, high performing supply chain;
- establishing mechanisms to facilitate communication between DWP and providers about common problems and sharing insights. This principle aims to give providers a 'voice' direct to the Department to air problems and share insights on how to deal with customers; and
- developing relationships with provider representative organisations. As part of a continuous process, DWP aims to develop relationships with provider representative organisations to enable different sectors to have the opportunity to share their particular perspective with DWP.

Where possible, each of the principles outlined above has been assessed to demonstrate where the impact of the Commissioning Strategy can be seen, from a provider perspective, and where lessons can be learned. However, DWP's relationships with provider representative organisations have not been assessed through this research as fieldwork was with providers directly and not with their representative bodies. Furthermore, to avoid duplication and overlap with other chapters, the principles involving partnership working, sharing best practice and managing contracts are discussed in Chapter 8.

### 5.3 Supporting market entry

This sub-section examines the role played by DWP in facilitating the development of networks and alliances and the subsequent development of supply chains prior to contract award. A particular focus is paid to market entry and barriers to entry which were identified.

#### 5.3.1 Facilitating networks and provision of procurement information

DWP has committed to hosting events such as speed-dating events for the provider community to facilitate networking opportunities for providers. Their purpose is to enable potential prime providers and potential sub-contractors that do not have pre-existing relationships to be able to meet together with a view to forming alliances. DWP also seeks to inform all interested organisations about the Department's procurement process at these events. Held to coincide with the Flexible New Deal (FND) Phase One tendering process, attendance at the events by the wider provider community has been noteworthy. Representatives from over 400 organisations attended the five events that took place between February 2009 and March 2009.

It is interesting to note that a review of the organisations attending these events against the provider market baseline reveals that upwards of 250 (out of over 400) of those organisations were new to the market. These organisations varied by size and nature and would not all have been seeking to bid as a prime provider. This suggests that the recent changes to the market have been successful in generating significant interest in the welfare to work market in Great Britain. Furthermore, as noted in Chapter 4, eight per cent of FND sub-contractors interviewed stated that they met their prime provider at a DWP event. While perhaps not the dominant way in which partnerships are formed, it does illustrate the role events such as these can play in facilitating new networks and partnerships amongst providers.

The importance and need for DWP to facilitate networks is underlined by the figures in Table 5.1. While the majority of sub-contractors (61 per cent) believed that establishing relationships for the FND Phase One bid was a time consuming process, they (68 per cent) also found it to be a very positive experience. This latter finding for sub-contractors also mirrors the experience of the unsuccessful bidders (see Appendix B). While the research undertaken with unsuccessful bidders is not representative of their wider provider group it does suggest that they found the networking events useful.

When one considers the earlier finding in Chapter 4, which outlined that 97 per cent of sub-contractors do not have sub-contractors of their own, it is particularly interesting to note the finding in Table 5.1 which indicates that 26 per cent of sub-contractors who responded agreed or strongly agreed that selecting their own sub-contractors was challenging. This, therefore, suggests that considerably more sub-contractors sought to develop supply chains of their own than actually did in practice. It will be worthwhile to revisit this in wave two to establish whether more sub-contractor's established their own supply chains and to understand the nature of the challenges this presented to them.

**Table 5.1 Sub-contractors' views on developing networks for FND Phase One bid**

To what extent do you agree or disagree that:	Strongly agree %	Agree %	Neither/ nor %	Disagree %	Strongly disagree %
Selecting your own sub-contractors was challenging (51)	12	14	49	6	20
It was a time consuming process to establish relationships (125)	38	23	19	15	5
It was a complicated process to establish relationships (125)	18	18	26	26	12
It's been a positive experience building your contacts (125)	31	37	18	9	6

Base: 51,125.

Source: Pricewaterhouse Coopers (PwC) interviews with FND Phase One sub-contractors, winter 2009/10. Figures may not total to 100 per cent due to rounding.

### 5.3.2 Supply chain development in preparation for the FND Phase One bid

Prior to going to the market, some prime providers analysed where gaps existed in their coverage and where they needed to utilise sub-contractors. This information was used to assess the extent to which delivery could be provided in-house by the prime provider in various contract package areas (CPAs) and how much would need to be sub-contracted to specialist providers. Local geography played a role in determining where gaps existed:

*‘[We looked at] local demographics, the population density, unemployment rate etc. and then you have a picture of what you need in each particular area. We also studied sectors of employment and unemployment so you know what jobs are required...ultimately [we] looked at a list of providers that have applied to us...if you find holes [in your own provision] you can do your own research into them...Our aim is to make sure we’ve got a range of providers covering the patches [CPAs] as fully as possible so customers have a range of provision that suits their needs without them having to travel an extortionate amount of time.’*

(FND Phase One prime provider)

This technical and geographical delineation in a number of the supply chains would suggest that prime providers are not ‘cherry picking’ customers from within their referral pool, as was found to be the case in provider led Pathways to Work (DWP, 2010).

As discussed in Chapter 4, DWP has committed to facilitating the development of the supply chains for the delivery of welfare to work programmes. Whilst a number of prime providers made use of DWP-organised networking events, the majority of prime providers also adopted extensive internal processes to vet potential sub-contractors.

Prime providers have invested considerably in the development of supply chains and alliances. Such investment includes establishing regional teams to research and evaluate potential sub-contractors, publishing calls for Expression of Interest (EoIs) from potential sub-contractors and undertaking the appropriate due diligence on submitted EoIs. By way of example, a prime provider stated that their research team had been conducting research for the FND Phase One bid for two years prior to the contract award while another stated they had conducted a significant amount of research and activities such as hosting sub-contractor events, producing guidance on performance and training events on the prime provider’s management system.

This rigorous approach to supply chain development does not appear to have been universally adopted by all prime providers with a minority of them suggesting that the time given by DWP to develop supply chains for the FND Phase One bid had been inappropriate:

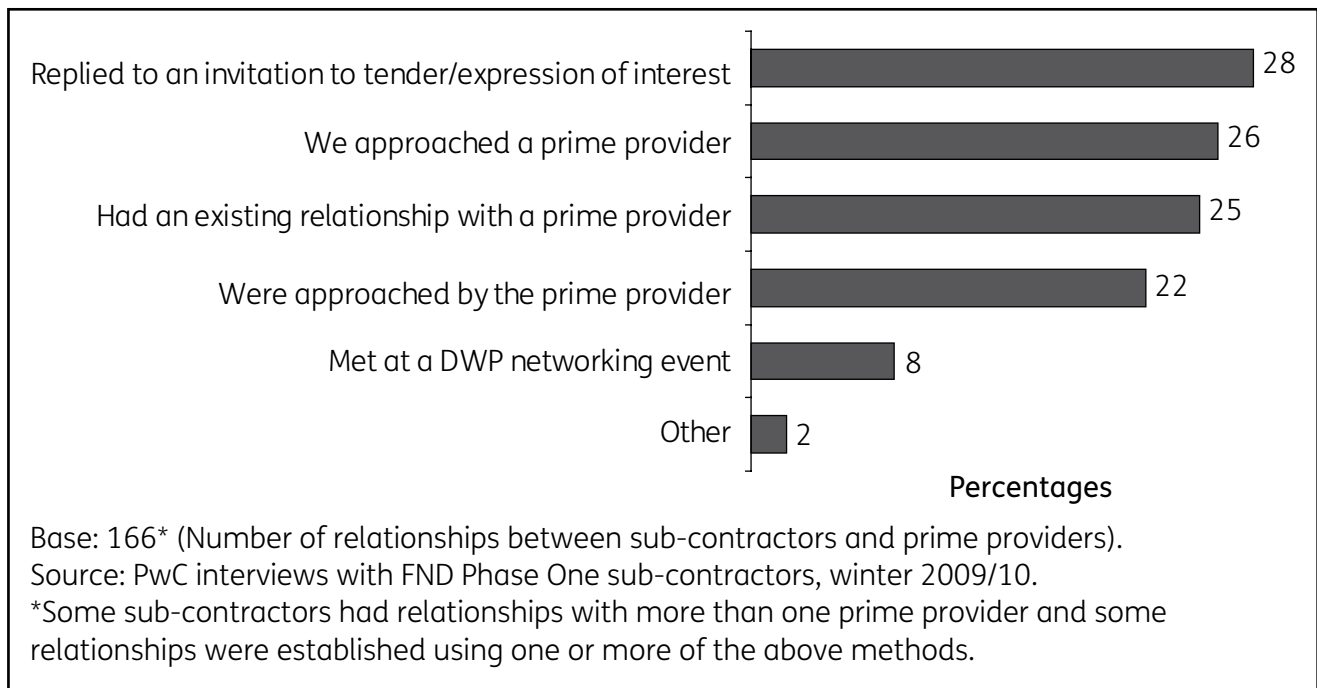
*‘We didn’t have time to go through a proper procurement process on what is a rather big contract but we couldn’t put a bid in saying we will do procurement afterwards. DWP would have marked us down. We had to provide all the information upfront; we had to supply information relating to our supply chains in a very narrow period of time.’*

(FND Phase One prime provider)

The above quote is perhaps indicative of the prime provider underestimating the time required to develop their supply chain or taking the decision to bid for a FND Phase One contract at a later stage than their peers.

Sub-contractors, for their part, have also been proactive in seeking to develop relationships with prime provider(s). The methods or channels pursued by sub-contractors in this regard include responding to prime providers’ calls for EoIs, as well as approaching the prime provider directly. Figure 5.1 shows that in over 50 per cent of the relationships formed between prime providers and sub-contractors, the sub-contractors indicated that they have been proactive through either replying to EoIs or approaching prime providers. While pre-existing relationships between providers were clearly important in developing supply chains, it is clear from the research with both prime providers and sub-contractors that it was not, of itself, a key factor. In other words, neither prime provider nor sub-contractors relied solely on existing relationships to develop their supply chain, with both provider types displaying pro-activity in creating FND Phase One supply chains.

**Figure 5.1 Means by which relationships between sub-contractors and prime providers were established**



Evidence from both prime providers and sub-contractors indicates that there was a considerable degree of formality involved with the FND Phase One selection process, a process that sub-contractors agreed was robust. Table 5.2 suggests that the vast majority of sub-contractors were asked to submit an EoI (88 per cent) and provide financial and operational details (85 per cent). The majority of sub-contractors (58 per cent) felt that this selection process was robust. These findings support prime providers’ assertions that they conducted a significant amount of due diligence with regard to developing their FND Phase One supply chain.

**Table 5.2 Selection criteria/processes applied to FND Phase One sub-contractors**

Criteria/processes	%
EoI	88
Provide financial and operational details	85
Interviewed by the provider	68
Required to bid competitively against other potential sub-contractors	50
Other	7
Don’t know	1

Base: 130 sub-contractors.

Source: PwC interviews with FND Phase One sub-contractors, winter 2009/10.

### **5.3.3 Levels of new entry and barriers to entry**

Evidence presented earlier in this chapter, and in Chapter 4, highlights the significant interest in delivering FND Phase One from outside the existing market. It also points to the relative success of new market entrants both in terms of prime contracting (with three out of 14 prime providers being new entrants, including one from outside the welfare to work sector), and in sub-contracting, where a significant number<sup>14</sup> of new entrants appear to have joined prime providers' supply chains.

Notwithstanding this, prime providers did feel that the Commissioning Strategy had created barriers to entry to the market with some prime providers believing that it has created barriers particularly for smaller organisations. Prime providers believed that the Commissioning Strategy will rationalise the FND supply chain; firstly in terms of the size and capability of the organisations that can compete for the prime provider contracts and, secondly, by limiting the market to sub-contractors who have the financial and operational capability to accommodate outcome-based payments, while also managing the projected FND Phase One volumes.

However, prime providers generally recognised that this was an intended impact of the Commissioning Strategy; that it represents a 'market-shaping' exercise and therefore, did not necessarily have a negative impact:

*'Having a robust group of top tier providers is good. It's been clear for a while the balance of providers in the market hasn't been quite correct.'*

(FND Phase One prime provider)

Alternative viewpoints were provided by a small number of prime providers who felt that the Commissioning Strategy would reduce barriers to entry to the FND market. By way of example, one prime provider believed the procurement process to supply programmes and services to a prime provider would be less time and/or resource consuming in comparison to supplying to the public sector. Another prime provider believed the Commissioning Strategy would promote equality and diversity, citing the Code of Conduct in particular as the instrument to achieve this.

There is a clear view among FND Phase One sub-contractors, as illustrated in Table 5.3, that the new barriers to entry include: size of providers required to compete for contracts, geographical spread of contracts and level of investment required in systems. These findings are also shared by unsuccessful bidders and non-bidders interviewed as part of the research. The introduction of outcome based payments was identified as a main barrier to entry by just nine per cent of sub-contractors. It was hypothesised that, given the financial risk associated with a payment system such as this, that a greater proportion of sub-contractors might have viewed this more negatively.

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<sup>14</sup> As mentioned in Section 4.3.1, of the estimated FND market (between 192 to 244 providers), it is estimated that between 116 and 148 organisations provided FND legacy programmes in the FND Phase One contract areas. When compared against the 169 known FND Phase One providers, this analysis suggests that the market, in absolute terms, has grown.

**Table 5.3 FND Phase One sub-contractors' views on new barriers to entry**

<b>Identified barriers to entry</b>	<b>Barrier %</b>	<b>Main barrier %</b>
The size of providers who can compete for the contracts	86	53
The requirements set out by DWP	61	6
The level of investment in systems required	59	9
The geographical spread of contracts	54	4
The introduction of performance based payments	53	9
The range of services in contracts	44	4
Specialist skills that are required	31	2
Other	20	12
None of these	1	2

Base: 130 sub-contractors.

Source: PwC interviews with FND Phase One sub-contractors, winter 2009/10.

While sub-contractors, unsuccessful bidders and non-bidders feel that barriers to market entry have either been created or increased, a number of the main barriers cited are intended consequences of the Commissioning Strategy. This suggests that perhaps elements of the provider market have not fully grasped the Commissioning Strategy and the changes it is seeking to bring about in the market. It may, therefore, be important for DWP to continue communicating with the market in this respect.

Notwithstanding this, FND Phase One sub-contractors have identified measures which DWP can adopt to address the perceived barriers to entry that in their opinion, have been created or increased by the Commissioning Strategy (see Table 5.4).

**Table 5.4 FND Phase One sub-contractors' views on mitigating barriers to entry**

<b>Mitigating action proposed</b>	<b>%</b>
Reduce the size of contracts in terms of geographical spread	63
Introduce a more straightforward tendering process	76
Incentivise specialist providers/niche providers	74
Reduce the size of contracts in terms of range of services	43
Provide more networking opportunities	61
Reduce the administration required	56
DWP should provide financial assistance	54
Consider more local provision	3
Other	24

Base: 130.

Source: PwC interviews with FND Phase One sub-contractors, winter 2009/10.

Whilst larger contracts in terms of geographical spread and range of services are inherent features of the Commissioning Strategy, the findings above do provide some suggestions on how perceived barriers to market entry could be reduced. In particular, a considerable number of both unsuccessful bidders and non-bidders raised concerns over the tendering process and the volume of work, something which DWP might wish to carefully consider.



While financial concerns have been suggested as a barrier to entry (investment levels and outcome-based payments) they have not been raised as a main barrier – the same is also true when one looks at the proposed mitigating actions. This further supports the analysis that the introduction of the Commissioning Strategy has not, of itself, created barriers to entry though the perception that such barriers now exist or have been increased remains amongst a number of providers. It will be important for DWP to acknowledge the underlying concerns these providers may have, such as developing alliances and networks which will enable them to leverage and maximise opportunities in the welfare to work marketplace and maintain communications with them.

## 5.4 Supporting market development

### 5.4.1 Supply chain development on award of the FND Phase One contract

There was a considerable amount of movement within the FND Phase One supply chains between bid development and the award of the contract. Most national prime providers reported that their supply chain had changed. Reasons for these changes were principally because sub-contractors withdrew from the supply chain between bid development and implementation, requiring prime providers to introduce new sub-contractors to fill the gaps where they existed. For many prime providers the change was relatively minor, however, in one or two cases it was more significant.

The changes generally occurred when prime providers returned to the sub-contractors named in their bid to discuss the requirements of the Commissioning Strategy and implementation of FND Phase One. Following this dialogue, prime providers noted that a considerable number of sub-contractors expressed concerns over how outcome-based payments would impact upon cash-flow and volumes. In the latter case, there were concerns about capacity to deliver the projected volumes and concern that projected volumes had changed significantly during the bidding process with relatively late notice provided according to both prime providers and sub-contractors. This would imply that whilst many sub-contractors did not view the introduction of performance based payments constituted an increased or new barrier to entry, concerns still existed over the day-to-day practicalities and associated risk of delivering an outcome-based programme. Prime providers suggested that some potential sub-contractors withdrew from the supply chain because they had neither fully appraised the FND Phase One contract nor had they fully understood the implications of delivering the contract:

*‘One of the things since the Strategy has been introduced is a lot of the providers are signing up just ‘willy nilly’ with everybody just to give themselves the best chance of being involved... they’re not paying that much attention to returns, [they’re] not doing much in-depth modelling beforehand, so they are signing up and looking at it later...in some instances we have been let down by people because they have done exactly that.’*

(FND Phase One prime provider)

The most significant changes to supply chains occurred in choice CPAs. Supply chains changed where sub-contractors had placed themselves onto competing prime providers’ bids. On award of the bid to the competing prime providers, sub-contractors then generally elected to follow one prime provider over another although some opted to provide services to both prime providers within the CPA. A prime provider also stated they had excluded a sub-contractor from its FND Phase One supply chain on the basis that the sub-contractor was also providing FND Phase One service delivery for another prime provider within the same CPA.

As sub-contractors withdrew from the supply chain, prime providers actively recruited other sub-contractors to fill gaps. This period of flux between bid development and implementation of FND Phase One saw sub-contractors on unsuccessful prime provider bids moving into the supply chains for those prime providers that had been awarded the FND Phase One contracts:

*‘We were able to bring on board additional partners who previously had decided to be part of some other organisation’s [FND Phase One bids] and therefore, who weren’t part of our initial bid...We felt that they really could add value to the customer journey so we went back out and brought those organisations on board.’*

(FND Phase One prime provider)

## 5.5 Ensuring excellence in sub-contractual relationships

This sub-section examines the sub-contractual relationships between prime providers and sub-contractors to determine the emerging impact of the Code of Conduct. It also explores how these relationships are performing in terms of the management and treatment of sub-contractors and how innovation is being shared between prime providers and sub-contractors.

### 5.5.1 Impact of the Code of Conduct

The Code of Conduct forms an annex to the Commissioning Strategy and ‘*spells out the key values and principles of behaviour which DWP expects of providers and which are essential for creating healthy, high performing supply chains.*’ (DWP, 2008a, p31) It is expected that all providers who contract with DWP will adhere to this Code of Conduct.

Overall, prime providers did not feel that the Code of Conduct would radically change their current systems as suggested by one prime provider:

*‘We have a sub-contracting strategy and framework which we’ve developed that runs alongside the Code of Conduct, so that we do things in a way that meet the Code of Conduct standards.’*

(FND Phase One prime provider)

However, the views from FND Phase One sub-contractors are mixed, with both positive and negative consequences associated with the Code of Conduct being highlighted. The views of both prime providers and sub-contractors are outlined below in more detail.

Overall, the prime providers view the Code of Conduct positively with two of the prime providers having actually provided input into how the Code of Conduct was framed. The aspect of the code most liked by the prime providers were the guidelines contained in it to promote greater transparency within contractual relationships.

Amongst the prime providers, there is a clear link between the Code of Conduct and performance management. Prime providers also reported having a considerable range of procedures already in place to manage sub-contractual relationships prior to the Code of Conduct. Examples of these include:

- Operating quality and control teams that ensured that deliverables from both prime providers and sub-contractors were met;
- Informal set of internal processes that governed how relationships were managed;
- Civil service agreements; and
- An ethical procurement policy managed by a Partnerships Director in the case of another prime provider.

Therefore, evidence from prime providers supports their assertion that the Code of Conduct has not represented a major shift in how prime providers interact with sub-contractors. Prime providers believed that the Code of Conduct represents good practice in terms of contractual relationships. Most of the FND Phase One prime providers stated that the Code of Conduct replicated the internal governing principles they had followed when dealing with sub-contractors prior to the Commissioning Strategy.

As discussed above, reactions to the Code of Conduct among sub-contractors are mixed, with positive impacts such as formalised relationships with prime providers (49 per cent) and improved security in the relationships (44 per cent) cited as well as negative consequences such as increased administrative burden (45 per cent) and increased costs (40 per cent). Interestingly, an analysis of the views of end-to-end sub-contractors and specialist sub-contractors of the Code of Conduct does not reveal any substantial difference in views. This is perhaps surprising as one might have expected the Code of Conduct to elicit stronger views from the end-to-end providers, given that they tend to carry more financial risk than specialist providers to whom some prime providers are paying service fees rather than outcome-based fees.

It is also worth noting that for one in five (20 per cent) of FND Phase One sub-contractors, the Code of Conduct has not yet had an impact. This is most likely due to the fact that research was conducted in the early stages of the FND Phase One contract and perhaps the necessity for the Code of Conduct (for example potential conflict between prime providers and sub-contractors) has not yet arisen.

**Table 5.5 Impact of the Code of Conduct on FND Phase One sub-contractors**

<b>Impact area</b>	<b>%</b>
Provided more formalisation of your relationship with prime contractors	49
Led to more administrative burden	5
Improved the security of your relationships with prime contractors	44
Increased financial costs	40
Improved your relationships with prime contractors	38
Improved service delivery/performance	21
The Code of Conduct has had no impact yet	20
Not aware of the Code of Conduct	2
Other	3
Don't know	3

Base: 130 sub-contractors.

Source: PwC interviews with FND Phase One sub-contractors, winter 2009/10.

Specific impacts of the Code of Conduct are detailed further below.

### **5.5.2 Defining formal delivery relationships**

While it was noted by prime providers that the Code of Conduct did not represent a major shift in how prime providers interact with sub-contractors, prime providers did feel that it had formalised the internal guidelines they had followed prior to its introduction. Such formalisation of the delivery relationship could, according to one prime provider, lead to increased professionalism and commercialism in the relationship between prime providers and sub-contractors. As discussed previously, the formalisation of relationships has been the biggest impact of the Code of Conduct for FND Phase One sub-contractors.

However, at a district level, delivery managers for a few prime providers warned of how the Code of Conduct could be abused by sub-contractors:

*'I believe the actual Code of Conduct has been picked up by some of the smaller providers who have tried to use it to 'beat' the prime contractors, so I think that it's actually caused a bit of confusion on the part of some of the smaller providers because I don't think that they fully understand it.'*

(FND Phase One prime provider)

While this was a view held by the minority, it highlights that discussions with respect to the relationships between prime providers and sub-contractors must reflect the concerns of each party.

### 5.5.3 Management and treatment of sub-contractors

Given that the provider research was conducted during the early stages of the implementation of the Commissioning Strategy, there is insufficient evidence to date to thoroughly examine how well sub-contractors are being managed and treated the extent to which prime providers have fulfilled the commitments made to sub-contractors at the time of contract award.

However, there is no evidence to date to suggest that prime providers have not fulfilled contractual commitments to sub-contractors. Although most prime providers stated that their supply chain had changed between bid development and delivery of the FND Phase One contract, these changes were driven by sub-contractor concerns over outcome-based payments; the capability to deliver the required volumes, and; fluctuations in projected volumes during the bid process (as discussed in Chapter 4). Only a small minority of unsuccessful bidders noted that the prime provider had withdrawn the contract as the reason why they were not providing FND Phase One (see Appendix B). While this research does not raise any particular concerns at present, it will be important for the Department to monitor and respond to any changes in this regard, given its stewardship role and in light of the research findings from its study on prime provider and sub-contractor working practices in provider led Pathways to Work (DWP, 2010).

Another aspect of the Code of Conduct is that of the payment terms agreed between prime providers and potential sub-contractors. The Code states that:

*'Timing of payment should be consistent and agreed with both parties, to ensure the level of risk is minimal on the delivery provider.'* and

*Top tier providers should consider making payments in advance of expenditure (where appropriate and necessary) to ensure better value for money.'*

(DWP, 2008a, p32)

Examples of prime providers altering contractual terms and conditions and timing of payments to accommodate sub-contractors are discussed in the previous chapter.

Based on FND Phase One sub-contractors' initial views of the Code of Conduct, it appears that the Code of Conduct is expected to have some impact on improving the management and treatment of sub-contractors. A relatively large minority (44 per cent) stated that they believe the Code of Conduct will improve the security of relationships and that it has contributed to the improvement of relationships with prime providers (38 per cent).

Overall, the Code of Conduct has been well received by both FND Phase One prime providers and sub-contractors. However, during DWP's 'lessons learnt review' of the FND Phase One procurements, providers held the view that the Code of Conduct had 'no teeth' (DWP, 2009a). This view was

not shared by providers during the course of this research. This may have been due to the action taken following the ‘lessons learnt review’ whereby the Department has sought to develop the ‘Merlin Standard’ jointly with providers. The ‘Merlin Standard’ seeks to further define and guide the development of excellent sub-contractual relationships and is currently undergoing a two-year pilot. Its ultimate objective of developing an industry supported accreditation process (such as the one described above) is to give ‘teeth’ to the Code of Conduct, whilst also taking into consideration existing standards and internal processes.

In light of these developments and the early stage of implementation at which this research was undertaken, it is too early to make any definitive judgement on the Code of Conduct. Further research into the code will be undertaken in wave two.

### 5.6 Communication between DWP and providers

In general, prime providers have regular contact and good access to DWP officials to provide feedback and raise any issues of concern with them. The view held amongst prime providers is that there is now more openness in their dialogue with DWP owing both to improved access to key individuals and to the various forums and workshops organised by DWP. A district manager underlined this commitment on the part of DWP to communicate with providers:

*‘I think there’s a huge willingness on the part of DWP to make this (Commissioning Strategy) work in the events they have been arranging. I have a good relationship with DWP, there’s a huge commitment with communication.’*

(FND Phase One prime provider)

The importance of communication with DWP for FND Phase One sub-contractors is underlined by the fact that sub-contractors felt it was one of the most important priorities for contract and supply relationship management within DWP (among 14 per cent of sub-contractors). However, it appears that sub-contractors have less access to DWP officials than their prime counterparts. By way of example, only around one-quarter of sub-contractors (26 per cent) felt that the ability to provide feedback through the Provision Forum had improved, while the majority (56 per cent) felt this was an area for improvement for DWP.

### 5.7 Conclusion

#### 5.7.1 Key findings

DWP, through its development and stewardship of the welfare to work market, has created significant interest in the market from those inside and outside the market. This is evidenced by the fact that the FND Phase One contracting process brought new entrants into the market at both the prime and sub-contractor level. However, there exists a perception amongst a number of sub-contractors, unsuccessful bidders and non-bidders that barriers to entry have either been increased or new barriers have been created. Size of provider and geographical size of markets were cited as two such barriers. As previously noted, this is perhaps indicative of a poor understanding on the part of some providers about the aims of the Strategy and DWP should continue to educate the market in this respect.

The overall growth in participation in FND Phase One compared to the baseline outlined in Chapter 4 can be largely attributed to the significant effort and investment made by providers, successful and unsuccessful, to develop suitable alliances and supply chains for the purposes of competing for FND Phase One contracts. In some instances, prime providers spent one to two years meeting with local providers and many openly advertised for sub-contractors. Interestingly, however, the majority of sub-contractors reported taking the lead in establishing relationships with prime providers.

Whilst the development of supply chains has been time consuming for all provider organisations involved in the bidding process, the costs associated with building and developing alliances and supply chains should decrease as the market evolves and develops. However, it will be important for DWP to ensure the market does not present unnecessary obstacles to new entrants.

On balance, the evidence presented from this research indicates that the Code of Conduct is viewed by sub-contractors as a positive development in the market although more should be done to understand the nature of administrative burden associated with it. However, given the early stage of FND implementation at which the research took place, it is perhaps too early to form a definitive conclusion on it, one way or the other.

Finally, while the evidence suggests that DWP has strong and open lines of communication with FND Phase One prime providers, the need for the Department to provide communication tools for sub-contractors and other providers should not be overlooked.

## 5.7.2 Recommendations

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

- **Maintain a programme of networking events:** opportunities for smaller organisations do not appear to have decreased as a result of the Commissioning Strategy. Given the move to longer contracts, it will be important to ensure that networking opportunities, either physically or virtually, are still available to smaller organisations to facilitate the on-going development of a diverse market. DWP may wish to undertake this in conjunction with provider representative organisations.
- **Keep abreast of and share market information:** the purpose of this is two-fold; firstly to dispel fears and/or misinformation with respect to changes in the marketplace and secondly to inform providers, particularly smaller organisations, to facilitate the informed development of their business strategy and development plan (e.g. numbers of providers active in the market, levels of market entry and exit).

# 6 Provider capabilities

## 6.1 Introduction

This chapter discusses the component of provider capabilities as set out in the Commissioning Strategy and providers' responses to it. This chapter is structured under the following headings:

- Background.
- Development of a high performing supply chain.
- Conclusion.

## 6.2 Background

As part of the Department for Work and Pensions (DWP's) commitment to raising the standards of its contracted provision through the development of a high-performing supply chain, the Department has outlined a number of principles which set out the specific capabilities and requirements for all contractors. Whilst some of these capabilities are relevant only to prime providers – such as demonstrating capability and capacity to meet a wide range of needs from a diverse customer group – others will be best evidenced by sub-contractors. Central to this component of the Commissioning Strategy is continuous improvement on the part of providers. This is to be achieved through robust self-assessment and effective action planning by providers supported by the DWP as outlined in more detail in the DWP Quality Framework (DWP, 2009c).

This component of the strategy reflects DWP's move away from directly managing Contracted Employment Provision (CEP). By working in partnership with prime providers, DWP has assumed the role of 'steward' of the welfare to work marketplace. Consequently, prime providers are solely responsible for managing their sub-contractors throughout the supply chain. The capabilities and requirements outlined within this component are designed to facilitate this shift in delivery model as reflected in the principle on supplier management detailed in Chapter 5.

*'We will spell out the specific capabilities and requirements that make up a high-performing supply chain and an effective first-tier provider. We will contract, inspect, manage and intervene on the basis of these capabilities and requirements.'*

(DWP, 2008a, p17)

The capabilities, as outlined in the Commissioning Strategy (DWP, 2008a, p17-19) are summarised below:

- All organisations must demonstrate commitment to equality in the workplace and in developing their own workforce and supply chain.
- Prime providers must show capability in relation to their commercial viability including financial strength, commercial acumen and ability to leverage expertise and resources to deliver effectively along with programme and project management.
- Prime providers must also show capability in relation to supplier management within changing economic conditions including working with delivery partners such as Jobcentre Plus and local authorities, managing supplier performance, managing cases for all customer groups, strategically engaging with employers and identifying skills needs and job opportunities through local labour market knowledge.

- Self-assessment and inspection to ensure provider commitment to the capabilities framework and to facilitate continuous improvement amongst providers reviewing areas such as the flexibility and personalisation shown in assisting customers into employment, customer experience and investment by suppliers in the development of their own staff and their supply chains; and
- DWP will actively shape and promote an infrastructure within the welfare to work marketplace to support providers in continuous improvement in their delivery of CEP through working with various bodies such as the Learning and Skills Council, the Office of the Third Sector and Welsh Assembly Government across England, Scotland and Wales.

It should be noted that the following sections cover providers' views of their own capabilities and how they have incorporated these into their delivery of the contract.

### 6.3 Development of a high performing supply chain

#### 6.3.1 Appropriateness of capabilities outlined in the Commissioning Strategy

Both prime providers and sub-contractors generally viewed the capabilities outlined for providers within the Commissioning Strategy as appropriate and important in being able to deliver programmes such as Flexible New Deal (FND) Phase One. However, there were differing views from non-FND Phase One providers on whether the Strategy's outlined capabilities and requirements for top tier providers were appropriate. This is explored in more detail below.

Generally, prime providers believe that this component is a positive development for CEP as it sets the parameters of how prime providers should operate within the marketplace. More specifically, many expressed the view that the component was appropriate as it ensured that the businesses are financially viable and able to deliver this size of contract using the desired approach outlined in the Commissioning Strategy:

*'I think the desire to go to bigger longer contracts means someone has to have that financial capability.'*

(FND Phase One prime provider)

*'Yes, the capabilities are appropriate; the design of the contract forces you to change your behaviour, to reach all customers you have to use the approach of the contract.'*

(FND Phase One prime provider)

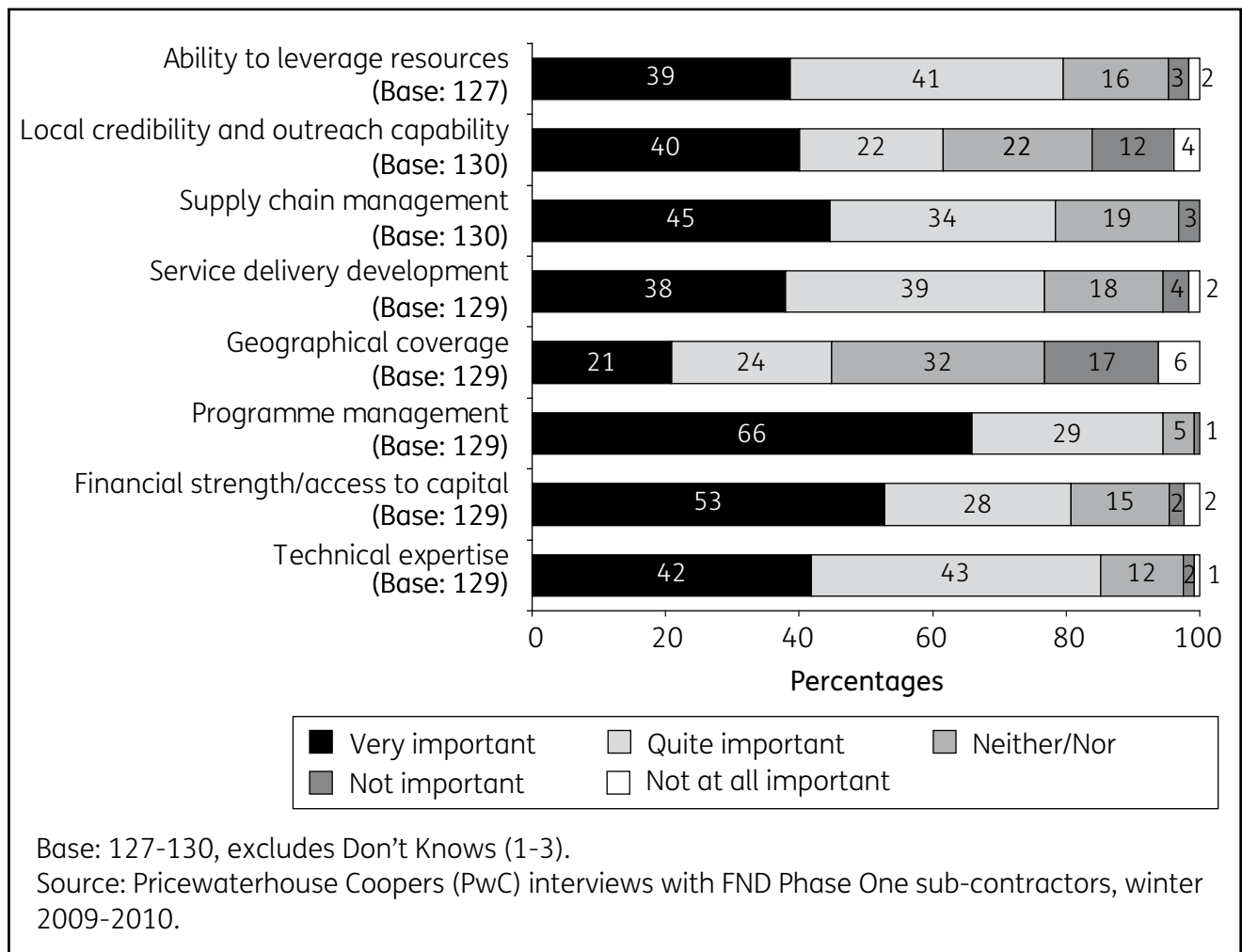
However, a number of reservations were expressed by prime providers about how the contract is going to be delivered 'on the ground'. There were particular concerns that bids submitted to win a particular contract were unrealistic. This is referred to in more detail in Chapter 8 where performance management is discussed.

The impact of this element of the Commissioning Strategy was viewed by some prime providers as having had little or no impact upon their business as they already had the capabilities in place prior to winning a particular contract. However, all but one of these prime providers stated that they have made specific investments in order to meet the capabilities and requirements outlined in the Commissioning Strategy – for example, by building an entirely new IT system. Further examples of investments are provided in Table 6.1. A few district prime providers stated that the main impact of this component upon their organisation has been the resulting investment that they have had to make in resources such as introducing new IT systems and recruiting and up-skilling people in order to meet DWP's requirements.



Sub-contractors believe programme management is the most important capability for a prime provider followed by financial strength and supply chain management as depicted in Figure 6.1. Geographical coverage was viewed as the least important capability although, as previously stated in Chapter 3, from the marketplace, inability to cover the larger contract areas was one of the main reasons why providers did not submit bids for FND Phase One.

**Figure 6.1 Sub-contractor importance ratings of prime provider capabilities**



Capabilities that sub-contractors believed are also important for prime providers to have included effective supply chain management and development, i.e. managing DWP and co-ordinating and supporting sub-contractors to best meet customers’ needs and the contract itself. In addition, knowledge and experience of the sector and open and honest communication were viewed by sub-contractors as key characteristics to being an effective top tier provider.

Most unsuccessful providers and non-bidders did not believe or were unsure whether the Commissioning Strategy was seeking to introduce appropriate capabilities and requirements that make up a high performing supply chain. However, when asked directly whether the capabilities outlined in the Commissioning Strategy were appropriate to ask of top tier or prime providers most non-bidders and all unsuccessful providers agreed that they were. This may reflect the fact that whilst non-FND Phase One providers believed that the capabilities were appropriate for top tier providers, they did not necessarily believe that the Commissioning Strategy was responsible

for introducing them. This could be linked to the lack of understanding that non-FND Phase One providers have with regards to the requisite size and capability for a prime provider to be able to deliver the large and longer contracts brought about by the introduction of the strategy. This is further reinforced when examining the reasons why non-bidders believe that the capabilities are inappropriate as their reasons are linked to the financial requirements and size of work being too demanding.

Non-FND Phase One providers were asked what they believed DWP could do to help them as providers build their capability to enable them to become a prime provider. Both unsuccessful bidders and non-bidders believed most strongly that DWP should develop a database of providers and services supplied along with hosting more networking events and providing financial support for capability building in order to help these non-FND Phase One providers to meet the requirements outlined in the strategy. Financial support was of particular importance to non-bidders. Whilst DWP has already either planned or undertaken a number of these actions such as the introduction of a provider database as part of the introduction of the Merlin Standard and a series of capacity training workshops for providers they may wish to consider whether it is worthwhile to extend this under the Work Programme.

### **6.3.2 Levels of investment by prime providers in developing capabilities**

Recognising investment in capabilities as necessary to become an effective top tier provider, almost all prime providers stated that they had invested substantially in order to meet the capabilities and requirements outlined under the Commissioning Strategy with investment figures provided varying between £2-6 million for each prime provider.

Whilst a few prime providers built an entirely new infrastructure as they were new to the market, the biggest areas of investment mentioned by other prime providers were in people, both in recruiting additional staff and in up-skilling existing staff followed by upgrading and/or installing new IT/management information systems (MIS). Other areas mentioned were supply chain management and buying new premises:

*‘We have had to bring in the requirements in terms of adhering to IT specifications in terms of appropriate project management principles, getting things on time, the commissioning approach has definitely enabled us to do that.’*

(FND Phase One prime provider)

**Table 6.1 Examples of investments made by prime providers**

Area	Examples of investments
Human Resources	<ul style="list-style-type: none"> <li>• Recruited Continuous Improvement Officers.</li> <li>• Recruited senior managers such as a Change Director, Partnership Director, Customer Service Senior Manager, Regional Quality Managers.</li> <li>• Invested in relationships with 40 specialist providers.</li> <li>• Recruit/contract experts from the marketplace.</li> <li>• Re-structured the business to have a regional focus/the way provider works with employers.</li> </ul>
IT	<ul style="list-style-type: none"> <li>• Invested in adhering to IT specifications and appropriate project management principles.</li> <li>• Invested in IT to adhere to security requirements.</li> <li>• Developing software to enable the provider’s delivery methodology.</li> <li>• Invested in management systems and tools to drive policy and consistency across the network.</li> <li>• Built a new IT system.</li> <li>• Invested in a common IT system for entire supplier network.</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Infrastructure – new premises, refurbishment of existing sites.</li> <li>• Invested in supply chain management; brought in experienced people to manage the supply chain.</li> </ul>

Source: PwC interviews with FND Phase One prime providers, winter 2009.

### 6.3.3 Demonstration of capabilities to date

As shown Table 6.2, when prime providers were asked to rate their experience against each of the specified capabilities outlined in the Commissioning Strategy, prime providers felt most confident in their programme and project management experience and their ability to bring in expertise. Whilst it is not a significant difference, it is interesting to note that prime providers felt that they had least experience in supply chain management and development.

When comparing differences between national and district prime providers, national prime provider representatives were more confident in their experience in leveraging in other resources to enable programme management with partners, supply chain management and programme and project management. District prime providers, perhaps not unsurprisingly, were more confident than their national counterparts in the organisation’s local credibility and outreach capability.

**Table 6.2 Prime provider rating of their capabilities per the strategy**

Type of provider	Ability to lever in other resources to enable programme management with partners							Average by provider
	Ability to bring in expertise from other organisations/ sectors	Ability to bring other resources to enable programme management with partners	Effective partnership working	Supply chain management and development	Programme and project management	Local credibility and outreach capability		
Provider 1	6	7	8	7	8	8	8	7.3
Provider 2	10	8	8	8	8	8	6	8.0
Provider 3	10	10	10	10	10	10	10	10.0
Provider 4	7	7	6	6	10	8	8	7.3
Provider 5	8	8	7	7	9	8.5	8.5	7.9
Provider 6	8	7.5	7.5	8	10	6	6	7.8
Provider 7	8.5	8.5	7	7	8	8.5	8.5	7.9
Provider 8	10	9	10	10	9	9	9	9.5
Provider 9	8	8	10	9	9	7	7	8.5
Provider 10	10	8	9	7	10	7.5	7.5	8.6
Provider 11	8	7	6	8	8	8	8	7.5
Provider 12	8	8	8	7	7	9	9	7.8
Average	8.5	8.0	8.0	7.8	8.8	8.0	8.0	8.2

Base: 12.

Source: PwC interviews with FND Phase One prime providers, winter 2009, (Scale rating from 1-10 where 1 equals no experience and 10 equals extensive experience).

## 6.4 Conclusion

### 6.4.1 Key findings

Commercial viability, including size and financial and operational capability, was viewed by all providers as key to being successful in winning and delivering welfare to work contracts such as FND Phase One. Whilst it is too early to say from this research, as it was conducted shortly after implementation of FND Phase One, whether prime providers are demonstrating the full range of capabilities outlined in the Commissioning Strategy, it is apparent that prime providers have invested significantly in acquiring or enhancing these capabilities recognising that this was necessary in order to become an effective top tier provider.

In addition, all providers recognised the importance of prime providers' ability to programme and project manage for effective delivery. Interestingly, capability in covering wide geographical areas was not seen as a key capability for a prime provider but yet this requirement, as set out in FND Phase One contract, was a key factor in preventing non-bidders from tendering. This could be because non-bidders did not fully understand the need to, or have the desire to, develop partnerships or supply chains to allow them to deliver the FND Phase One contract.

Similarly, the conflicting views from non-FND Phase One providers on whether the Commissioning Strategy's outlined capabilities and requirements for top tier providers are appropriate could be linked to their lack of understanding of the rationale for introducing a top tier system.

### 6.4.2 Recommendations

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

- **Train providers:** prime providers feel relatively confident in their experience against the key provider capabilities. However, supply chain management was identified as an area for further development. DWP has already put a programme of supply chain management workshops in place for providers which focuses on good practice within sub-contractor management and how to use supply chain management in enhancing performance and quality. It will be important to assess whether this fully meets the providers' needs.
- **Enhance non-FND providers' (i.e. non-bidders and unsuccessful bidders) understanding of Commissioning Strategy requirements:** based on the research findings from providers who were either unsuccessful or did not bid for FND Phase One, further communication is required regarding expectations of top tier provision and the role of different provider organisations within the delivery supply chain.

# 7 Commercial strategy

## 7.1 Introduction

This chapter outlines the component of commercial strategy as set out in the Commissioning Strategy and is structured as follows:

- Background.
- Competition within contract areas.
- The move towards larger and longer contracts.
- The move towards outcome-based payments and the risk reward balance.
- Conclusion.

## 7.2 Background

This component of commercial strategy underpins the fundamental change that the Commissioning Strategy is aiming to achieve as it essentially outlines how contracts will be instigated and managed seeking to ensure that they will encourage competition by appealing to existing suppliers within the welfare to work market whilst also encouraging new entrants.

*'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.'*

(DWP, 2008a, p21)

Consequently, the commercial strategy component seeks to use competition as the main lever to drive value for money whilst simultaneously balancing the risks suppliers will carry in terms of working capital and the rewards which should be available through outcome-focused funding.

Lord Freud's report, *Reducing Dependency, Increasing Opportunity: Options for the Future of Welfare to Work*, recognised that the contracting system employed by the Department for Work and Pensions (DWP) had to be designed to maintain competitive pressure in order to deliver quality and innovative provision whilst allowing for variation but within boundaries (Freud, 2007). In addition, the Department should ensure that it was not over-reliant upon a monopoly provider by developing robust performance management systems such as a star rating system, verification of, and audit arrangements for, providers' outputs as well as ensuring that there were an adequate number of providers and sub-contractors within the marketplace (Freud, 2007, p61-62). Within the prime contractor model proposed, where one large contract for a region is let through competitive tender to a prime contractor who manages all sub-contractors, Lord Freud stated that an option would be to contract two or more prime contractors in a region, at least on a trial basis to test the effectiveness of competition between prime providers (Freud, 2007, p62-65). Consequently, the component of commercial strategy allows for competition between providers under Flexible New Deal (FND) Phase One in ten contract areas and single provision in four others to assess whether multiple or single provision generates better performance.

The underlying principles of 'commercial strategy' focus on four main areas:

- Tendering process: this will be competitive, will take into account organisations' previous performance and will also consider the organisation's ability to manage larger and longer contracts.
- Management of contracts including performance measurement: DWP will have the ability to terminate or adjust contracts in line with performance, integrate changes in service provision if shown to deliver more effective performance and assess evidence of good case management and customer experience.
- Payments and reward mechanisms: focusing on sustainable job outcomes, alternative reward mechanisms, trialling of different models of outcome payments and linkage with national bodies responsible for skills and learning such as the Learning and Skills Council (LSC) to reward skills and income growth; and
- Strengthening the role of employers: to ensure that provision more adequately matches their requirements.

Performance management is discussed in detail in Chapter 8. Therefore, the following sections look at this component through focusing on three areas:

- Competition within contract areas: looking at choice contract package areas (CPAs) and their impact upon quality of service delivery and customer choice.
- The move towards larger and longer contracts: how providers commercially appraised the FND Phase One contract and how they incorporated the likely impact of the recession into their appraisals; and
- The movement towards outcome-based payments and the risk/reward balance: how providers have reacted to the move towards outcome-based payments and whether, in their opinion, the rewards outweigh the risks in operating within this new marketplace.

For the purposes of this report, choice CPAs are those CPAs in which two prime providers operate.

### 7.3 Competition within contract areas

Generally, the marketplace was uncertain if or how competition between two prime providers within choice package areas would act as a driver of service quality. This appeared to be mainly because of the restrictions placed upon the level of competition. This component is explored, by provider type, below. However, these findings must be taken in the context that this research was conducted at a time when customer choice was not in operation in any of the CPAs. In addition, as FND contracts will now be terminated in June 2011 customer choice will no longer be trialled under FND.

Whilst prime providers are not necessarily averse to the principle of competition itself, there were mixed views on how choice CPAs would impact upon service delivery and customer choice. Some national prime providers believed that it would have a positive impact, i.e. it would bring about greater efficiency in service delivery and customer choice with the remaining prime providers unsure about what type of impact competition would have.

The main concern expressed by the prime providers regarding choice CPAs was that it is an 'unnatural state' because competition is restricted in these areas as they are only open to two providers and there are limitations on how much each provider can grow by within the area.

As outlined in the FND Phase One specification, (DWP, 2008b, p12) it was intended that for the first 18 months of operation, i.e. until April 2011 in choice provider areas customers would be allocated on a 50:50 basis. For the subsequent 18 months, i.e. until year three of the contract, a provider's market share could have fallen to a minimum of 40 per cent and grown to a maximum of 60 per cent in five per cent increments based on customer choice. From year three onwards the ratio would have changed to a minimum of 30 per cent and a maximum of 70.

Confusion still existed for a number of prime providers regarding how Jobcentre Plus advisors allocated customers to ensure that the initial mandatory quotas were met. One prime provider mentioned in particular the impact of sharing referrals across a large geographical area. This had resulted in the need to have a spread of offices but yet they only received referrals for a particular area within the CPA. In addition, some prime providers stated that competition was not leading to increased customer choice in practice as customers were, in the first place, restricted in their choice and secondly, not informed so their decisions are likely to be based upon proximity rather than quality or type of service offered:

*'...there are only two providers and also they [DWP] have restricted choice severely as they have really limited the amount of movement there can be in the market...In principle, having multiple providers will bring more choice and certainly if you have two that's more choice than just having one, but it's not a great deal more choice and also that choice is restricted because if one provider gains a five per cent advantage at that point they will cap that there and people will lose that choice. There is potential for choice within particular boundaries but that can be very quickly withdrawn from people.'*

(FND Phase One prime provider)

A number of prime providers believed that operating in a choice CPA meant that competition had a negative impact on service delivery as it directed attention and resources away from actually delivering the contract.

One prime provider, in relation to competition driving a high quality customer service, stated that they actively encouraged competition within their supply chain to enhance sub-contractors' performance.

The view from unsuccessful bidders was quite strong with regards to the potential impact of choice CPAs. Most expressed an opinion that these types of CPAs would put smaller providers out of business and put a downward pressure on costs. Furthermore, around half believed that choice CPAs would not make the market more competitive or innovative.

Non-bidders were also not convinced that choice CPAs would have a positive effect through competition as many believed that competition within choice CPAs would not improve service delivery or lead to greater customer choice. Similar to unsuccessful bidders, non-bidders had strong views that choice CPAs would put downward pressure on costs as well as believing that two providers within an area would put smaller providers out of business. However, non-bidders had mixed views on whether choice CPAs would make the market more competitive or more innovative.

While the research with unsuccessful and non-bidders was not extensive enough for these views to be classified as representative of the two provider groups, it does raise concerns over whether CPAs will be effective in driving competition and should, therefore, be monitored during further research.



## 7.4 The move towards larger and longer contracts

This section focuses on how providers commercially appraised the FND Phase One contract which, as the first contract under the Commissioning Strategy, lasts for five to seven years compared to the previous norm of two to three years. As the recession began during the bidding process and would have effected any commercial assessments made by providers, the research also looked at how providers incorporated the likely impact of the recession into their bid submission.

### 7.4.1 Commercially appraising the FND Phase One contract

The introduction of larger and longer contracts and the transition to outcome-based funding has resulted in the majority of providers and unsuccessful bidders commercially appraising the FND Phase One contract. However, the level of appraisal varied amongst provider type which is examined in more detail below.

Before submitting their bid, all prime providers spent extensive time commercially appraising the FND Phase One contract through reviewing case loads, length of time on provision, length of contract and the influence of local labour markets. A quarter of the national providers also looked at the characteristics of their clients within the contract area including:

*‘How close or far customers were likely to be from work, the nature of the barriers they may have, the performance offer we have the ability to deliver and we can justify.’*

(FND Phase One prime provider)

Other areas of financial analysis included cash flow, performance outcome scenarios and pricing models. One national provider stated that their financial modelling involved looking at over 40,000 variables whilst another district provider mentioned that they had used 400 models in commercially assessing the FND Phase One contract.

Similar to prime providers, although not to the same depth, the vast majority (88 per cent) of sub-contractors undertook some form of financial modelling in commercially appraising the FND Phase One contract. The most popular method (75 per cent) of modelling was based on assessment of volumes of case loads with approximately two-thirds of sub-contractors looking at time on provision and the length of the contract itself.

Whilst the majority of unsuccessful bidders completed various financial modelling using case loads, time on provision, length of contract and local labour markets, it does not seem to have been to the same extent as the successful prime providers with only one or two types of models being used.

The majority of non-bidders decided not to bid either as soon as they reviewed the Commissioning Strategy or once they had reviewed the contract’s terms. Therefore, there were an insufficient number of answers from non-bidders to draw any conclusions regarding their approach to commercially appraising the FND Phase One contract.

### 7.4.2 Investment and profitability

Levels of investment by providers in delivering the FND Phase One contract, as illustrated through providers’ up-front costs and working capital, varied across both prime providers and sub-contractors. Similar to other areas, sub-contractors were less positive towards profitability of the contract than the prime providers. This is explored further below.

When looking at what prime providers invested up front once they had won the contract those prime providers who provided figures stated that they had paid approximately £3 million per contract area with one stating £1 million per contract area. The percentage of these up front costs

compared to their overall costs depended upon the extent of their existing presence (if any at all) so it varied from less than ten per cent through to 100 per cent.

Generally, the FND Phase One contract was viewed to be profitable with a number of prime providers believing that they would break even within the first year with a couple confident that they would break even within six to eight months. However, one national prime provider did not believe that they would break even until the end of the contract itself. There were significant differences in the estimations of working capital required to implement the contract which varied between £1-3 million and £10-20 million – this was not dependent upon whether a prime provider was new to the UK welfare to work marketplace or not.

**Table 7.1 Examples of prime providers' investment costs**

Examples of costs paid up-front per CPA	Estimations of working capital
<ul style="list-style-type: none"> <li>• £1 million</li> <li>• £2.7 million</li> <li>• £3 million</li> </ul>	<ul style="list-style-type: none"> <li>• £1.2 million</li> <li>• £2 million</li> <li>• £3 million</li> <li>• £10 million</li> <li>• £20 million</li> </ul>

Source: Pricewaterhouse Coopers (PwC) interviews with FND Phase One prime providers, autumn 2009.

There does not appear to be a standard cost profile for prime providers as variable and fixed costs differed amongst the prime providers across the contract areas – including for those providers who operated across different CPAs.

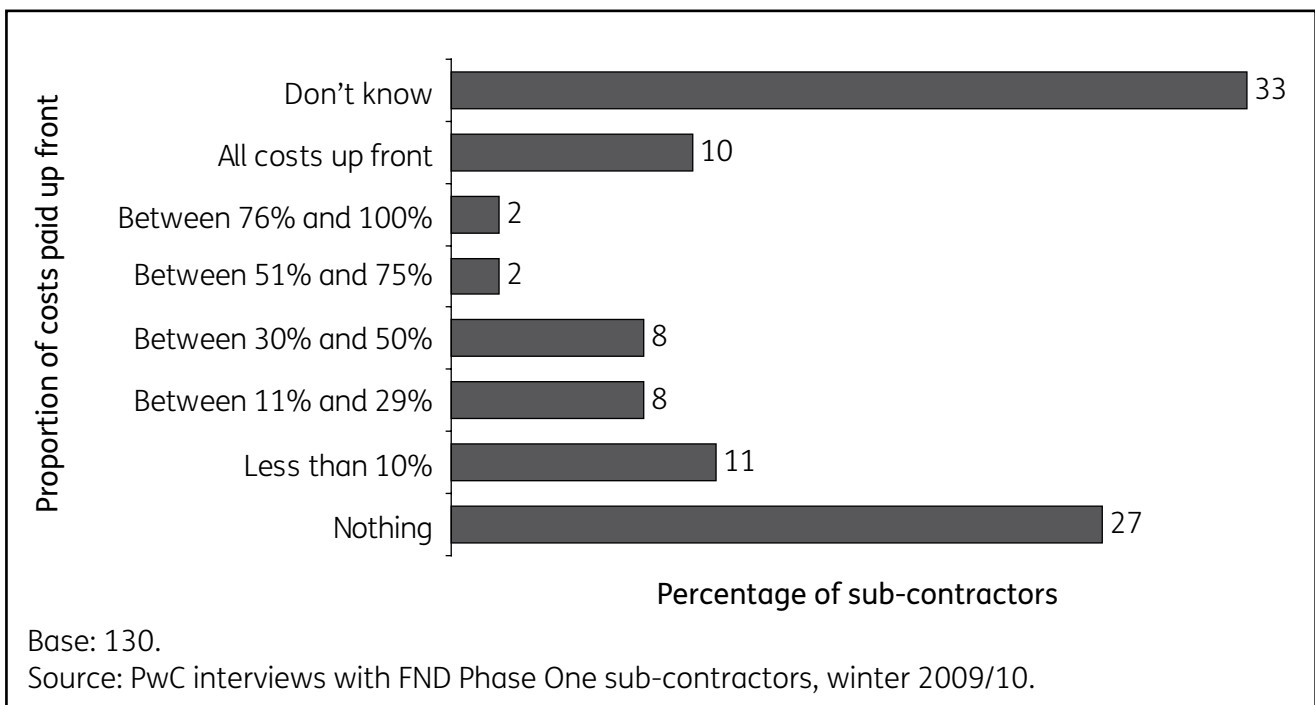
A mixed picture exists regarding the level of investment made by sub-contractors in delivering FND Phase One. Whilst one-third of sub-contractors did not know what was paid up front, 27 per cent said they had not invested any money up front with 17 per cent stating that they had paid more than 50 per cent of costs to deliver the programme prior to payment from their prime provider.

Sub-contractors do not appear to be as certain about the profitability of the FND Phase One contract as prime providers. In fact, almost half (45 per cent) of the sub-contractors surveyed did not know at the time of tendering when they expected to break even perhaps reflecting their limited modelling and planning capability or the unexpected variance in volumes. Interestingly, more sub-contractors were aware of their breakeven point when asked about the impact of the recession; of those who did know when they expected to break even, (76/130) 47 per cent believed that this would be within the first year of the contract with a further 38 per cent believing that they would break even within year two of the contract.

Similar to the prime providers, there were significant differences in the estimations of working capital sub-contractors required to deliver the FND Phase One contract with amounts varying from requiring nothing to an investment of over £1 million.

There does not appear to be a standard cost profile for sub-contractors either as variable and fixed costs varied considerably across providers and across the contract areas.

**Figure 7.1 Percentage of sub-contractors' overall upfront costs for delivering the programme**



### 7.4.3 The impact of the recession

With regards to investment and profitability all provider groups had mixed views regarding how the beginning of the recession had impacted upon their working capital requirements and break even points. This is examined further below.

Many prime providers stated that in reviewing their bid submission the recession had positively affected their estimations of their break even point, i.e. it had brought it forward. A few prime providers believed this was due more to the changes that DWP instigated with the oncoming of the recession – i.e. DWP's revision of estimations of customer volumes and changes to the payment model designed to take into consideration the start of the recession which occurred after the introduction of the FND tender specification.

However, there were mixed views as to the recession's impact on the prime providers' working capital requirements – one provider stated that it had increased their requirements by 25 per cent whilst a few providers stated that it had had little impact or had lowered their working capital requirements slightly through, for example, lower property costs.

Sub-contractors also had mixed views over how the recession had affected their break even point with the majority stating that their break even point had remained the same (41 per cent) or it had brought their break even point later than expected (18 per cent). A substantial minority (29 per cent) were unsure what impact the recession had had on their break even point with even more sub-contractors (60 per cent) unsure how their working capital was impacted. Of those who were aware of their organisation's working capital requirements most stated that their requirements had not changed since the recession. This limited knowledge probably reflects their less extensive modelling compared to prime providers.

## 7.5 The move towards outcome-based payments and the risk reward balance

The move towards outcome-based payments as envisaged by the Commissioning Strategy is not without its risks, both financially and operationally, for all providers as the marketplace takes on a new shape and structure. With the focus moved to more tailored provision and the rewarding of sustainable job outcomes, there is a need for DWP to ensure that the market remains attractive with providers feeling that they are adequately rewarded for their investment whilst effectively delivering against performance expectations.

The following sections look at providers' views on this shift within the marketplace and the financial and operational risks incurred by the providers in undertaking delivery of the FND Phase One contract. Similarly, as in the previous section, due to the change of operating environment since the introduction of the strategy because of the recession, the research specifically looked at additional risks that providers believed the recession has brought about.

### 7.5.1 The move towards outcome-based payments

Prime providers appear to be settling more readily into outcome-based funding building on their previous experience and extensive preparation whilst sub-contractors have concerns over the financial impact of the move away from service based payments. These differences in attitudes are examined further below.

Prime providers generally appeared to be unconcerned by the move towards outcome-based payments as many national prime providers felt that it would have little impact in the first two years of the contract. This was mainly due to the move from 20 per cent/80 per cent service fee/sustained employment to 40 per cent/60 per cent service fee/sustained employment as amended by DWP during the bidding process to take into consideration providers' concerns over the impact of the recession. In fact, the first 18 months of 40/60 per cent was viewed by some prime providers as giving them a period of time to refine their service delivery to achieve the necessary outcomes.

This positive attitude towards the move to outcome-based payments could be explained by the fact that some prime providers were already familiar with the delivery model of outcome-based payments through their experience of other welfare to work programmes. In addition, some prime providers mentioned that the move would have a positive effect on improving customer focused service delivery although they recognised that prime providers were taking on additional risk and that 80 per cent was a high outcome/service fee ratio:

*'...this is not a new environment for us, I think the difference is the percentage of the outcome funding is bigger and it is deferred longer and so we're now not getting paid for six months, so the impact on our business is that we take on a lot more of the risk from DWP. It means we have to be more ruthless and quicker to adapt to changes in the labour market and employment, it means we're far more exposed.'*

(FND Phase one prime provider)

*'Going back to the point of minimum performance offer, if we were getting paid 70 per cent up front and 30 per cent on outcomes it wouldn't matter a great deal if we felt that [sustainable job outcomes] was out of reach and that prices are too low because we'd have a certain amount of guaranteed income. That comes sharply into focus when 80 per cent income is based on sustained job outcome.'*

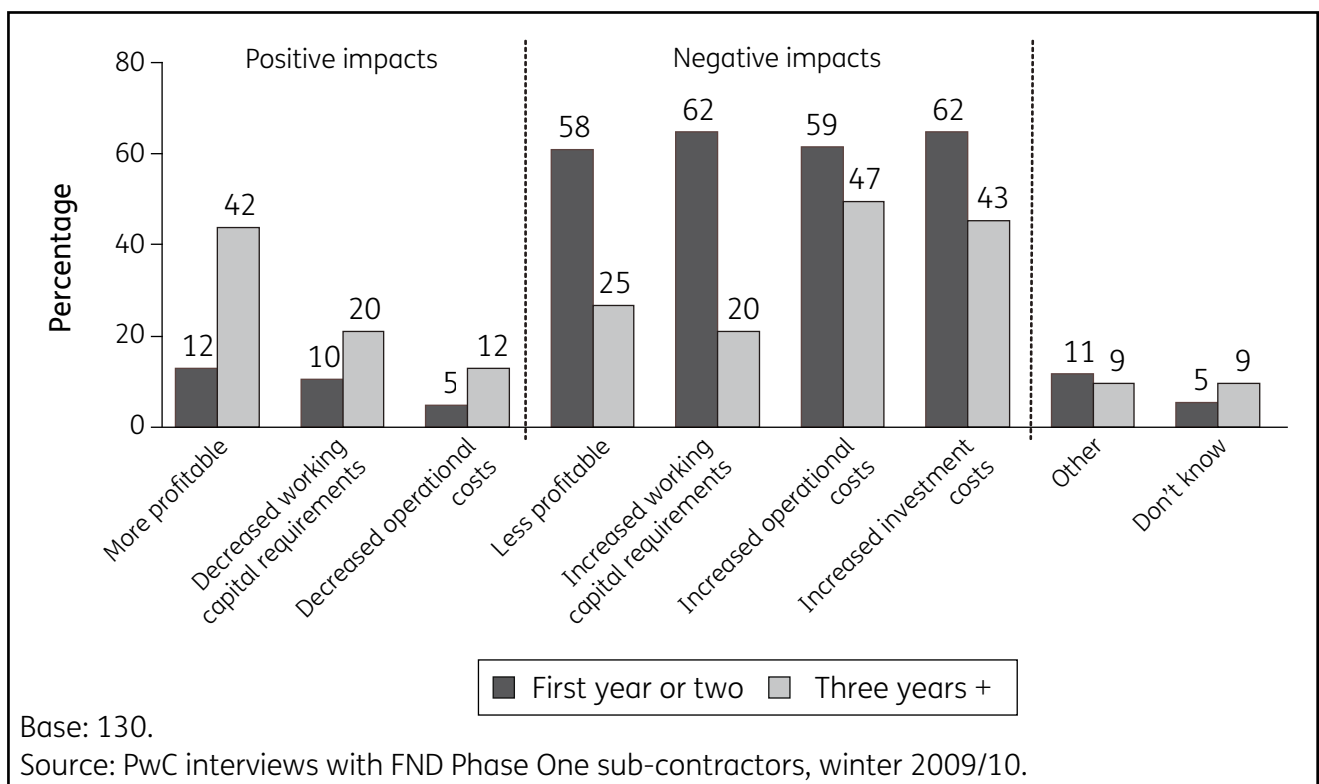
(FND Phase One prime provider)

District prime providers appear to have more concerns than their national counterparts about meeting targets with district prime providers stating that finding sustainable job outcomes was challenging along with apprehensions over the flow and level of referrals from Jobcentre Plus. This, perhaps, is not unnatural as the district prime providers are more closely involved with operational delivery and would be more acutely aware of the ebbs and flows of referrals.

The move to outcome-based funding does not appear to have impacted significantly upon the prime providers' financial operations. Some prime providers believed that they did not need to adopt any specific financial strategy to deliver a successful outcome-based programme. The remaining prime providers stated a range of sources that they would use, if necessary, as a means of securing finances including accessing the company's balance sheet assets, using a venture capital company and the government itself.

Sub-contractors appear to be more acutely aware of the impact of moving to outcome-based funding than prime providers although DWP does not prescribe how prime providers pay sub-contractors, i.e. prime providers and sub-contractors can determine their own payment basis. This higher level of awareness maybe for a number of reasons such as sub-contractors being more focused on operational delivery, having less financial reserves to draw upon or because DWP does not prescribe terms between prime providers and sub-contractors. As shown in Figure 7.2, commercially, just over half (58 per cent) of sub-contractors believed that initially they would be less profitable with the move towards outcome-based funding due to investment costs, increased working capital requirements and operational costs. This appears to be related to 'bedding in' costs as this figure dropped to approximately one-quarter (25 per cent) believing their organisation would be less profitable when asked about the financial impact of outcome-based funding after three years.

**Figure 7.2 Impact of the move towards outcome-based funding for sub-contractors**



Similar to prime providers, sub-contractors would consider using a range of financial strategies to deliver outcome-based funding programmes successfully with the most common option being utilising existing balance sheet assets (53 per cent) and re-negotiating terms with suppliers (53 per cent). Under a quarter (22 per cent) of sub-contractors would consider re-financing as an option either through consultation with their bank through a parent company or through other reserves/funds.

## 7.5.2 Risk/reward balance

Similar to other financial areas, prime providers viewed the balance of risk and reward more positively than sub-contractors and whilst providers stated similar risks associated with delivering the FND Phase One contract, differences did exist between the provider cohorts which are detailed below.

When looking at rewards associated with delivering the FND Phase One contract, most prime providers believed that their net profits would increase through their role as a prime provider with a couple stating that they were expecting their margins to decrease due to the reduced price for servicing each person.

The most significant risk and operational challenge mentioned by prime providers was concerning the discrepancies in numbers of customers that were estimated to come through the FND Phase One programme with regards to DWP's revised volumes along with actual numbers coming through – generally, initial volumes have been lower than expected. One district prime provider stated that 25,000 customers were forecast to start the programme but as at November 2009 there had only been 8-9,000 starts which have obviously significant implications for the organisation. In contrast, one district prime provider stated that they have seen 20 per cent increase in volumes in the first two months of the programme from original volumes stated in the FND Phase One tender. With providers reporting such discrepancies in numbers, further research should be conducted as part of wave two to determine the exact nature of the cause of these variances, i.e. whether it's the referral system itself or whether it is a bedding down issue.

*'...the concept and the delivery model in getting outcome-based funding is fine but...you've also got the problem with Jobcentre Plus. They [DWP] know what the numbers are, yet there's no requirement on the job centre to guarantee referring those numbers...really I'd like to see DWP, at the same time as procuring, actually lay down with Jobcentre Plus some guidelines on how many people should be referred through this programme because essentially FND was commissioned and Jobcentre Plus and the Department have brought in a vast amount of initiatives...all of which can potentially impact on the flows and it's then left down to advisors' knowledge and discretion to try with the individual and as to whether they've got time to refer so...Jobcentre Plus, how are they going to make sure that they deliver the numbers that I'm expecting to get the results that the Department want?'*

(FND Phase One prime provider)

Linked to this was the challenge concerning an efficient and appropriate referral system and the role of Jobcentre Plus. This issue is explored further in Chapter 9:

*'I think the initial mechanisms for getting referrals have been our biggest struggle to date; some of that was probably not necessarily being able to identify what the referral flows would have been expected and that's been the same for our sub-contractors, being able to guide them in what business levels to expect in the first couple of months. On one hand we're talking about a recession and lots of clients and on the other we've struggled to get people referred to us.'*

(FND Phase One prime provider)

The other main operational challenges identified by prime providers are outlined in Table 7.2 and included setting up infrastructure, with particular reference to property and IT with some prime providers mentioning the short time frame given to implement the contract. For the district prime providers human resources (recruitment and/or numbers) was the biggest operational challenge in implementing FND Phase One. These challenges are discussed in more detail in Chapter 8.

**Table 7.2 Examples of operational challenges and investments**

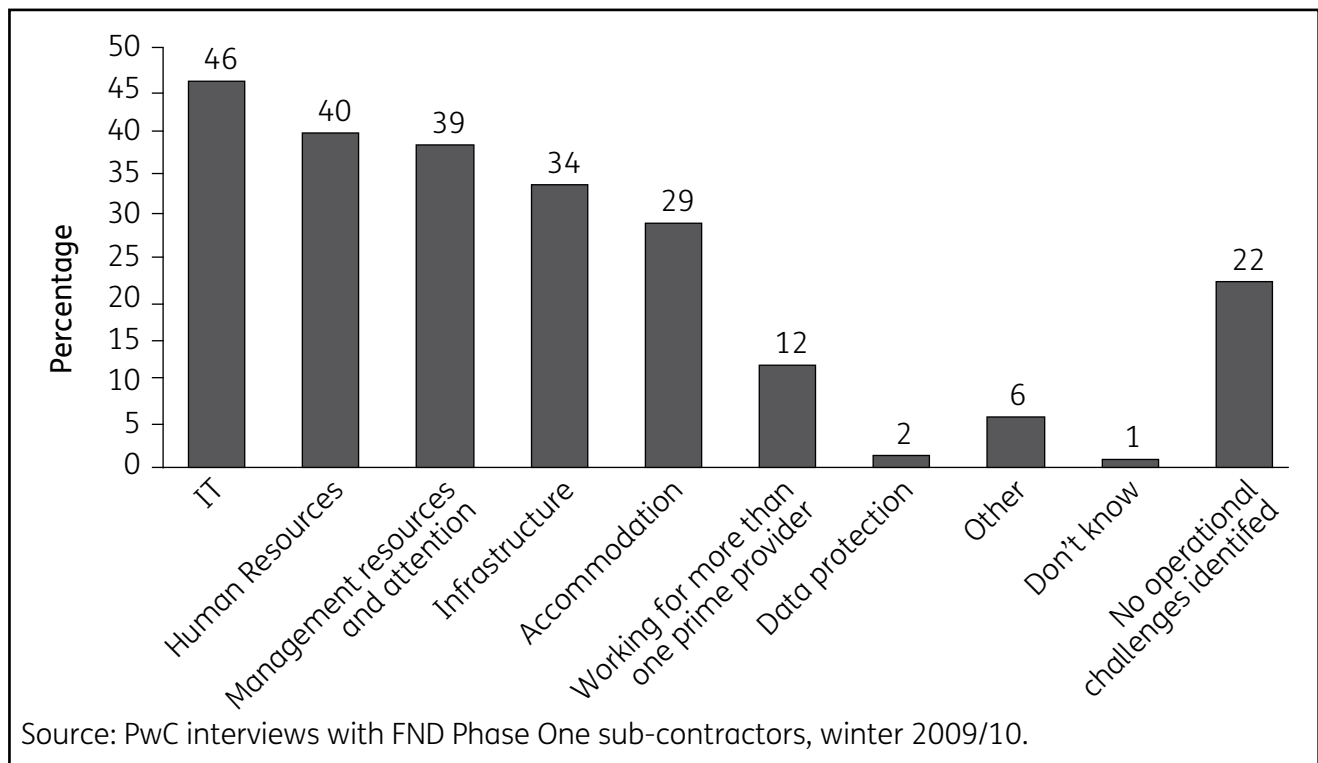
Infrastructure	<ul style="list-style-type: none"> <li>• Issues in finding suitable premises in some rural areas.</li> <li>• Opened 20 new sites in three months.</li> <li>• Finding premises to cover an area now three times its previous size.</li> <li>• 50 offices established.</li> </ul>
Human Resources	<ul style="list-style-type: none"> <li>• Recruited 150 people within three months.</li> <li>• Recruited project management specialists.</li> <li>• Recruited more account managers (40 for the contract).</li> <li>• Difficulty of handling Transfer of undertakings (TUPE) staff.</li> <li>• Difficulty in recruiting sufficiently skilled/experienced staff.</li> </ul>
IT	<ul style="list-style-type: none"> <li>• Upgrading of IT systems to meet DWP requirements.</li> </ul>

Source: PwC interviews with FND Phase One prime providers, autumn 2009.

In contrast to the prime providers, sub-contractors had mixed views on how delivering FND Phase One would impact upon their profitability. Just under one-third (32 per cent) stated that their profits would increase, 34 per cent said they would decrease with the remaining sub-contractors stating that net profits would remain the same. Reasons for profits increasing included strong relationships with prime providers leading to an increase in customer numbers supported by confidence in reaching outcome targets.

In addition, those who saw the FND Phase One contract as profitable also recognised that this was due to the longer contracts and the increased ability to access new markets. The reasons sub-contractors provided for profits decreasing included a squeeze on margins with the introduction of the new contracting arrangements, outcome rather than service payment and the high level of investment required. In addition, some sub-contractors supported the prime providers' experience by stating that their profits would decrease because the number of customer referrals were significantly lower than first anticipated. It must also be noted, that although there were mixed views on the profitability of being a sub-contractor delivering FND Phase One, more than half (54 per cent) have not raised any financial concerns with their prime provider.

For sub-contractors, as shown in Figure 7.3, infrastructure was not the key challenge in delivering FND Phase One as it was for prime providers but rather IT followed by human resources and management resource and attention. Interestingly a number (12 per cent) of sub-contractors viewed working for more than one prime provider as a key challenge. Sub-contractors plan to manage these various operational risks by enhancing their capability through additional resources, effectively managing their cash flow and through developing their supply chain. It must also be noted that a substantial minority of sub-contractors had not identified any operational challenges in delivering FND Phase One.

**Figure 7.3 Key operational risks in delivering FND Phase One for sub-contractors**

### 7.5.3 Impact of the recession on risk/reward

Providers of both types have adopted different approaches to managing the effects of the recession with prime providers, again, viewing the impact of the recession more positively than sub-contractors which is explored in more detail below.

Additional risks brought by the recession which were mentioned by prime providers included, as highlighted in Section 7.5.2, the discrepancies between estimated and actual volumes of customers in addition with the contraction of the labour market. To counteract the latter challenge, prime providers are concentrating more of their efforts on increasing the 'competitiveness' of their customers through more intensive coaching, early identification of barriers and more one-to-one management. This has been supported by prime providers investing in building employer relations, either by increasing their existing resources or by bringing in entirely new resources to work with employers, to ensure that the prime providers are at the forefront of any opportunities that arise.

In contrast, for sub-contractors the biggest risk brought about by the recession was the decrease in job opportunities available for customers (62 per cent) followed by the larger volumes of customers (36 per cent). However, there was a small minority (13 per cent) who did not believe that the recession would mean any additional risks in delivering the contract. Actions taken by sub-contractors to mitigate the risks identified included careful budgeting (69 per cent), new/enhanced performance monitoring (60 per cent) and recruiting additional staff (53 per cent).



## 7.6 Conclusion

### 7.6.1 Key findings

One way in which the Commissioning Strategy initially sought to improve outcomes was through competition. To this end, ten of the 14 CPAs were 'choice' areas – in that two prime providers and their associated sub-contractors would compete for customers from April 2011 onwards. However, due to the termination of FND Phase One, DWP no longer plan to introduce competition in this way. Notwithstanding this most recent change, at the time the research was undertaken providers, generally speaking, did not see that the introduction of competition in this way would necessarily result in improved service delivery and greater customer choice. This was mainly because they felt that it was an 'unnatural' state, i.e. that as there were parameters on the level of competition within the contract package area that competition would be constrained and would, therefore, not act as a driver in improvement of service delivery. However, DWP in the Commissioning Strategy had recognised that the Department would need to continually 'evaluate the evidence on whether multiple or single provision generates better performance' (DWP, 2008a, p21). In addition, this wave of research has highlighted that following contract award the main area of competition, for some providers, is within rather than between supply chains. It will be important to monitor how this develops as supply chains bed down.

The larger and longer contracts and move to outcome-based funding has resulted in most FND Phase One providers and unsuccessful bidders commercially appraising the FND Phase One contract. However, the extent and depth to which it was appraised varied between the provider types. Interestingly, the intensity of appraisal decreased the further down the supply chain. Prime providers used numerous techniques with a minimum of four including by case load, time on provision, length of contract, local labour market in assessing the contract, sub-contractors generally used one to two financial models to appraise whilst many of the unsuccessful bidders tended to use only one. This depth of modelling and its link to success in the bidding process appears to reflect the capability of each of the providers and supports the aim of the Commissioning Strategy to promote a high performing supply chain. In addition, although there is an initial bedding down period of 40/60 for the outcome based funding model used under FND it can be inferred from this research that the funding model has received a positive response from providers; both in new entrants being attracted to the market and from the prime providers' responses in how they have adapted their behaviours. This area should be monitored in the future.

All FND providers have invested to some degree in order to deliver the contract. Amongst prime providers, the level of investment has been at least £1 million per contract area.

Prime providers, in particular view outcome-based funding positively, as a means of reward by increasing the incentive for providers to find and secure sustainable job outcomes for customers. However, the move to outcome-based funding has had differing impacts on FND providers. Prime providers appear to be settling more readily into outcome-based funding through their previous experience and extensive preparation whilst many sub-contractors have concerns over the financial impact of the move from service based payments. By way of illustration, just one-third of sub-contractors believe that their net profits would increase through delivery of FND Phase One. From the perspective of smaller providers, it is encouraging to note that prime providers are, in some cases, reducing the risk associated with outcome-based contracts, for sub-contractors through adopting different terms and conditions. This appears to be most prevalent for specialist providers rather than 'end-to-end' delivery partners. Whilst providers stated similar risks differences did exist between provider types over what the main risks and operational challenges were; for prime providers it was variance in volumes from those stated in the FND Phase One specification and actual numbers to date whilst for sub-contractors it was the contracted job market and IT.

FND Phase One providers have adopted different approaches to managing the effects of the recession with prime providers tending to see the impact of the recession more positively than sub-contractors. Prime providers are focusing on enhancing their customers' competitiveness and adopting new employer relationship strategies whilst sub-contractors are concentrating on careful budgeting and new/enhanced performance monitoring as a means of mitigating risks.

Table 7.3 summarises the impact of the Commissioning Strategy upon FND Phase One providers' commercial strategy.

**Table 7.3 Summary of impact of the strategy on providers' commercial strategy**

Type of provider	Positive impact/development	Negative impact/development
Prime provider	<ul style="list-style-type: none"> <li>Not unfamiliar with concept of outcome-based funding as have experienced similar programmes previously.</li> <li>Extensive time spent commercially appraising the contract.</li> <li>Have invested substantially in order to deliver the contract.</li> <li>Generally believe they will be more profitable.</li> <li>Focusing on improving their customers' competitiveness and employer relationship strategies.</li> </ul>	<ul style="list-style-type: none"> <li>Few view choice CPAs as having a positive impact upon service delivery and customer choice.</li> <li>Discrepancy in volumes between estimations/actuals.</li> <li>Setting up of infrastructure – particularly within a short timeframe.</li> </ul>
Sub-contractor	<ul style="list-style-type: none"> <li>Substantial time spent on commercially appraising the contract.</li> <li>Of those who knew their break even point 40 per cent believed they would break even within their first year.</li> <li>Whilst there are mixed views on profitability many sub-contractors have not raised financial concerns with their prime provider.</li> </ul>	<ul style="list-style-type: none"> <li>Fifty-eight per cent believe that they will be less profitable – initially at least.</li> <li>IT was viewed as the biggest operational risk.</li> </ul>

Source: PwC interviews with FND Phase One prime providers and sub-contractors, autumn/winter 2009/10.

## 7.6.2 Recommendations

Based on the findings above the following recommendation is made:

- Understand current risk/reward profile:** DWP should conduct a value chain analysis to identify where the balance of risk and reward is lying to ensure that sub-contractors are being equitably treated and adequately rewarded within supply chains relative to the prime providers' risk/reward profile.

# 8 Performance management

## 8.1 Introduction

This chapter outlines the component of performance management as set out in the Commissioning Strategy and providers' response by looking at:

- Background.
- Measurement of provider performance.
- Management of provider performance.
- Monitoring of provider performance.
- Sharing best practice.
- Conclusion.

## 8.2 Background

Previously, performance monitoring of contracted employment programme contracts focused more closely on process rather than outcomes. This, as Lord Freud highlighted, limited the value that private and voluntary providers could bring to the welfare to work market (Freud, 2007, p52). Thus developing on the recommendations of the Freud report, and drawing on experiences elsewhere, including Australia, the Netherlands and the USA, Department for Work and Pensions (DWP) has placed performance management as a central tenet of its Commissioning Strategy. With the move towards outcome-based funding and a 'black box' delivery approach, performance management has become a critical part of the new dispensation in welfare to work provision.

The move to outcome-based contracts is underpinned by a desire to bring about a step change in the performance of DWP's contracted employment programmes. The link between programme performance management and contract and provider management is inseparable. The performance measurement and management of Contracted Employment Provision (CEP) programmes is a critical aspect of the new way of working.

*'We will move to a single, integrated, shared and transparent approach to the measurement and management of provider performance that enables a 'like-to-like' analysis of performance.'*

(DWP, 2008a, p25)

The principles tied to this component can be summarised as embedding partnership working between DWP and providers. Through implementation of this component DWP is seeking to transparently, consistently and robustly measure, monitor and drive up performance.

Figure 8.1 provides additional information on the performance metrics, measurement and systems linked to the Commissioning Strategy generally and Flexible New Deal (FND) Phase One in particular. Following which, providers' responses to the new arrangements are outlined in the sections below.

**Figure 8.1 Performance management model outlined****Performance management model**

The performance management model, as outlined in the Commissioning Strategy, is based on four key areas:

- Outcomes.
- Value for money.
- Quality.
- Customer experience.

**Performance metrics: indicators and targets**

A provider's performance indicators and outcome targets are set with respect to these four areas and are agreed as part of the tendering and subsequent contract negotiation process. Within the Commissioning Strategy DWP commits itself to setting '*clear expectations and hold[ing] providers to account*' (DWP, 2008a.p25).

With respect to FND, prime providers will be accountable for:

- x%, of those customers who start FND, resulting in a Short Job Outcome payment (13 weeks).
- y%, of those customers who start FND, resulting in a Sustained Job Outcome payment (sustainable job outcome is defined as continuous employment for 26 weeks out of 30).
- A minimum of 95 per cent of customers who leave FND will complete a minimum of four continuous weeks of full-time work or work related activity, within the 52 week FND period.
- Suppliers will register a FND start for at least 85 per cent of customers, providing they continue to claim JSA, within 15 working days of being referred by Jobcentre Plus.

x and y will be calculated based on volumes specific to the Contract Package Area (CPA) and agreed during contract negotiations. They will be based on national performance expectations which are:

- 55 per cent of those customers starting on FND will achieve a Short Job Outcome; and
- 50 per cent of those customers starting on FND will achieve a Sustained Job Outcome.

It should be noted that subsequent to the publication of the FND Phase One specification, DWP revised performance offers of bidders for the first 18 months of the contract to reflect worsening economic conditions and did not set performance expectations for this initial period.

Source: DWP, FND Phase One Provision Specification and Supporting Information, 2008b, p92-93.

### 8.3 Measurement of provider performance

The measurement of providers' performance, as outlined in the FND Phase One specification, refers specifically to the chosen metrics and targets which prime providers will be responsible for delivering. Consequently, research in this area was only undertaken with prime providers. The findings in this regard are outlined below.

Generally, prime providers are receptive to the move towards outcome-based funding. As outlined in Chapter 7, a number of prime providers welcomed the move to outcome-based funding while others commented that they understood the rationale for this change. Such a view is not unexpected as the prime providers were firstly successful in terms of the FND Phase One contracting competition and secondly tend to be more financially robust organisations with annual turnovers ranging from £3 million to £1,950 million. However, some prime providers raised concerns which they felt were significant. The first was with respect to 'promise inflation' by competitors when tendering for performance based contracts and the second was in respect of the performance expectations themselves. Both are outlined below in more detail.

Considering promise inflation firstly, this relates to the practice of providers putting forward attractive bids in order to win a contract, which cannot be delivered upon. Such provider behaviour inevitably makes it more difficult for providers who submit more realistic bids to compete. However, this criticism is not unique to outcome-based contracting as over-optimistic bids can also be submitted by contractors in service based contracting competitions. However, unlike with service based contracting, providers will, under the new regime, only be paid for actual performance. Closely linked to this is the matter of contract and performance management and issues of managing provider underperformance in particular. These areas are explored further below.

Looking secondly at the performance expectations; some providers found having known expectations or targets reassuring in that they were very clear about the performance levels they had agreed or were expected to deliver:

*'I think it's important the Department has given us certain expectations about our capabilities, we have been judged on what we say we will do...I think so far so good, and I think the Department has been very approachable about discussing some of those things and clarifying their expectations.'*

(FND Phase One prime provider)

*'As a prime provider we know we are responsible for the contract signed and managing performance of sub-contractors and others in our chain is part of the territory. I wouldn't expect any government purchaser not to be managing what they are using public money for. It [performance expectations and monitoring] is nothing that we do not expect.'*

(FND Phase One prime provider)

While the research did not specifically seek to gauge prime providers' levels of confidence in meeting their targets, it is fair to say that there was a general sense of confidence and buoyancy expressed by the prime providers. A few prime providers, however, expressed concern with respect to the appropriateness of the performance offers and expectations. The contention is that the performance expectation set is unrealistically high and does not take account of any local labour market shocks which may occur over the life of the contract:

*'I think for FND Phase One they [DWP] set a benchmark 40 per cent higher than anyone has ever achieved, if you want to be a free market you should leave it up to the competitors what the level of performance is to be achieved and trust on the force of the competition to push that up.'*

(FND Phase One prime provider)

However, DWP is clear that through the move to outcome-based funding it is expecting to see a step change in performance and providers are therefore, correct in recognising that the performance expectations are higher than what has been achieved in the past. The results of FND Phase One will, in due course, reveal whether expectations have been set at an appropriate level.

### 8.4 Management of provider performance

As highlighted in Chapter 5, the research to date has indicated that FND Phase One supply chains are short as very few sub-contractors currently manage supply chains of their own. Consequently, there are two key elements or layers of responsibility for managing provider performance:

- DWP management of prime providers; and
- prime providers' management of self and sub-contractors.

The analysis below provides a discussion of both aspects of performance management.

#### 8.4.1 DWP's management of prime providers

DWP had clearly laid out its plans with respect to managing provider performance for contracts tendered under the new Commissioning Strategy and as outlined in the FND Phase One specification.

It was intended to measure performance through:

- contract management;
- Star Rating system;
- external inspection; and
- customer experience.

However, with the FND Phase One contracts now due to end in June 2011, customer experience metrics will no longer be used as a performance measurement. In addition, at the time of this report, it has not been decided whether the Star Rating system will be implemented.

#### 8.4.2 Prime providers' management of self and sub-contractors

A shared understanding of the range of actions available to both DWP and prime providers to manage performance, particularly under-performance exists amongst both prime providers and sub-contractors. The respective views of these provider types are outlined below.

Prime providers were confident in their abilities to manage both their own performance and that of their sub-contractors and genuinely welcome the move towards working more in partnership with both the Department and their sub-contractors. The research with prime providers revealed a strong sense that any move to resolve underperformance of sub-contractors through contractual means (e.g. reducing or freezing referrals or termination of contract) would only occur after all other efforts had been made to address any issues. In fact, there was an overwhelming commitment on the part of the prime contractors to work closely with their sub-contractors from the outset to help them improve performance, should instances of underperformance arise:

*‘The most important thing with sub-contractors is that you support them and help them to succeed so it’s not about sanctioning but over a period of time, if the sub-contractor receives all the support you can give them then you have to consider whether they remain a sub-contractor but all that is in the contract anyway. You start with performance plans so they have targets to achieve within a period of time and if they don’t achieve it you take the contract away.’*

(FND Phase One prime provider)

Sub-contractors, for their part, are largely aware (80 per cent) of the range of sanctions prime providers can impose upon them with the main sanctions stated as being:

- Termination of contract (80 per cent);
- reduction/freeze in referrals (60 per cent); and
- withholding service payments/performance payments (54 per cent).

## 8.5 Monitoring of provider performance

The monitoring of provider performance requires suitable performance monitoring systems and processes, both within DWP itself and prime providers. These areas are discussed in more detail in the sections below.

### 8.5.1 Performance monitoring systems

#### *DWP systems*

DWP will utilise the new Provider Referrals and Payment (PRaP) system to capture and monitor provider performance. PRaP is designed to replace existing paper based systems and to enable DWP to interact more quickly with prime providers, exchanging information about customers referred for provision and triggering payments to providers. FND Phase One is the first programme to use PRaP though other programmes will transition to PRaP on contract award or renewal. When utilised on outcome-based programmes PRaP is designed to offer robust and real time performance information (DWP, 2009c).

Both prime providers and sub-contractors reported a misunderstanding or a miscommunication of the implications and resource requirements which introducing PRaP would have. The initial understanding, based on interviews with prime providers, was that PRaP, as a web-based system, would not have cost implications for the providers, if anything it was hoped it would save providers the costs associated with a paper based system. However, most prime providers and 41 per cent of sub-contractors have reported having to incur a number of costs, some of which related to the timing difference between launch of FND Phase One (5 October 2009) and ‘go live’ of PRaP (21 October 2009). Examples of costs incurred by both prime providers and sub-contractors are outlined in Table 8.1.

**Table 8.1 Examples of cost categories incurred in implementing PRaP**

<b>Cost categories</b>
<ul style="list-style-type: none"> <li>• Staff training.</li> <li>• Recruitment of additional staff.</li> <li>• Introduction of new systems.</li> <li>• Data security/penetration testing and system strengthening.</li> <li>• Amendments/adaptations to providers systems.</li> <li>• Opportunity cost - duplicating information already held by Jobcentre Plus, time spent 'ironing out' the system.</li> </ul>

Source: Pricewaterhouse Coopers (PwC) interviews with FND Phase One prime providers, autumn 2009 and FND Phase One sub-contractors winter 2009/10.

Delays with implementation and confusion with respect to operating PRaP have been the main source of frustration amongst prime providers. Many prime providers said that the system, in practice, had not lived up to their expectations and did not have the management information capabilities they had anticipated:

*'PRaP is the biggest frustration of the FND process to date...At this stage we'd be better off with a paper based system than we are with the electronic one...It has been the most difficult part of the whole process.'*

(FND Phase One prime provider)

Interviews with providers were conducted from October 2009 to January 2010, so provider reflections represent a very early reflection on the introduction and operation of PRaP. Fieldwork also coincided with teething problems during the early implementation stage of PRaP stemming from: operation of a clerical contingency between FND go-live on 5 October and PRaP go-live on 21 October; the Government gateway interface – through which providers access PRaP – not allowing external access due to security constraints; reliability of data transferred through PRaP in the first week of operation; slow-running of the system until early December. DWP subsequently undertook corrective action to resolve these problems, however, they would have been 'live' issues at the time of fieldwork.

This context may help to explain why PRaP came under criticism from providers through the research. Judgement on the success of PRaP should be reserved until providers have had sufficient experience of using the system as intended. This issue will be revisited during the wave two of this research to ascertain providers' views on how PRaP is operating a number of months into delivery. Nevertheless, this feedback from providers offers an insight to DWP for the roll-out of PRaP including provider access and security issues for future programmes and/or introduction of new providers to the PRaP system.

### *Provider systems*

Within the new delivery models and supply chains, the chain of responsibility or accountability for performance is such that the prime providers are accountable to DWP and the sub-contractors are accountable to their respective prime provider. It is, therefore, important that prime providers have the requisite systems in place which firstly respond to DWP's requirements as set out in the FND Phase One specification document (DWP, 2008b) and which can also capture the performance data of their sub-contractors and wider supply chain. Most sub-contractors (63 per cent) reported that their prime providers will undertake all of the data collection regarding their service delivery. With the remaining 37 per cent of sub-contractors involved in some element of data collection,



it is important that sub-contractors themselves can also capture and provide the performance information which DWP require.

As part of the research, both prime providers and sub-contractors were asked about the nature and capability of their performance monitoring systems. All prime providers, and almost all (96 per cent) sub-contractors, reported having performance monitoring systems in place, some of which are very sophisticated. It is perhaps not surprising to note that prime providers' reports of capability in this area are slightly higher than that of their sub-contractors. This capability is in keeping with DWP's expectations as set out in the FND Phase One specification. Table 8.2 provides greater detail on the capability of prime provider and sub-contractor monitoring systems.

**Table 8.2 Attributes of providers' performance monitoring systems**

	Prime provider %	Sub-contractor %
Profile the employment-related needs of each customers	100	87
Manage case loadings	100	91
Record all services you and your sub-contractors have provided to each customer you serve	100	94
Validate outcomes achieved for each customer you or your sub-contractors have served	100	91
Record the employment-related outcome achieved by each customer, at the point when an individual ceases to be a customer	100	89
Record your organisation's priorities for addressing the needs of customers	90	89
Track the progress of all customers you and your sub-contractors serve through a series of milestones toward employment	90	92
Calculate the cost to date of providing services to each customer you and your sub-contractors serve	70	63

Base: 12 prime providers, 130 sub-contractors.

Source: PwC research interviews with FND Phase One prime providers and sub-contractors, autumn/winter, 2009/10.

### 8.5.2 Performance monitoring processes

Most providers utilise a range of monitoring methods and techniques, with a minority currently adapting their existing system to fully cater for the requirements of the FND Phase One contract. The range of methods used varies and includes simple measures such as suggestion boxes and feedback forms, to the more complex 360 degree feedback mechanisms or independent surveys and internal quality auditors. A number of providers also referred to the external inspection as part of their overall performance monitoring process. Table 8.3 provides examples of the range of monitoring methods currently used by prime providers.

**Table 8.3 Examples of performance monitoring methods**

<b>Measures adopted by prime providers to monitor performance</b>
<ul style="list-style-type: none"> <li>• Customer satisfaction surveys: customers, employers, DWP. Sub-contractors contracted to undertake similar approach to prime provider in some instances.</li> <li>• Dedicated unit dealing with the qualitative experience of customers: complaints mechanism, customer feedback, assessments of the experience, mystery shoppers.</li> <li>• Self-assessment.</li> <li>• Dedicated continuous improvement/performance management/quality audit team that monitor, particularly new, contracts and programmes.</li> <li>• Recent appointment of a customer service director.</li> </ul>

Source: PwC interviews with FND Phase One prime providers, autumn 2009.

Many prime providers stated their performance measurement methods and monitoring systems would change or had already changed as a result of being an FND Phase One provider. Interestingly, two prime providers referred to their need to be able to effectively monitor the performance of their sub-contractors and the impact that may have on their performance monitoring systems.

### *Monitoring the customer experience*

Most prime providers and sub-contractors (98 per cent) already have systems and processes in place to capture customer experience data. The remaining prime providers were, at the time of research, in the process of implementing such systems and processes. Following the introduction of the Commissioning Strategy and award of FND Phase One contracts, many prime providers and 29 per cent of sub-contractors stated that they will change their processes for measuring customer satisfaction. Table 8.4 provides a number of examples of the new processes which are being implemented.

**Table 8.4 Examples of new customer experience monitoring processes**

<b>Customer experience monitoring processes</b>
<ul style="list-style-type: none"> <li>• Feedback forms associated with all aspects of service.</li> <li>• Annual customer satisfaction survey.</li> <li>• Obtaining regular informal feedback.</li> <li>• Complaint forms.</li> <li>• Observations.</li> </ul>

Source: PwC research interviews with FND Phase One prime providers and sub-contractors, autumn/winter, 2009/10.

## 8.6 Sharing best practice

The sharing of best practice can occur both within supply chains and between supply chains. The analysis below sets out the research findings in this regard.

### **8.6.1 Sharing within supply chains**

The research found that a significant amount of activity is occurring within supply chains to share best practice and learning throughout the delivery network.

Interviews with prime providers indicate that there is a lot of activity with respect to sharing best practice within prime provider supply chains. A few prime providers in particular are taking significant steps to share best practice and develop the capacity of their sub-contractors, particularly smaller third sector organisations. Table 8.5 outlines a number of specific examples. It is interesting to note that such activities were found to be occurring across all prime providers, regardless of their sector.

Additionally, some prime providers felt they have invested heavily in terms of building the capacity of their supply chain without monetary compensation from DWP. In fact, a few prime providers commented that they were seeking funding from alternative sources such as the Learning and Skills Council (LSC) to fund this work.

**Table 8.5 Examples of sharing best practice within the supply chain**

<b>Measures adopted by prime providers to share best practice within their supply chains</b>
<ul style="list-style-type: none"> <li>• Quarterly sub-contractor forums and similar sub-contractor events.</li> <li>• Staff exchanges: formal secondments and more informal practitioner exchanges with partner or sub-contractor organisations to learn from each other and spread best practice across the supply chain.</li> <li>• Partnership steering groups and operational groups set up to share best practice.</li> <li>• Contract/performance managers in prime provider organisations who work closely with sub-contractors, managing performance and sharing best practice.</li> <li>• Sub-contractors participating in prime providers' operational meetings.</li> <li>• Evaluations covering sub-contractor as well as prime provider activity.</li> <li>• Incentives and awards events to reward and share best practice.</li> </ul>

Source: PwC interviews with FND Phase One prime providers, autumn 2009.

## 8.6.2 Sharing between supply chains

Providers currently share information, including best practice, through a number of forums: DWP's Provider Forum and participation on a number of umbrella provider bodies such as Employment Related Services Association (ERSA) and the Association of Learning Providers (ALP).

While organisations such as ERSA and ALP do not necessarily seek or require members to share best practice, the DWP Provider Forum does. The Provider Forum was established in June 2008 and is partly intended to provide a platform through which providers can share information and generate practical suggestions for improving performance (DWP, 2009d). However, as detailed below, prime providers are perhaps not as willing to share best practice outside of their own supply chain as DWP would like.

When specifically asked about their intentions to share best practice with other supply chains only few prime providers were found to be willing. In fact, more prime providers indicated that they did not currently plan to share best practice than indicated a willingness to share. It should be noted, however, that many prime providers remained unsure in this respect. This may be due to the proximity of the research from the launch of FND Phase One. Nevertheless, a number of suggestions made by prime providers in respect of the nature and type of sharing of best practice they either currently engage in or would like to see occurring include benchmarking and informal discussions between providers, discussing issues at a high level.

Given the competitive nature of the marketplace these findings are not entirely surprising. It is interesting to note, however, that the degree of overlap between supply chains, as outlined in Chapter 4, is likely to facilitate the sharing of best practice between supply chains in a more organic way.

*'We are happy to share our experiences but not our crown jewels.'*

(FND Phase One prime provider)

Interestingly, there appeared to be more willingness amongst private sector providers than non-profit providers to share best practice. However, given the difference with respect to numbers, i.e. there are more prime providers in the private sector, it may be misleading to dwell too much on this. Another interesting development arising from the research is the emergence of a loose, informal network amongst some of the newer providers. There is some evidence to suggest that new entrants discuss FND-related issues with each other more than with the more established providers.

It should be noted that prime providers did express a willingness to participate in DWP good practice workshops. This is an area over which DWP may wish to keep a watching brief and should the level or degree of organic sharing between supply chains be lower than anticipated or hoped for, DWP may wish to proactively facilitate such knowledge transfer. This echoes a finding from the recent study trip to New York (DWP, 2009e).

## 8.7 Conclusion

The performance management component represents one of the most fundamental changes to the welfare to work market introduced by the Commissioning Strategy. Prime providers understand the rationale for this change with a number of providers finding it reassuring to have clear sight of performance expectations. While the research did not specifically seek to gauge prime providers' levels of confidence in meeting performance expectations, it is fair to say that generally there was a sense of confidence and buoyancy expressed by the prime providers regarding their ability to meet their targets. Some prime providers did, however, raise two concerns which they felt were significant. The first with respect to 'promise inflation' by competitors when tendering for performance based contracts and the second was regarding the performance expectations themselves. These views were not explicitly tested with other prime providers. However, the research findings do not suggest that they are widely held by the remaining prime providers.

There was also a shared understanding of the sanctions available for both DWP in respect to the prime providers, and for prime providers in respect to the sub-contractors to manage any underperformance which may arise. However, the research revealed a strong sense that any move to resolve underperformance of sub-contractors through contractual means (i.e. termination of contract) would be a last resort by prime providers.

All providers reported having strong performance management capabilities, with respect to both monitoring systems and processes. This capability is in keeping with DWP's expectations as set out in the FND Phase One specification. DWP's new system for interacting with providers, PRaP experienced a number of 'teething problems' during the early implementation stage of FND Phase One and as such came under strong criticism during the time the research was undertaken. Most prime providers and 41 per cent of sub-contractors have also reported having to incur a number of costs in relation to PRaP/IT systems. DWP also introduced tighter data security measures for all its suppliers. This would have required many providers to make one-off alterations to their systems. Therefore, it is possible that the data security costs related more to the new security requirements than to PRaP. While DWP will need to learn lessons from the PRaP implementation it will be important to view the success of PRaP in the longer-term. This is an area which will be revisited in wave two.

Providers have a broad range of monitoring methods and techniques already in place and a minority are currently adapting their existing systems to fully cater for the requirements of the FND Phase One contract (as previously specified before termination of contracts). Following the introduction of the Commissioning Strategy and award of FND Phase One contracts, many prime providers and 29 per cent of sub-contractors stated that they will change their processes for measuring customer satisfaction.

With respect to sharing best practice within prime provider supply chains, there is a significant level of activity occurring. A few prime providers in particular are taking significant steps to share best practice and develop the capacity of their sub-contractors, particularly smaller third sector organisations. Prime providers are less willing to share best practice between supply chains, though are generally content to participate in DWP good practice workshops. However, given the degree of overlap between supply chains, outlined in Chapter 4, it is likely that the sharing of best practice between supply chains will occur in a more organic way.

### 8.7.1 Recommendations

Based on the findings above the following recommendations are made:

- **Monitor performance against expectations/targets:** as Great Britain moves out of recession the labour market is likely to remain tight for some time. It could, therefore, be more difficult to place customers into work. DWP should review job outcome expectations, at regular intervals, against local labour market information and flex as appropriate to ensure that targets are challenging yet achievable for providers. This aligns with DWP's contractual arrangements with prime providers where the switch back to the original 80/20 funding model is dependent upon Gross Domestic Product (GDP) growth.
- **Understand and apply the lessons learnt from PRaP implementation with FND Phase One providers:** the evidence gathered through this research provides feedback on the implementation issues with respect to PRaP. It will be important for DWP to fully ascertain the lessons learnt from this implementation process and apply them to future roll out of PRaP. This should also include consideration of the security requirements for providers.
- **Facilitate sharing of best practice if required:** on the basis of the research findings, it is most likely that best practice will be shared both within and, to a lesser extent, between supply chains. Should it transpire that this is not occurring, particularly with respect to smaller providers, DWP should intervene and facilitate a series of good practice workshops.

# 9 DWP capability

## 9.1 Introduction

This chapter looks at the component of Department for Work and Pensions (DWP) capability and is structured as follows:

- Background.
- Observed development of capability.
- Future development of capability.
- Conclusion.

## 9.2 Background

As part of the Commissioning Strategy, DWP has undertaken responsibility to develop its own capabilities in order to positively support providers in delivering welfare to work services. This also reflects the recommendation in the Freud report that, in order to deliver an effective outcome-based individualised employment programme, the Department would need to develop a world class contracting capability (Freud, 2007, p8).

*‘We will build our own skill base so that we make a positive contribution to business partnership – doing the best job to support providers in securing sustained job outcomes for our providers.’*

(DWP, 2008a, p27)

The component’s underlying principles focus on clarification of roles and responsibilities of relevant DWP staff, investing in DWP’s skills base to ensure it can support providers in delivering sustained outcomes for customers and to act consistently and in an open and honest manner with providers using a partnership approach. DWP will also give providers the opportunity to feedback on how the Department is doing in terms of adding value to performance.

To date, DWP has worked to deliver this component of the Commissioning Strategy through a number of actions. However, it should be noted that some of the actions outlined below are an ongoing process and would not have been fully implemented prior to interviews with providers and will be reviewed in wave two of this research. Actions taken by DWP include:

- Providing detailed information for bidders during the procurement/commissioning process. Other initiatives at the tendering stage include the introduction of financial viability as part of bid assessments along with an organisation’s potential capacity and capability in order to effectively deliver contracts.
- Enhancement of contract management systems/processes. For example, allocating more strategic management of larger contracts under the Department’s Supplier Relationship Management (SRM) Strategy and conducting external inspections to include Scotland. In addition, Provider Referrals and Payment (PRaP) was introduced to reduce the administrative burden of implementing the contract through facilitating automated and secure exchanges of information between DWP and providers regarding customers in provision as well as payments to prime providers.

- Improvement of governance systems through the introduction of a new Provider Assurance Team with a remit to ensure that Contracted Employment Provision (CEP) providers have effective systems in place to manage the risk to DWP expenditure and data.
- Building a partnership approach with providers by giving opportunities for providers to meet with the Delivery Director, Jobcentre Plus staff and Account Managers to share ideas and market information through facilitating a number of regular meetings/forums such as Provider Engagement Meetings (PEMs), the Quarterly Provision Forum and market development events. In addition, DWP worked with providers through the Employment Related Services Association (ERSA) to develop ‘Shared Promise on Customer Care’ – a sector-wide commitment to participants in welfare to work programmes which will support the implementation of DWP’s Customer Charter.
- Establishment of a Provision Management Division, uniting professional skills in supplier relationship and contract management with ownership of provision policy. The division’s responsibilities include working with partners and key stakeholders to improve the design and delivery of provision; managing and improving provider performance and supporting existing provision as well as developing strategic relationships with partners to maximise their contribution through building on their experience and sharing good practice. Senior DWP account managers have been allocated to all providers with the top 12 providers having dedicated personal account managers who will work strategically with providers’ Managing Directors, Boards and their teams to understand providers’ strategic aims and objectives along with developing joint plans to improve performance. Staff within the division will undergo training, if required, to address any gaps in commercial knowledge or other account management skills; and
- Introduction of the Merlin Standard designed to support the Code of Conduct as outlined in the Commissioning Strategy by championing positive behaviours and relationships in the development of effective high performing supply chains. The Standard is a direct response to concerns raised by providers, especially those not operating as prime contractors, around potential unfair treatment within supply chains.

The sections below examine in detail what developments in DWP’s capabilities have been observed by providers through their interactions with the Department and where they believe capabilities could be improved in the future.

### 9.3 Observed development of capability

There was a lack of consensus amongst providers regarding whether they had observed any development of DWP’s capability. Those who had stated that the improvements they had seen included DWP’s handling of the tendering process and in their improved market knowledge but many providers stated that there were areas that DWP needed to continue to develop. Reactions by provider type are explored in more detail in this section.

Prime providers had mixed views regarding if or how DWP has developed its capability with similar numbers saying that they had seen improvements compared to those who stated they had observed little or none. Areas where improvements had been experienced by prime providers were concerning the approach to commissioning the Flexible New Deal (FND) Phase One contract including the detailed information available and the regular communications made as well as in the clarification of roles within DWP.

*'...from my experience, up until the awarding of the contracts they [DWP] did a good job, when you're told you're a prime provider, the issue again of commercial dynamic, the signing of the contract, we were told in May we'd won the contract but we didn't sign until August...they said we are going to be delivering for five years but we weren't going to arrange things until we had signed and sealed the contract.'*

(FND Phase One prime provider)

Sub-contractors believe that the area in which DWP had developed most was their knowledge of the marketplace and contractors' needs followed by clarity of roles and responsibilities. However, as Figure 9.1 demonstrates, market knowledge was also an area that sub-contractors believed DWP needed to develop most. It is also interesting to note that a substantial minority (43 per cent) of sub-contractors did not know or believe that DWP had developed any capabilities.

## 9.4 Future development of capability

Providers were asked in what areas did they think DWP could enhance their capability. Both prime providers and sub-contractors had strong opinions on the areas that they would like to see DWP develop in the future. These included, for example, increased 'commercialism', improved knowledge of the marketplace and clearly defined roles and responsibilities within DWP and between DWP and Jobcentre Plus. However, many non-FND Phase One providers were unsure that the Commissioning Strategy had enabled DWP to develop its own skills. Further detail by provider type is given below.

For prime providers, DWP's main point for development going forward was 'commercial acumen,' which was closely linked to DWP staff lacking practical implementation experience and/or technical skills. Examples were given of the delay of some months from awarding to signing of contracts which meant that prime providers could not put in place its infrastructure until very close to implementation date and the problems with PRaP and the repercussions of this on the provider. Prime providers suggested that the Department would benefit from bringing staff in from businesses outside DWP:

*'...DWP need [to gain] some commercial insight by bringing it in from the commercial market. I think that's what they [DWP] are lacking. We have seen there are quite a few moving roles and we welcome that. We need to see more secondments to DWP from commercial markets and businesses – someone like myself who is 'hands on'...not people in a room talking risks and values.'*

(FND Phase One prime provider)

This lack of commercialism is reinforced by the fact that half of those prime providers interviewed stated that they have not experienced any change in DWP's development of its own contract management skills and processes to keep pace with the marketplace and contractors' needs. One prime provider strongly believed that contract management staff needed further development in their production and analysis of management information in order to effectively drive higher performance amongst providers:

*'At the top tier of DWP you have some very good people, the lower tiers you have some technical gaps – the technical gaps are how to understand performance offers, how to look at sub-contracting, how to look at databases. They [DWP] need to gear up as we have and bring in a range of experts from the markets whether it's IT, marketing, finance. We're geared up, we want to see that from them at that senior management level.'*

(FND Phase One prime provider)



*‘There’s a bit of a detachment from the commercial realities, they [DWP] have their own issues and they don’t realise the impact on the rest of the market, but I would expect this all to develop over time.’*

(FND Phase One prime provider)

A number of prime providers also stated there was a ‘disconnect’ between DWP and Jobcentre Plus shown through a lack of clarity around definition of roles and responsibilities and the link between operational requirements and performance management. There is a feeling of frustration from these providers who are generally experiencing good relationships with DWP and much of the Jobcentre Plus network but there is a lack of cohesion between the two bodies:

*‘We have a good relationship with DWP contractually and with Jobcentre Plus in a local management relationship sense. What I find difficult is the relationship between DWP and Jobcentre Plus in terms of respective roles and responsibilities not being clearly defined. Therefore, what you have is tension between those two parties which then impacts on me... what you have is Jobcentre Plus is communicating to me but not to DWP.’*

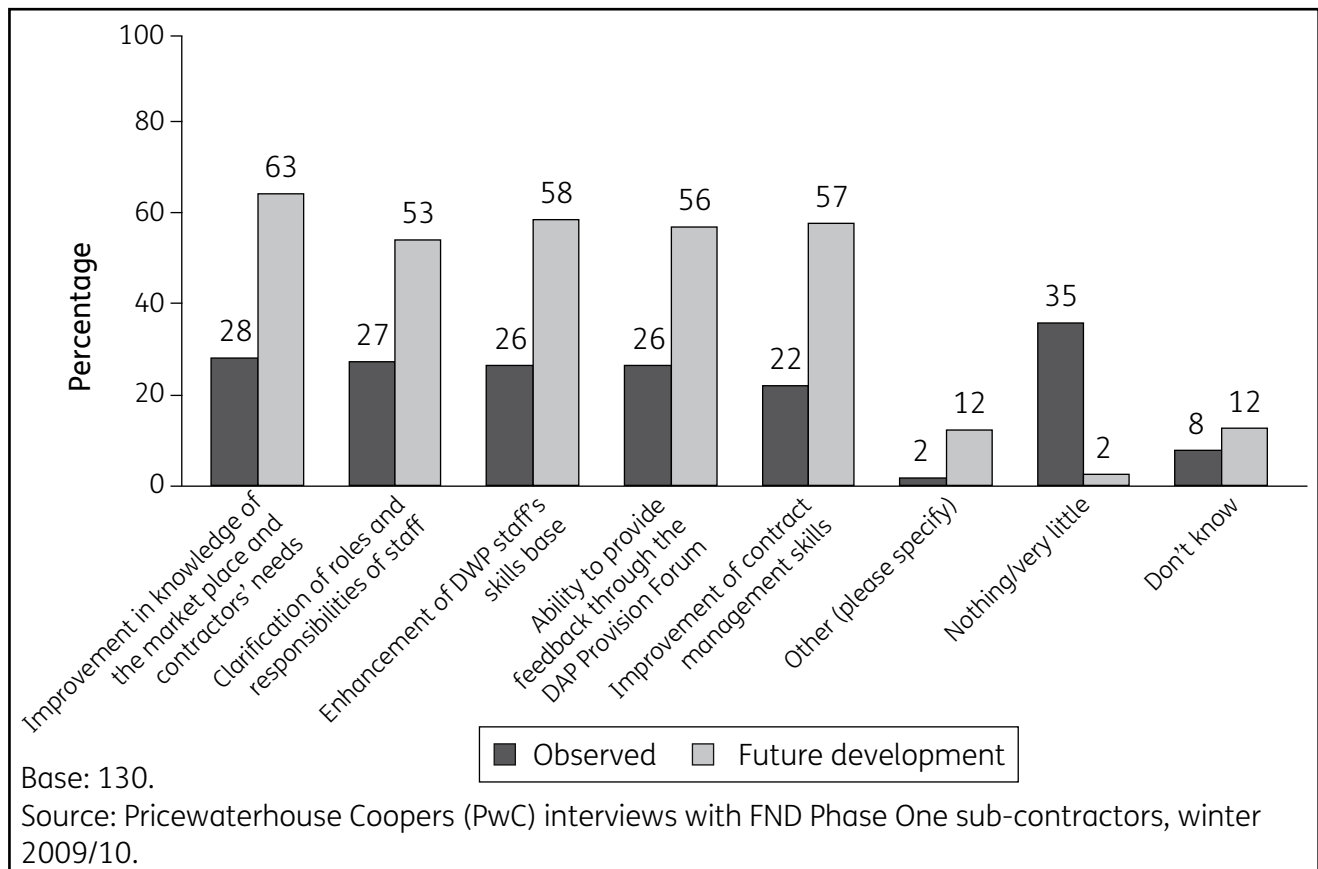
(FND Phase One prime provider)

Not surprisingly then for prime providers the priority for DWP contract and supply relationship management is to ensure that the process facilitates a commercially driven approach which drives quality performances amongst all. In addition, keeping abreast of welfare to work market intelligence and informing the prime providers of any developments was also seen as a key priority.

Whilst the majority of sub-contractors (63 per cent) believed that DWP need to enhance their knowledge of the marketplace and contractors’ needs, many, as shown in Figure 9.1, also had similar concerns as prime providers regarding the enhancement of DWP’s skills base and contract management skills. For sub-contractors, the priorities for DWP moving forward are to work closely with all providers in contract management, to communicate and to do all they can to ensure FND is successful in getting people into sustainable employment.

Non-providers, generally, did not believe that the Commissioning Strategy is seeking to enable DWP to develop its own skills, making a positive contribution to business partnership. However, there were differences in opinion between unsuccessful bidders and non-bidders; the majority of unsuccessful bidders did not agree that the strategy did enable development of DWP capability, and whilst many non-bidders did not agree, almost half were unsure whether it did or not.

**Figure 9.1 Observed versus future development of DWP capability, by sub-contractors**



## 9.5 Conclusion

### 9.5.1 Key findings

There were mixed views amongst all providers whether improvements in DWP's capability have yet been seen, whilst the majority of non-FND Phase One providers did not believe or were unsure if the Commissioning Strategy enabled DWP to develop its own skills.

Key areas of development in the opinion of prime providers were in DWP's 'commercial acumen' and in removing the 'disconnect' between the role and responsibilities of DWP and Jobcentre Plus with regards to operational requirements and performance management. For sub-contractors, the focus was on the need for DWP to develop its knowledge of the marketplace and contractors' needs. However, there was some similarity amongst providers with both prime providers and sub-contractors looking for enhancement of DWP's staff skill base and improvement of contract management skills.

## 9.5.2 Recommendations

Based on the findings there are a number of recommendations outlined below:

- **Broaden/enhance the commercial experience of key staff:** there are two elements to this:
  - firstly, for staff with more of a direct interaction with providers (e.g. Contract Managers and Jobcentre Plus Regional Directors), DWP should consider providing practical work experience opportunities such as work shadowing and secondments with prime providers/sub-contractors. The research has indicated that many prime providers are likely to support this; and
  - secondly, for DWP staff involved in CEP, DWP should develop opportunities to enhance their understanding of the practical challenges and commercial implications of departmental actions. For example, understanding the actions and costs which rest on the signing of contracts and implementation of IT systems, and the impact that this has on the quality of service delivery and profitability.
- **Clarify departmental roles:** providers did report increased clarity on the roles and responsibilities of DWP staff. However, it was not universally observed. It is, therefore, important for the Department to continue its work in this area, particularly with respect to providing further clarity on the roles and responsibilities of contract management staff and those staff who interact directly with providers. Equally, providers believe it will be important for DWP to maintain consistency as far as possible with staffing.
- **Clarify roles between DWP and Jobcentre Plus:** some providers believe that there is a ‘disconnect’ between the Department and Jobcentre Plus regarding roles and responsibilities and this lack of cohesion is causing challenges. DWP, with Jobcentre Plus, should seek to understand why this is happening and adopt measures to overcome this, for example, an improved internal communication process between DWP and Jobcentre Plus.

# 10 Customer experience

## 10.1 Introduction

This chapter outlines the component of customer experience as set out in the Commissioning Strategy and providers' response to it by looking at:

- Background.
- Shaping provider offerings.
- Enhancing public service provision.
- Conclusion.

## 10.2 Background

The White Paper, *Raising expectations and increasing support: reforming welfare for the future*, published December 2008 proposed a customer-centric approach to welfare reform. As outlined in Chapter 1, the reform agenda is characterised by stronger rights and responsibilities. The customers' 'right' includes provision of a coherent, quality, tailored service offering and support by Department for Work and Pensions (DWP), Jobcentre Plus and contracted providers. The manifestation of this right in the Commissioning Strategy is through the customer experience component:

*'Customer experience will play an important part in the commissioning of provision, how it is delivered and how it is improved.'*

(DWP, 2008a, p29)

The principles of this component clearly set out a number of expectations that DWP has of Jobcentre Plus staff, providers and their interaction with each other and related stakeholders in offering the customer an informed, holistic and innovative service that recognises their individual and often complex needs. These expectations are summarised in Table 10.1.

**Table 10.1 Overview of customer experience expectations**

Stakeholder	Customer experience expectations
Jobcentre Plus staff	<ul style="list-style-type: none"> <li>• Primary owner of customer journey.</li> <li>• Work seamlessly with providers to deliver coherent service to customers.</li> </ul>
Providers	<ul style="list-style-type: none"> <li>• Offer customers informed choices with respect to services and opportunities.</li> <li>• Tailor support to the individual and their needs, integrating and enabling access to other services (e.g. housing support) through working in partnership with local stakeholders.</li> <li>• Working seamlessly with Jobcentre Plus staff to deliver coherent service to customers.</li> <li>• Engage in dialogue with customers – capture and respond to customer feedback.</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Actively shape DWP provision.</li> </ul>

Source: Based on information extracted from the Commissioning Strategy (DWP, 2008a).

The main tenets of this component can, therefore, be summarised as:

- customer choice;
- shaping provider offerings; and
- enhancing public service provision.

Due to the overlapping nature of components within the Commissioning Strategy, Chapters 7 and 8 have already outlined key areas of relevance to customer experience. These are customer choice and monitoring the customer experience respectively. To avoid duplication this chapter focuses on shaping provider offerings and enhancing public sector provision. It is important to reiterate that this research looks solely at the customer experience from a providers' perspective. DWP is undertaking separate research with customers as part of the Flexible New Deal (FND) evaluation, the findings of which will be published autumn 2010.

### 10.3 Shaping provider offerings

The research with FND providers, both prime and sub-contractor, sought to establish the impact this component has had on the provider and the way in which they deliver services. This sub-section seeks to more closely examine the responsiveness of providers to customer views and the need to place customers at the heart of delivery, as set out in the Commissioning Strategy. It also looks specifically at how providers have tailored their provision with respect to working with those hardest to place.

#### 10.3.1 Changes in provision to enhance the customer experience

The research revealed a fundamental commitment on the part of both prime providers and sub-contractors to delivering high quality customer experience. It is also clear that for the majority of FND providers interviewed the Commissioning Strategy is directly affecting the way in which they deliver services to customers.

Prime providers and sub-contractors are confident in their ability to deliver a quality customer experience. It is for this reason that some providers feel the Commissioning Strategy has not impacted upon their service delivery. That is to say, that for these providers the Commissioning Strategy represents an affirmation of their existing practices in this area.

It is interesting to note that prime providers rated their performance against the DWP Customer Charter (DWP, 2009) more highly than sub-contractors. By way of illustration, on a scale of one to ten with one representing not very well and ten representing very well, all prime providers rated their performance above seven in contrast to 82 per cent of sub-contractors.

In light of the relatively high self-assessment scores and the feedback in relation to customer experience, particularly from prime providers, care has been taken to distinguish between those findings which can and cannot be directly attributable to the Commissioning Strategy. Set out below is a summary of the key changes in relation to the customer experience followed by a more detailed discussion of the findings by provider type: prime provider and sub-contractor.

#### 10.3.2 Changes directly attributable to the Commissioning Strategy

Most providers, prime providers and sub-contractors, stated that the Commissioning Strategy would improve their customer experience/way in which they deliver services for customers due to their ability to tailor provision and their flexibility to innovate service delivery. The discussion below sets out in more detail the research findings by provider type, beginning with prime providers and then discussing sub-contractors.

Most prime providers, while expressing a strong pre-existing commitment to customer service, also felt that the Commissioning Strategy would, to a greater or lesser extent, impact on how they deliver services. Examples of how prime providers have manifested this component in their service delivery are outlined in Table 10.2. In addition to this, it is interesting to note that a couple of prime providers explicitly stated that larger, longer contracts enable them to focus more keenly on customer service:

*'It [Commissioning Strategy] will make sure we have a responsive programme which will give each individual jobseeker the respect...whatever it takes to help people into work.'*

(FND Phase One prime provider)

**Table 10.2 Examples of changes to enhance customer experience by prime providers**

Actions taken
<ul style="list-style-type: none"> <li>• Specialised customer diagnostics.</li> <li>• Segment customers by needs.</li> <li>• Ensuring niche providers are part of their supply chain.</li> <li>• Recruiting customer service director from retail sector.</li> <li>• Customer Journey Management system.</li> </ul>

Source: Pricewaterhouse Coopers (PwC) interviews with FND Phase One prime providers, autumn 2009.

Sub-contractors are also positive about this component of the Commissioning Strategy. Of the 61 per cent of sub-contractors that felt the Commissioning Strategy would have a positive impact on the way in which they delivered services they provided the following rationale:

- more tailored support (68 per cent);
- more innovative delivery (68 per cent);
- more time with customers (64 per cent);
- greater competition (24 per cent); and
- less competition (16 per cent).

It is interesting to note the conflicting views amongst sub-contractors on the effect of competition on service delivery. This appears to be informed through providers' experience with some (24 per cent) seeing greater competition driving improvements through the need to attract customers with others (16 per cent) viewing less competition positively as it allows more resources to be focused on service delivery. Providers' experience of competition could be gained from encountering competition within the supply chain between end-to-end suppliers or between supply chains, i.e. in choice contract package areas (CPA).

Those sub-contractors (39 per cent) who felt the new commissioning arrangements would not lead to an improvement in service delivery attributed this belief to spending less time with customers (81 per cent) and greater competition (33 per cent) suggesting that these sub-contractors believe the Commissioning Strategy will have a negative impact on the customer experience.

When looking more closely at the responses, it is only sub-contractors with revenue of more than £5 million per annum who tend not to believe that the new commissioning arrangements will lead to an improvement on service delivery. It is likely that many of these organisations previously contracted directly with DWP and perhaps see their change in status to sub-contractors and subsequent reduction in profit margins as having a negative impact on their customer service.

### 10.3.3 Changes which are not directly attributable to the Commissioning Strategy

Prime providers who felt the Commissioning Strategy would not impact on their customer experience still welcomed the emphasis the Strategy placed on customer experience. However, these prime providers regarded themselves as high performers in this respect and while continually striving to improve themselves for them, the Commissioning Strategy, in terms of the customer experience component, represented ‘business as usual’.

This self-belief in the pre-existing customer experience capabilities is also supported by the prime providers’ self-assessment against the DWP Customer Charter referred to above:

*‘The Commissioning Strategy is saying that the customer experience is important...but it doesn’t mean that we suddenly want to change the way we deal with customers. We’re always looking to improve that service.’*

(FND Phase One prime provider)

### 10.3.4 Working with hardest to place

Prior to implementation of FND Phase One, stakeholders raised concerns that outcome-based provision may lead to ‘parking’ of hard to place customers. In other words, those customers with the most complex needs or who are furthest away from the job market are sidelined in favour of customers providers will more easily place in employment. The research sought to develop a clearer understanding of how the Commissioning Strategy and FND Phase One were affecting service delivery for this customer group.

Many prime providers and around half of sub-contractors (54 per cent) stated they had adopted new approaches or systems for managing customers who are either hardest to place into employment or have difficulty sustaining employment:

*‘We have partly designed our model to drive performance within this customer group; innovations include introducing assessment questionnaires, psychological, having specialist advisors who are trained in motivational interviewing. The provision we provide for those customers, is to take a problem solving approach. We do a lot of cognitive behavioural therapy (CBT) group based activities as well.’*

(FND Phase One prime provider)

Further examples from prime providers and sub-contractors are set out in Table 10.3.

**Table 10.3 Examples of how FND providers have tailored provision for those hardest to place**

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<b>Actions taken</b>
<ul style="list-style-type: none"><li>• Diagnostic or psychometric tools.</li><li>• Customer segmentation – part of which focuses on customers with multiple barriers spending ‘more money and more resources on those who need it most’.</li><li>• Dedicated work mentors.</li><li>• Tackling underlying problems such as health and housing issues.</li><li>• Refocusing customers on new areas of employment opportunities.</li><li>• Specialist advisors.</li><li>• Maintaining contact and support for customers when they are in employment.</li></ul>

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Source: PwC interviews with FND Phase One prime providers, autumn 2009.

As with the previous findings, the new ways of working with respect to delivering FND are directly related to the introduction of the 'black box' approach. This desire for innovation was first incorporated into the Commissioning Strategy and later in the FND Phase One specification. It is not possible, based on the findings, to ascertain whether these approaches have been previously used by providers and adopted to deliver FND or whether they are completely new approaches developed specifically for FND. This area is being examined more closely in the independent evaluation of FND, which is separate from this research programme. The FND evaluation includes both a process and an impact evaluation and is being undertaken over a period of two – three years. Findings from the provider research conducted as part of the FND evaluation will be published in autumn 2010.

Amongst the remaining prime providers and sub-contractors a range of views were expressed as to why they had not changed their working practices in respect of this customer group. The main reasons provided were that it was too early for them to say if new approaches were needed or that they were continuing to utilise existing methods and practices with this customer group. A few prime providers commented, that while they have not necessarily introduced new ways of working with respect to this customer grouping they are, however, more focused in the way in which they work with them, seeking to open up new opportunities and areas of the labour market to them. Interestingly, this more focused approach was one of the two main areas which sub-contractors cited as representing a new way of working with this client group. The other main change cited by sub-contractors was to deal with customers' underlying problems such as health and/or housing:

*'I think FND was a catalyst for it but we were responsive to it anyway because of the increasing requirement to demonstrate the whole customer experience agenda, customer experience is everything so it needs to be central in everything we do.'*

(FND Phase One prime provider)

## 10.4 Enhancing public service provision

The Commissioning Strategy places an onus on both Jobcentre Plus and providers to work together to offer a seamless and coherent service to the customer and also on the provider to build delivery partnerships with local public service stakeholders to ensure customers have access to a holistic range of services to support their transition back to work. This section explores these working relationships by looking firstly at working relationships with Jobcentre Plus and then with wider public sector providers.

### 10.4.1 Working with Jobcentre Plus

Both FND Phase One prime providers and sub-contractors, to a lesser extent, have sought to develop relationships with Jobcentre Plus staff, both during the bidding process and following contract award. The relationship between provider and Jobcentre Plus is viewed by the providers as being key to the successful delivery of customer service. Broadly speaking, providers have reported having a good working relationship with Jobcentre Plus. However, they also reported an inconsistency of experience between Jobcentre Plus offices and contract areas. Set out below is a more detailed discussion of the findings by provider type: prime provider and sub-contractor.

Prime providers view the relationship between themselves and Jobcentre Plus staff as essential to the overall success of Contracted Employment Provision (CEP) programmes such as FND. They have all reported undertaking a number of activities to ensure their local Jobcentre Plus offices are aware of their service and that they suitably informed to match customers appropriately. These activities largely consist of information sharing during the bid development process and regular communication following contract award to ensure Jobcentre Plus staff understand the range of



services prime providers offer and to build working relationships. Specific examples of how prime providers have sought to inform Jobcentre Plus of their services are set out in Table 10.4.

**Table 10.4** Examples of how prime providers have sought to inform Jobcentre Plus

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Activities
<ul style="list-style-type: none"><li>• Providers have hosted ‘walk throughs’ for Jobcentre Plus staff explaining:<ul style="list-style-type: none"><li>- provider delivery model;</li><li>- customer journey;</li><li>- specialist inventions;</li><li>- supply chain.</li></ul></li><li>• ‘Café conversations’ which enables small discussion groups with advisors to facilitate greater understanding of provider process/facilities.</li><li>• Regular meetings with Jobcentre Plus staff, from the chief operating officer, Jobcentre Plus third party managers, district and regional directors and personal advisors.</li><li>• Discussions with respect to ‘warm handovers’.</li><li>• Inviting Jobcentre Plus to breakfast events.</li><li>• Weekly meetings during implementation phase/joint implementation team.</li></ul>

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Source: PwC interviews with FND Phase One prime providers, autumn 2009.

Providers expressed a great deal of respect for both the workload and challenges faced by Jobcentre Plus staff. Broadly, the relationships between prime providers and Jobcentre Plus staff were reported as being good, though variable. By way of illustration, two contrasting provider experiences of working with Jobcentre Plus are highlighted. In one instance, where the relationship between the provider and local Jobcentre Plus office was particularly strong, the provider reported working with Jobcentre Plus staff as one FND implementation team and have continued that close relationship following the launch of FND. At the other end of the spectrum, a prime provider reported strained relations with Jobcentre Plus in that particular CPA and expressed a view that the Jobcentre Plus staff saw themselves in competition with the provider and that if the customer had reached FND it was due to a failure on the part of Jobcentre Plus:

*‘I think there is still a lot of work to do. I think there are great relationships between primes and Jobcentre Plus in some districts and terrible relationships in others.’*

(FND Phase One prime provider)

*‘It’s early days...but the relationship with Jobcentre Plus is crucial in the smooth running of a programme.’*

(FND Phase One prime provider)

*‘I think it’s working quite well. It has taken longer to get it working in some areas than others.’*

(FND Phase One prime provider)

A large minority of sub-contractors (43 per cent) consulted with Jobcentre Plus during the FND Phase One bidding process, while around a third considered Jobcentre Plus as a delivery partner in the implementation of the FND Phase One contract. This may be indicative of sub-contractors viewing the primary relationship with Jobcentre Plus as one which is managed by the prime provider.

Providers outlined a number of areas which they felt Jobcentre Plus could improve on or do things differently and these are discussed in more detail below.

#### 10.4.2 Providers' views on Jobcentre Plus development and priorities

Providers were asked what they felt Jobcentre Plus could do differently based on current experience and what their main priority for the year ahead should be.

In looking at current areas for development prime providers highlighted two issues namely 'warmer' client handovers, i.e. handovers that involve the customer, a Jobcentre Plus adviser and the provider to help smooth or enhance the transition process, and clearing the backlog of customer referrals. In this respect, a prime provider suggested that DWP undertake an 'eligibility sweep' of all clients to refer the stock of clients, i.e. those eligible for FND from October 2009, in one transaction or referral rather than on a case by case basis.

Slightly less pervading, though still important, areas identified for development centred on:

- Jobcentre Plus staff, at a local level, working more in partnership with providers; and
- improving communication between Jobcentre Plus and DWP as providers had received inconsistent messages from Jobcentre Plus and DWP. These inconsistent messages appear to be happening due to timeliness, for example, communications to providers are going out via DWP and when providers approach Jobcentre Plus they do not appear to be aware of the message.

It is likely that these views are more reflective of teething problems associated with the early implementation of FND Phase One and it will be useful to revisit these areas in wave two of the research.

The views expressed by both prime providers and sub-contractors with respect to the suggested main priority for Jobcentre Plus over the coming year largely centre around different aspects of partnership working between prime providers and Jobcentre Plus and developing Jobcentre Plus's own capacity. More specific examples are noted in Table 10.5.

**Table 10.5 Suggested priorities for Jobcentre Plus over the next 12 months**

Priorities
<ul style="list-style-type: none"> <li>• Processing customers/referrals better/faster – is it possible to do a single sweep for eligibility for Stage 4 and refer customers quicker rather than on a case by case basis.</li> <li>• Warm handovers.</li> <li>• Improve relationships with all stakeholders.</li> <li>• Sharing of premises (Jobcentre Plus utilising provider premises or vice versa).</li> <li>• Hotline between Jobcentre Plus and provider to resolve any referral issues quickly.</li> <li>• Provider staff shadowing with Jobcentre Plus staff.</li> <li>• Jobcentre Plus broadening focus beyond Stage 3.</li> <li>• Working in partnership with providers – including joint marketing of FND.</li> <li>• Understanding and supporting the FND system and the way in which it is contracted.</li> <li>• Developing a motivated/stable workforce.</li> </ul>

Source: PwC interviews with FND Phase One prime providers and sub-contractors, autumn/winter 2009/10.

### 10.4.3 Working in partnership with local stakeholders

The introduction of the Commissioning Strategy also represents an attempt to forge links between prime providers and other stakeholders such as Local and Multi Area Agreements and City Strategy Pathfinders with a view to adopting a more holistic approach to tackle the multi-faceted problems often associated with worklessness. The intention or expectation is that this will lead to an enhanced customer experience as the customers' experience of public service provision should be seamless and seek to tackle all barriers to work rather than providing only job brokering services.

The research highlights that some prime providers and around half of sub-contractors consulted with a range of strategic partners (e.g. Government service providers, other welfare to work providers and local or regional strategy bodies) both during the FND Phase One bid development process and following contract award. Thus the data, outlined in Table 10.6, indicates that bidders are taking into account local infrastructure and requirements when developing bids. This level of consultation during the bid development stage is also consistent with the soundings taken amongst unsuccessful bidders. However, the research also found that the level of consultation or partnership working following contract award diminished.

While these somewhat disappointing findings may be largely due to the proximity of the research with providers to the commencement of FND Phase One, it should be highlighted as an area to revisit in wave two of the research as it will be important for DWP to monitor the progression and development of these relationships. In particular, it will be important to assess how these relationships and networks translate into a better customer experience.

In light of these findings it is perhaps valuable to highlight an example of good practice provided by a prime provider, operating in a non-choice contract package. This particular prime provider outlined in detail their current level of engagement and plans to develop engagement with a significant range of local stakeholders:

- Economic/regeneration review body;
- National Offender Management Service;
- Local Government;
- All local authorities in CPA and their regeneration body/committee;
- Local Government umbrella organisations;
- Local Strategic Partnership (LSP);
- Sub-Regional structures;
- Chamber of Commerce;
- Regional Government structures;
- Regional Development Agency; and
- Employers.

Interestingly, this prime provider felt their status as the only FND prime provider in the contract area enhanced their ability to engage with other stakeholders, stating that it provided them with more 'authority' when talking to local and regional bodies. It will be interesting to review the impact that choice areas have on the development of these relationships within wave two of the research.

**Table 10.6 Organisations consulted during bid development by providers**

	Prime provider (count)	Sub-contractor %
Other providers operating in the same contract area(s)	3	53
Other providers operating in neighbouring contract areas	4	45
Other providers operating in areas serving a similar client	1	47
Other government service providers	8	47
Other learning providers	7	51
Employers in the contract areas you serve	6	55
Local community and regional groups (e.g. chambers of commerce)	5	54
Customers	7	51
Strategy bodies (including LSP, CSP, CRP and MAA)	7	59
Others	4	28
Refused	-	4
Don't know	-	9

Base: 12 prime providers, 130 sub-contractors, Source: PwC interviews with FND Phase One prime providers, sub-contractors autumn 2009 – winter 2009/10.

## 10.5 Conclusion

### 10.5.1 Key findings

#### *Service delivery*

Providers are committed and passionate about delivering good customer experience. Both prime providers and sub-contractors rate their performance against DWP's Customer Charter highly, with most providers scoring themselves more than seven out of ten, with ten representing performing very well against the charter. It is interesting to note that prime providers rated their performance more highly than sub-contractors. The provider types' self assessment will be monitored over time through revisiting this during wave two of the research.

The key aspect of the Commissioning Strategy, which has positively affected change with respect to the customer experience generally speaking and with specific reference to hard to place customers, is the flexibility for providers to tailor service and innovate. More specifically, most prime providers and sub-contractors felt that the Commissioning Strategy would improve their customer experience/ way in which they deliver services for customers. Interestingly, two prime providers also state that the larger, longer contracts introduced as part of the Commissioning Strategy would enable them to focus more keenly on customer service. Given how highly prime providers rate their performance in this regard it is unsurprising to note that the remaining prime providers felt the strategy represented 'business as usual' in respect of customer experience.

In respect of improving the customer experience for hardest to place customers many prime providers and around half of sub-contractors indicated that they had adopted a new way of working. These new ways of working with this customer group are directly related to the 'black box' approach. For the remaining prime providers it is too early for them to say if new approaches were needed or that they were continuing to utilise proven methods and practices with this customer group.

Those sub-contractors (39 per cent) who saw the Commissioning Strategy as having a negative impact upon service delivery generally believed that this was because the Strategy would result in them spending less time with customers. Sub-contractors who held this view tended to be large, with revenue in excess of £5 million per annum. It is likely that many of these providers previously contracted directly with DWP and perhaps see their change in status to sub-contractor and reported reduction in profit margins as resulting in a negative impact on their customer service.

*Relationships with partners*

Providers view the relationship between themselves and Jobcentre Plus staff as essential to the overall success of CEP programmes such as FND. Broadly the relationships between prime providers and Jobcentre Plus staff were reported as being good, though variable.

In looking at current areas for more immediate Jobcentre Plus development, prime providers highlighted two main issues namely ‘warmer’ client handovers and clearing the backlog of customer referrals. With a view to the next 12 months both prime providers and sub-contractors felt that Jobcentre Plus should focus on developing different aspects of the partnership working with prime providers and developing their own capacity.

Information with respect to wider partnership working by prime providers, to enable customers to access a range of public services and thereby deal with a number of underlying issues, was limited. Some examples of good practice did emerge during the research, though this is perhaps an area for further study in wave two.

**Table 10.7 Summary of impact of the Commissioning Strategy on customer experience**

Type of provider	Positive impact/development	Negative impact/development
Prime provider	Flexibility to innovate and tailor services: <ul style="list-style-type: none"> <li>• A majority of prime providers believed it would improve customer experience.</li> <li>• Almost half of prime providers adopted new ways of working with the hard to place customers.</li> </ul>	N/A
Sub-contractor	Flexibility to innovate and tailor services: <ul style="list-style-type: none"> <li>• 61% believed it would improve service delivery.</li> <li>• 54% adopted new ways of working with hard to place customers.</li> </ul>	39% felt it would not improve service delivery largely because it would lead to reduced time with customers.

**10.5.2 Recommendations**

Based on the findings above there are a number of recommendations.

- **Harvest and disseminate examples of good practice:** based on the research with prime providers it is clear that there is a lot of good practice being undertaken by providers with respect to the customer experience. DWP should seek to ensure that:
  - prime providers are embedding this practice into their supply chain; and
  - examples of good practice are shared between supply chains.

- **Closer working between providers and Jobcentre Plus:** DWP, in conjunction with Jobcentre Plus and providers should seek to develop or revise existing practices to ensure that more ‘warm’ customer handovers, i.e. handovers that involve the customer, a Jobcentre Plus adviser and the provider to help smooth/enhance the transition process, take place. Also, in ensuring consistent customer experience levels across FND delivery DWP and Jobcentre Plus should consider adopting measures to ensure consistency of experience within Jobcentre Plus – both at the adviser level across the FND CPAs and at the various levels within Jobcentre Plus.
- **Developing integrated and holistic local service provision:** As evidenced in Chapter 4, prime providers are consulting with other local service providers, however, only limited examples of good practice were provided during the research. DWP should seek to understand if barriers to partnership working exist and adapt measures, in conjunction with prime providers to overcome them. If no significant barriers exist, DWP should actively encourage prime providers to be more proactive in engaging with local partners in order to meet customers’ underlying needs to overcome unemployment/poverty.

# 11 Conclusions and recommendations

## 11.1 Introduction

This report has sought to evaluate the early implementation of the Commissioning Strategy through interviews with providers of Flexible New Deal (FND) Phase One, the first programme to be designed and commissioned under the principles of the strategy. The Commissioning Strategy model is one under which providers are offered a longer contract, covering a larger area and will be compensated by way of an outcome-based payment system, rewarding providers for enabling customers to secure sustainable employment. Providers, while being required to undertake certain mandatory interventions with their customers, will not be overly prescribed to in terms of the nature of the service to be offered. In return, Department for Work and Pensions (DWP) requires providers to invest in their capability, to develop a strong and high performing supply chain and to ensure customers can obtain a suitable range of services. These actions, on the part of DWP and the providers, are in pursuit of the end goal of getting more long-term unemployed people into sustainable employment.

The research provides a preliminary assessment of the strategy from the perspective of providers. The seven components of the strategy are discussed in turn below. Following which a number of recommendations are put forward for the Department to consider.

## 11.2 Key findings

### 11.2.1 Market structure

This component introduces longer, larger contracts to the welfare to work market in Great Britain. A few prime providers reported that the new larger, longer contracts, awarded under FND Phase One, enabled them to invest in developing their infrastructure and service offering. This action mirrors the rationale put forward by Lord Freud when recommending such a change (Freud, 2007, p52).

As FND Phase One is the first programme to be contracted under the Commissioning Strategy, the emerging impact on the provider market can be assessed by comparing FND Phase One providers with the providers who delivered the legacy programmes which FND replaces in Phase One contract package areas (CPAs). As outlined in Section 4.3.1 such a comparison reveals that the total number of providers delivering FND has increased by 21 to 53 providers. This finding is encouraging but it is important to highlight that it reveals only a partial picture. The value and nature of the work undertaken by FND sub-contractors over the duration of the contract will need to be understood before any definitive findings can be reached in this regard.

FND Phase One supply chains were short at the time of research, i.e. as of then sub-contractors did not typically out-source services to sub-contractors of their own, with virtually all contracts held directly between the prime provider and the sub-contractor. Prime providers tend to manage the contract as a whole while also delivering part of the service alongside a relatively small number of 'end-to-end' providers who deliver generalist employment brokering services and who provide services to the customer throughout their journey. Within the supply chains there also tends to be a wide range of specialist sub-contractors or delivery partners who offer 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. The extent to which services are delivered in-house or outsourced varies between contracts and prime providers. At opposite ends of the spectrum, one prime provider delivered all programmes in-house with one prime provider outsourcing all programmes to sub-contractors.

Some prime providers reported taking on board the principles of the Commissioning Strategy in developing their supply chain, for while they felt they had the capability and expertise to deliver all the required services they sought to develop a supply chain as they felt this would be better received by DWP during bid assessment. This finding would reinforce the need to examine how prime providers are utilising their sub-contractors during delivery of the contract. The need to develop a supply chain was often also in direct response to the size of the contract area, where developing a relationship with other providers could give prime providers coverage across the contract package area which they would not otherwise have. Therefore, the resulting geographical and technical delineation in a number of the supply chains would suggest that prime providers are not ‘cherry picking’ customers from within their referral pool, as was found to be the case in provider led Pathways to Work (DWP, 2010). That is to say, on the basis of this research, prime providers are not selecting to work with customers who are easiest to place in employment while their sub-contractors work with those who are most difficult to place and therefore, require greater resources to handle. The prime providers instead appear to be sharing all customers across their supply chain as allocation of referrals is based on either geographical and/or specialist provision. This is, however, an area which the Department may wish to keep a watching brief over to ensure that sub-contractors are not at a disadvantage within the supply chain.

Significant overlaps exist between supply chains, with seven of the 14 FND Phase One prime providers also operating as sub-contractors and 21 per cent of sub-contractors delivering FND services for more than one prime provider. This is likely to benefit market development from the perspective of developing significant delivery experience under the new Commissioning Strategy amongst a core of welfare to work providers. In doing so, this will deliver against a stated objective of the Commissioning Strategy. However, a downside to this concentration of provision is that it may create the perception that the market is less open to other providers. This highlights the importance of DWP’s market stewardship role in seeking to develop an attractive and diverse market.

In summary, the market structure component appears, on the basis of the initial research, to be impacting upon the market as intended. It will, however, be important to revisit the value and nature of work being undertaken by FND Phase One sub-contractors when the programme has begun to ‘bed in’.

### **11.2.2 Market development and stewardship**

DWP sought to develop interest and facilitate entry to the welfare to work market through changing the nature of contracts, as outlined above, and by hosting a number of events to provide information on the procurement process for FND Phase One to facilitate the development of supply chains. Over 400 organisations attended these events, of which 250 organisations had not previously provided for DWP demonstrating that DWP have developed significant interest in the welfare to work market in Great Britain. While market incumbents were more successful in obtaining prime contracts, a reasonable degree of market entry has occurred with three out of the 14 prime provider contracts being awarded to new entrants and a considerable number of organisations entering the market as FND Phase One sub-contractors.



It is encouraging to note that both prime providers and sub-contractors invested considerably in developing their supply chain(s) and alliances. Examples of these investments include:

- establishing regional teams to research potential sub-contractors and alliance partners;
- publishing calls for Expressions of Interest (EoI) and undertaking relevant due diligence on interested organisations. For one prime provider this involved meeting with around 100 organisations; and
- hosting sub-contractor events.

Pre-existing relationships between providers were found to be important, though not a determining factor in the establishment of alliances, thus further supporting the fact that entry to the welfare to work market is open.

Development of supply chains was found to continue following contract award with most prime providers reporting that some of their sub-contractors withdrew from supply chains at this stage. The reasons provided included: not fully understanding the risk associated with outcome-based funding, changes in expected customer volumes or being part of another successful bid.

As part of the Department's market stewardship role it introduced the Code of Conduct which outlines best practice with respect to relationships between prime provider and sub-contractors. Overall, the Code of Conduct has been well received by both FND Phase One prime providers and sub-contractors. However, during DWP's 'lessons learnt review' of the FND Phase One procurement process, providers were of the opinion that the Code of Conduct had 'no teeth' (DWP, 2009). This view was not expressed by providers during the course of this research. This may be due to the action taken forward as a result of the 'lessons learnt review' whereby the Department has sought to develop the Merlin Standard jointly with providers. The Merlin Standard seeks to further define and guide the development of excellent sub-contractual relationships. In light of these developments and the early stage of implementation at which this research was undertaken it is perhaps too early to make any definitive judgement on the Code of Conduct.

In summary, the emerging evidence in relation to the impact of the market development and stewardship component indicates that DWP has succeeded in generating interest in the Great British welfare to work market as evidenced by a considerable number of new entrants. The processes with which FND Phase One prime providers developed and selected their supply chain partners indicate a willingness on the part of prime providers to ensure they have the right capability to deliver and that the process in developing supply chains is open. As with market structure, the emerging impact and reaction of the market to this component has been in keeping with DWP's intentions. However, while the findings from the research have been positive in this regard a definitive conclusion cannot be reached until the supply chains have been operational for a more sustained period and indeed not until the outworkings of future contracting awards have been implemented and assessed.

### **11.2.3 Provider capabilities**

The Commissioning Strategy clearly sets out a number of capabilities DWP believe are important in a high performing supply chain which includes: financial strength/access to capital, effective partnership working, supply chain management and local credibility and outreach capability. Providers are also expected to continually review and seek to enhance the performance of their supply chain.

Whilst it is too early to say whether prime providers are demonstrating the full range of capabilities outlined in the Commissioning Strategy, it is apparent that significant sums (ranging between £2 million and £6 million) were invested by prime providers to enhance their infrastructure and

capabilities – recruiting staff, establishing offices and IT systems. The extent of investment would suggest that prime providers see the capability requirements outlined by DWP as being appropriate. Customer feedback through the FND evaluation will provide a more objective view on whether the required capabilities for FND Phase One providers are appropriate.

### 11.2.4 Commercial strategy

The commercial strategy component refers largely to the move towards outcome-based funding and the creation of choice contract areas. The research found that prime providers and, to a lesser extent, sub-contractors extensively appraised the FND Phase One programme prior to bid submission. One prime provider reported having developed a model with over 40,000 variables while another reported using 400 different models.

Many prime providers reported that the move to outcome-based funding was a significant issue underpinning contract negotiations with sub-contractors. For instance, sub-contractors requested guarantees around minimum customer volumes in order to mitigate their own financial risk. Three main approaches emerged with regards to how outcome-based payments are being managed at this time:

- DWP terms with the prime provider are passed on fully to end-to-end sub-contractors (i.e. they are based on achieving sustainable outcomes);
- payments to specialist one-off providers are based on services provided rather than outcomes; and
- some initial payments are paid upfront by prime providers to specialist providers who require them.

It is evident that it is the nature of provision, i.e. end-to-end provision or specialist provision that influences contract terms between prime providers and sub-contractors, particularly with regard to payment. Thus, payment terms seek to reflect the extent of a sub-contractor's involvement in the customer journey. For example, contracts between prime providers and direct end-to-end service providers tend to follow similar outcome-based terms as those between DWP and the prime providers. This reflects the fact that end-to-end providers have a long-term relationship with the customer and are, therefore, 'invested' in their success. In contrast, specialist providers, such as an organisation that provides a medical assessment will tend to be paid a service fee for provision which is reflective of the fact that provision is on a 'one off' basis.

The intended introduction of choice CPAs sought to drive performance by rewarding high performing providers with increased market share. During the early contract period providers both received an equal allocation of customers with customer choice and competition amongst the two prime providers in these CPAs not coming into effect until April 2011. It is, therefore, not possible to ascertain the full impact this is having on provider behaviour or service delivery.

In summary, providers have responded well with respect to the move towards outcome-based payments. However, DWP should seek to monitor this closely to ascertain whether or not 'parking' is occurring and consider options such as differentiated payment mechanisms if the practice is occurring.

### 11.2.5 Performance management

A single and transparent approach to performance management is of critical importance, particularly under an outcome-based payment contract. At this early stage of programme implementation the component of performance management cannot be fully assessed.

Nonetheless, it is encouraging to highlight that some FND Phase One prime providers have adopted their performance management systems to meet the requirements of delivering the programme and are ensuring their performance management systems and processes adequately cover their whole supply chain.

The research also found evidence that significant sharing of best practice was occurring within supply chains, though considerably less was found to be shared between supply chains, as could be expected in a competitive market. Examples of how best practice is shared within supply chains includes: secondments and staff exchanges, quarterly sub-contractors' forums and joint operational meetings. Given the significant degree of overlap between supply chains identified above it is likely that such sharing will occur organically.

The reaction of the provider market with respect to this component is encouraging. Again, this is another area in which a fuller assessment can only be made with the passage of time.

### 11.2.6 DWP capability

This component makes requirements of the Department itself, seeking DWP to develop its own skill base and play an active role in supporting providers. Providers identified two areas in which DWP could continue to improve upon. The first is in developing its commercial acumen. In other words, enhancing its understanding of how the Department's actions impact upon providers and their ability to implement and deliver effectively. The delay in signing contracts following contract award was a key example highlighted by prime providers in which the Department's actions left them short of time to operationalise their delivery systems before the launch of FND. The second area highlighted by providers is an apparent 'disconnect' between DWP and Jobcentre Plus shown through a lack of clarity on roles and responsibilities. It is hoped that the commencement of Provider Engagement Meetings (PEMs) will have gone some way to address this concern, however, DWP should seek to further clarify the roles and responsibilities between itself and Jobcentre Plus.

On the basis of this research, the providers perceive it is appropriate for DWP to continue to develop its own capabilities, a point which the Department itself has recognised and actively seeks to implement improvements.

### 11.2.7 Customer experience

This component seeks to give greater importance in the commissioning and management of contracted provision to the views and experience of the customers themselves. Equally, this component requires providers to work in partnership locally with related public service providers to ensure customers' holistic needs are met on their journey towards sustained employment.

Most FND Phase One prime providers and sub-contractors felt that the Commissioning Strategy would lead to an improved customer experience. Flexibility to innovate and tailor service provision was viewed as key to this. Examples of service delivery innovations in FND Phase One include:

- specialised customer diagnostics;
- segmenting customers by need/establishing delivery model on this basis; and
- introducing new systems (e.g. Customer Journey system).

In respect of hardest to place customers, many prime providers and 54 per cent of sub-contractors indicated that they had adopted a new way of working. These new ways of working with this customer group are directly related to the 'black box' approach and involve making their customers more competitive in the labour market and developing employer relationship strategies. For the remaining prime providers they were either continuing to utilise proven methods and practices with this customer group or felt it is too early for them to say if new approaches were needed.

The relevance of ‘joined-up’ working at a local level is clearly appropriate when one considers the range of underlying issues customers often present with. Prime providers have clearly sought to consult with relevant partner organisations during their bid development but to a lesser extent on contract award. The decrease in consultation may be timing related, in that, at the time of the research FND Phase One prime providers were understandably focused on operationalising their service. It will, therefore, be important to revisit this aspect in wave two of the research and to ascertain how and whether the networking translates into more holistic service provision.

### 11.2.8 Conclusion

The research to date has provided an insight into providers’ reactions to the Commissioning Strategy. It is clear, at this early stage that providers have generally taken on board the principles of the Commissioning Strategy and sought to approach the development of their supply chains and delivery model accordingly. The flexibility to innovate gives prime providers and their supply chain the opportunity to create a step change in performance. However, it is too early to tell whether the Commissioning Strategy has had any unintended consequences, either in terms of market structure or in terms of service delivery. The true impact of the strategy can only be measured at a later date after a range of programmes have operated under the strategy for a sufficient period for impacts, intended or otherwise, to have taken effect. A number of recommendations have been put forward, based on the research findings, and are outlined below for consideration by the Department.

## 11.3 Recommendations

### 11.3.1 Continue stewardship role

- **Develop integrated and holistic local service provision:** one of the aims of the Commissioning Strategy is to develop greater integration and cohesion, at a local level, to meet customers’ underlying needs to overcome unemployment and poverty. There is clear evidence that prime providers are consulting with other local service providers. However, the research shows only limited examples of good practice. DWP should seek to understand if barriers to partnership working exist and adopt measures, in conjunction with prime providers, to overcome them. If no significant barriers exist, DWP should encourage prime providers to be more proactive in engaging with local partners.
- **Understand current risk/reward profile:** Due to the differential in profitability expectations amongst prime providers and sub-contractors DWP should conduct a value chain analysis. This will identify where the balance of risk and reward rests and will inform the need for any corrective action to be taken to ensure that sub-contractors are being equitably treated and adequately rewarded within supply chains relative to prime providers.
- **Monitor changes in supply chains:** DWP should monitor market development: 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.

### 11.3.2 Communicate effectively

- **Enhance non-FND providers' (i.e. non-bidders and unsuccessful bidders) understanding of Commissioning Strategy requirements:** Not surprisingly non-FND Phase One providers are the least enthusiastic about the new Strategy. This appears to be driven by a lack of understanding of what the Commissioning Strategy is striving to achieve, as can be seen by their desire to reduce contract sizes both in terms of volumes and geographical coverage. However, there is willingness for non-FND Phase One providers to remain in the marketplace. This would imply that some non-FND Phase One providers would benefit from further education regarding the aims of the Commissioning Strategy and how they can find their role in the new provision market. DWP should consider what part it could play in this process.
- **Clarify Departmental roles:** providers reported increased clarity on the roles and responsibilities of DWP staff. However, the research highlights this as an area for continued improvement. It is, therefore, important for the Department to continue to provide clarity on the roles and responsibilities of staff, particularly in respect of contract management staff and those staff who interact directly with providers.

### 11.3.3 Develop capacity

#### *Within the market: facilitate capacity*

- **Train providers:** prime providers feel relatively confident in their experience against the key provider capabilities. However, supply chain management was identified by prime providers as an area for further development. DWP has already put a programme of supply chain management workshops in place for providers which focuses on good practice within sub-contractor management and how to use supply chain management in enhancing performance and quality. Following the completion of these workshops it will be important for DWP to assess whether the need, identified in the research, has been met.
- **Maintain a programme of networking events:** opportunities for smaller organisations do not appear to have decreased as a result of the Commissioning Strategy. Given the move to longer contracts it will be important to ensure that networking opportunities, either physically or virtually, are still available to smaller organisations to facilitate the on-going development of a diverse market. DWP may wish to undertake this in conjunction with provider umbrella organisations.

#### *Within the DWP: improve commercial acumen*

- **Broaden/enhance the commercial experience of key staff:** there are two elements to this. Firstly, for staff with direct interaction with providers (e.g. Contract Managers and Jobcentre Plus Regional Directors), DWP should consider providing practical work experience opportunities such as work shadowing and secondments with prime providers/sub-contractors. The research has indicated that many prime providers are likely to support this. Secondly, for DWP staff more generally involved in Contracted Employment Provision (CEP), DWP should develop opportunities to enhance their understanding of the practical challenges and commercial implications of departmental actions. For example, understanding the actions and costs which rest on the signing of contracts and implementation of IT systems, and the impact that this has on the quality of service delivery and profitability.
- **Keep abreast of and share market information:** linked to the recommendation to monitor the change in supply chains, this recommendations seeks to dispel fears and/or misinformation with respect to changes in the marketplace and also to inform providers, particularly smaller organisations of market changes, DWP should keep abreast of and share market information (e.g. numbers of providers active in the market, levels of market entry and exit).

### *Within Jobcentre Plus: developing consistency*

- **Closer working between providers and Jobcentre Plus:** DWP, in conjunction with Jobcentre Plus and providers should seek to develop or revise existing practices to ensure that more ‘warm’ customer handovers take place. Also, in ensuring consistent customer experience levels across FND delivery, DWP and Jobcentre Plus should consider adopting measures to ensure consistency of experience within Jobcentre Plus – both at the adviser level across FND CPAs and at the various levels within Jobcentre Plus.
- **Clarify roles between DWP and Jobcentre Plus:** some providers believe that there is a ‘disconnect’ between the Department and Jobcentre Plus regarding roles and responsibilities and this perceived lack of cohesion is causing challenges around understanding the roles and responsibilities of the two organisations and the link between operational requirements and performance management. DWP, with Jobcentre Plus, should seek to understand why this is happening and adopt measures to overcome this, for example, an improved internal communication process between DWP and Jobcentre Plus.

### *Monitor and manage performance*

- **Monitor performance against expectations/targets:** as the economy moves out of recession the labour market is likely to remain tight for some time. It will, therefore, continue to be difficult to place customers into work. DWP should review job outcome targets, at regular intervals, against local labour market information and flex as appropriate to ensure the targets are challenging yet achievable for providers. This aligns with DWP’s contractual arrangements with prime providers where the switch back to the original 20/80 service fee/outcome payments model is dependent upon Gross Domestic Product (GDP) growth.
- **Understand and apply the lessons from Provider Referrals and Payment (PRaP) implementation:** the evidence gathered through this research provides feedback on the implementation issues with respect to PRaP. It will be important for DWP to fully ascertain the lessons learnt from this implementation process, including provider access and security issues and apply them to the future roll out of PRaP and/or introduction of new providers to the PRaP system.
- **Facilitate sharing of best practice if required:** on the basis of the research findings, it is most likely that best practice will be shared both within and, to a lesser extent, between supply chains. Should it transpire that this is not occurring, particularly with respect to smaller providers, DWP should intervene and facilitate a series of good practice workshops.
- **Harvest and disseminate examples of good practice:** based on the research with prime providers it is clear that there is a lot of good practice being undertaken by providers with respect to the customer experience. DWP should seek to ensure that prime providers are embedding this practice into their supply chain.

# Appendix A

## Methodology

### Introduction

This appendix details how the sample frames for the Department for Work and Pensions (DWP) provider baseline survey and wave one of the Commissioning Strategy provider research were composed, how Flexible New Deal (FND) legacy and FND Phase One market sizes were calculated and contains summarised versions of the research instruments used. These research instruments were designed, piloted and agreed with DWP prior to commencing fieldwork for this study.

The following research instruments are included in Appendix A:

- Provider baseline survey 2009 questionnaire summary.
- Wave one provider research: FND Phase One prime providers' topic guide.
- Wave one provider research: FND Phase One sub-contractors' questionnaire summary.
- Wave one provider research: unsuccessful FND Phase One bidder questionnaire summary; and
- Wave one provider research: non-FND Phase One bidder questionnaire summary.

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

### Composition of sample frame and response rates for provider baseline survey

The primary objective of the provider baseline survey was to provide a baseline to be used to examine the impact of the Commissioning Strategy on DWP welfare to work providers and the provider market. A secondary objective of the survey was the creation of a database that would build upon the information contained in DWP's MOMENTA database prior to the introduction of the Commissioning Strategy. Welfare to work providers who are awarded contracts in excess of £50,000 to deliver employment programmes on behalf of DWP are required to become accredited with the Department. Information on providers relating to this accreditation (e.g. legal status, financial information) is held on the MOMENTA database.

This section describes the methodology used to develop a sampling frame for the provider baseline survey.

#### **Establishing the sample frame**

Not all DWP welfare to work providers are captured on MOMENTA. For instance, organisations who act solely as a sub-contractor and/or hold contracts directly with DWP which are less than £50,000 will not have been required to gain accreditation and subsequently may not be included on the MOMENTA database. It was, therefore, recognised that basing the sample frame solely on the existing MOMENTA database entries may not capture all DWP welfare to work providers. Consequently, additional sources were sought and discussed with the Department. Following which the sample frame was derived from the sources outlined below:

- the DWP MOMENTA database, from which 583 organisations were sourced. This included current DWP accredited organisations (as of September 2009) with contracts valued at over £50,000 as well as organisations with lapsed MOMENTA accreditation;
- the European Social Fund (ESF) database, from which 216 ESF providers were sourced; and
- a list of organisations that had attended FND Phase One information events. 125 organisations were sourced from this list.

The combination of these three data sources created an initial sample frame of 924 organisations which was then cleaned to remove duplicates, i.e. organisations that had appeared in more than one of the data sources. This resulted in the removal of 97 organisations. Desk research was then conducted to include contact details where gaps existed. This resulted in the removal of a further 30 organisations for whom attempts to locate contact details were unsuccessful. The final sample frame, therefore, included 797 organisations.

It is recognised that there may be a small number of providers that lie outside the sample frame but currently no robust means exists to identify them. However, the sample frame was compared against data from DWP’s Commercial Directorate. This data indicates that, as at May 2009, 90 per cent of DWP’s contracted employment spend is with 160 organisations and 95 per cent of DWP’s contracted employment spend is with 556 organisations. It is, therefore, believed that the sample frame captures DWP welfare to work providers to the fullest extent possible at the time of this research.

### Responses to the provider baseline survey

As noted above, the final sample frame included 797 organisations. Over the fieldwork period of September 2009 and October 2009, attempts were made to contact all 797 organisations, of which 593 organisations completed the survey. The remaining organisations did not complete the survey for a variety of reasons as outlined in Table A.1. These reasons included organisations refusing to participate in the survey (48), appointments that organisations did not fulfil (nine) and surveys that organisations terminated during the interview (11). Attempts were made to re-contact all of these organisations to complete the survey. The highest proportion of non-respondents fell within the ‘unobtainable’ category. Within this category, nine organisations could not be contacted, 40 organisations did not reply to phone calls and 87 organisations exceeded the call count, i.e. they were called more than ten times with no positive response.

**Table A.1 Response rates for the provider baseline survey**

	Count	Population in scope of study %
Number sampled (from MOMENTA, ESF and FND Phase One attendee lists)	924	–
Ineligible (duplicates or unobtainable)	127	–
In scope of study	797	100
Refused	48	6
Unobtainable	136	17
Missed appointments	9	1
Incomplete interviews	11	1
Completed	593	74



It must also be noted that participant recall issues impacted the accuracy of the results. This is particularly applicable where respondents were asked for the full range of DWP welfare to work programmes they provided, the districts in which they provided the programmes and the percentage of customers that were enrolled on each programme. To reduce such recall issues, introductory emails were sent to participants outlining the extent of the information required and interviews were conducted with the best placed individual, typically the contract manager responsible for DWP contracts.

### **Understanding the non-respondents**

As no clear picture existed of the DWP provider market prior to the survey it was not possible to weight the survey data to account for non-respondents. However, every attempt was made to contact and conduct the survey with all organisations in the sample and a high response rate within the identified population was achieved. All reasonable efforts were made to reduce non-response bias.

Notwithstanding this, it is important to understand, as far as possible, the profile of organisations who did not respond. Consequently, following the fieldwork period, desk based research was undertaken on the 204 non-respondents in an effort to ascertain their sector and whether they provided DWP welfare to work programmes. This research revealed that at least 31 organisations provided welfare to work services on behalf of DWP and that 52 organisations were either no longer in operation or were not currently providing services to DWP. This leaves a further 121 organisations for which it was not possible to determine whether they had provided DWP welfare to work programmes. Looking at these organisations and those who were found to be providing welfare to work services on behalf of DWP (152) more than a third of organisations were from the third sector (38 per cent) with remaining organisations evenly split across the private and public sectors at 31 per cent each. In light of the relatively even split of organisations in this second sectoral analysis (152 organisations) the profile of non-respondents should have limited bias on the survey data.

## **Composition of sample frame and response rates for wave one of the Commissioning Strategy provider research**

The primary objective of the wave one provider survey was to see how the Commissioning Strategy, through the implementation of FND, has impacted upon providers in Phase One areas and what lessons could be learned for future programme implementations.

There were two aspects to interviews with providers, in-depth interviews with prime providers and a quantitative survey with FND sub-contractors and other providers (non-FND Phase One bidders and unsuccessful FND Phase One bidders). The focus of the non-prime provider interviews was to be on FND Phase One sub-contractors with 'soundings' from others, i.e. 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. Due to the small numbers of prime providers within the FND Phase One area 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 sub-contractors and other providers to provide empirical evidence on their reactions and responses to the Commissioning Strategy.

This section describes the methodology used to develop a sampling frame for wave one of the Commissioning Strategy.

### **Establishing the sample frame – qualitative interviews**

Depth interviews were conducted with prime providers who had won the contract to deliver FND Phase One. 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 sub-contractors and other non-prime providers as part of the Wave One provider survey came out of our findings from the provider baseline survey along with providers who had attended DWP events, the list of FND Phase One sub-contractors 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 one survey was compiled by collating:

- all providers supplying services within the FND Phase One areas as identified in the provider baseline survey (254 of 416 DWP providers);
- organisations who had attended various DWP events regarding the contract along with published lists of successful prime providers and sub-contractors;
- the list of FND Phase One successful sub-contractors published by DWP post contract award; and
- snowball sampling; whereby respondents were asked to provide contact details for the organisations to whom they sub-contracted FND Phase One programmes or services. These were likely to be Tier three or Tier four sub-contractors as tenderers were not obliged to provide these details. While all providers were asked to provide these details, it must be noted that the number of respondents sourced through snowball sampling was minimal due to an observed lack of sub-contracting among providers.

This resulted in a sample frame of 556 non-prime providers.

### **Responses to the wave one provider survey – qualitative interviews**

For the depth interviews with prime providers we tried to speak to all 14 organisations at a national and district level. We spoke to 12 of the prime provider organisations which included 12 nationally and nine at a district level resulting in 21 respondents in total.

### **Responses to the wave one provider survey – quantitative survey**

As noted above, the viable sample for the telephone interviews with sub-contractors, unsuccessful bidders and non-bidders was 556 organisations. An overall sample of 195 was agreed with soft quotas placed on the sample frame as the exact nature of the market is unknown. Over the fieldwork period (October 2009 to January 2010) all 556 organisations were contacted.

The focus of the quantitative survey was on sub-contractors currently providing FND services (67 per cent of sample). This was to meet a target of achieving approximately 80 per cent response rate for the known FND Phase One sub-contractor population (155 organisations). Eighty-four per cent (130/155) response rate was actually achieved. Soft quotas for non-bidders and unsuccessful bidders were set to ensure that a sufficient total number of organisations amongst these provider types was achieved to provide an overview as well as ensuring that there was a spread of size and types of organisations. Findings from these interviews with non-bidders and unsuccessful bidders were designed to give a ‘sounding’ of those not involved in FND Phase One. Response rates for the wave one provider survey are provided in Table A.2.

**Table A.2 Response rates for the wave one provider quantitative survey**

	Number	Population in scope of study %
Number sampled (from)	714	–
Ineligible (duplicates)	158	–
In scope of study	556	100
Refused	92	16
Unobtainable	121	22
Incomplete interviews (did not meet criteria/quota met)	148	27
Completed	195	35
FND Phase One sub-contractors	130	23
Unsuccessful FND Phase One bidders	21	4
Non-FND Phase One bidders	44	8

### Understanding the non-respondents

One hundred and thirty interviews were achieved out of 155 known sub-contractors (excluding those sub-contractors who are also prime providers) within FND Phase One areas. Whilst 155 organisations may not represent the complete sub-contractor FND Phase One market, the sample frame was only minimally augmented as the survey progressed (only three additional sub-contractors were identified by respondents), it would imply that this research captured the vast majority of sub-contractors delivering the FND Phase One contract. Therefore, the scope for non-response bias amongst sub-contractors is limited.

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

## Number of FND legacy providers

### Introduction

This section outlines the methodology used to estimate the number of organisations providing FND legacy programmes<sup>15</sup> in FND Phase One contract areas prior to the introduction of the Commissioning Strategy.

Producing an estimate of the total number of FND legacy programme providers allows for an examination of how the Commissioning Strategy has impacted the FND market in FND Phase One areas over time. However, it should be noted that assessing the change in market structure based on the number of providers delivering services alone provides only a partial picture. In wave two of this research it will be important to assess the value of services delivered by the sub-contractors both individually and collectively to capture the scale of any changes in market structure.

<sup>15</sup> FND Legacy programmes include New Deal 18-24, New Deal 25 Plus, Private Sector led New Deal, New Deal 50 Plus, New Deal for Musicians and New Deal for Self-Employed and Employment Zones (EZs).

### Overview of approach

A two step approach was taken to calculate the number of providers delivering FND legacy programmes within the Phase One contract area. Whilst it is recognised that there are limitations to this calculation as it is based on survey data and, therefore, incorporates non-response bias and relies on the accuracy of respondent recall, it is the best estimate available for the FND legacy market within the Phase One contract area.

### Breakdown of approach

#### Step 1: Best estimate of the proportion of providers delivering FND legacy programmes within Phase One areas

Using the primary data provided by the organisations that participated in the provider baseline survey 96 organisations were identified as providing FND legacy programmes in Phase One contract areas. In addition to this, a further 12 organisations were identified as providing FND legacy programmes but had not specified the districts in which they provided. As these 12 organisations could have been providing in FND Phase One areas they have been included in the estimate of the proportion of providers delivering FND legacy programmes within Phase One areas. These 108 organisations represented 26 per cent of the 416 organisations surveyed that stated they provided DWP programmes as at September 2009.

#### Step 2: Best estimate of population

However, to include those organisations that were assessed as being part of the welfare to work market but who did not participate in the survey, 26 per cent was applied to the total welfare to work market which was estimated to be between 447 and 568 organisations<sup>16</sup>.

Applying the rate of 26 per cent to this total market size provides an estimate of the number of FND legacy programme providers in Phase One contract areas of between 116 and 148 organisations.

### Strengths and weaknesses of this approach

The key strength of this approach to calculating the number of FND legacy programme providers within the Phase One contract area is that it is based on primary data collected directly from providers. However, similar to all survey-based research, accuracy of respondent recall can be an issue, particularly around the provision of FND legacy programmes at district level. But, given the nature of the questions asked, knowledge of the provision of at least one FND legacy programme in just one of the Jobcentre Plus districts within a Phase One contract area would have sufficed to ensure an organisation was included within the base of FND legacy programme providers in Phase One, therefore, reducing the impact of inaccurate recall. In addition, those organisations that stated that they provided FND legacy programmes but did not specify districts have been included in the market size calculation.

Regarding non-response and the fact that not all previous FND legacy programme providers may have been captured within the provider baseline survey it is encouraging to note that data from the DWP Commercial Directorate indicates that 95 per cent of DWP spend was with 556 organisations as of May 2009, a number which is consistent with the higher estimation of the marketplace at September 2009 of 568.

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<sup>16</sup> The lower range of 447 organisations included 416 DWP programme providers that were surveyed in September 2009 and 31 organisations that were found through desk research to be DWP providers as at September 2009. The upper range of 568 organisations included an additional 121 organisations that did not participate in the provider baseline survey and it was not possible to identify if they provided FND legacy programmes based on the desk research undertaken.

## Provider baseline survey 2009 questionnaire summary

### **Background information:**

- Confirmation of the details of the respondent, organisation, sector and contract manager.
- Confirmation of whether or not they currently provide DWP programmes.

### **Section A: Types of programmes provided:**

- Customers referred by DWP for employment programmes and the proportions of customers enrolled in DWP programmes.
- Regions and districts for DWP programme provision and details on whether they act as a prime provider or sub-contractor (or neither) for the applicable programmes.
- Incidence of DWP programme provision within a special purpose vehicle, joint venture or other partnership.
- Total revenue and revenue activity relating to DWP contracts.
- Other clients/funders.
- Total number of employees and number of employees relating to DWP contracts.

### **Section B: Non-current providers of DWP programmes:**

- Relationship with DWP, DWP programmes previously provided and reasons for not currently providing.

### **Section C: Future intentions:**

- Future intention to provide DWP programmes and reasons for not providing DWP programmes in the future (where applicable).

### **Section D: Provider history:**

- Number of years the organisation has provided employment services to DWP.

### Wave one provider research: FND Phase One prime providers' topic guide

#### **Section A: Commissioning Strategy and organisational development:**

- Respondent's views and responses to each of the Commissioning Strategy components as it affects their organisation.
- Opportunities and barriers associated with the Commissioning Strategy.

#### **Section B: Finances:**

- Commercial attractiveness of the welfare to work market and reasons for bidding for FND Phase One.
- Modelling, fixed costs versus marginal costs and implications of outcome-based funding.
- Prime provider role, impact on profits and refinancing required.
- Sub-contractor's financial concerns with respect to FND Phase One contracts.

#### **Section C: Business model:**

- Outline of each prime provider's FND Phase One supply chain.
- Development of supply chain/delivery networks.
- Contracts with sub-contractors.
- Relationships with stakeholders and interactions with Jobcentre Plus offices.

#### **Section D: Delivery/performance management:**

- Capacity – managing risks, steps taken to increase capacity and challenges faced.
- Performance monitoring – systems in place to deal with performance monitoring, impact of Provider Referrals and Payment (PRaP) on existing management systems.
- Client satisfaction – ability to meet DWP Customer Charter, approaches to manage the hardest to reach customers.
- Sharing best practice and willingness to share information.

#### **Section E: Overall impact:**

- Most important effect that the Commissioning Strategy has had on the welfare to work marketplace on the main stakeholders.
- Views on how the new Commissioning Strategy will impact key stakeholders.

## Wave one provider research: FND Phase One sub-contractors' questionnaire summary

### **Background information:**

- Confirmation of respondent's name.

### **Screening questions to ascertain relationship with DWP:**

- Organisational profile questions – classification of sub-contractors, unsuccessful bidders and non-bidders.
- Size of revenue and employee numbers within organisation.

### **Section A: Current provision of FND Phase One:**

- Confirmation of delivery (including prime providers and districts served).

### **Section B: Commissioning Strategy and organisational Development**

- Initial reactions to all components of Commissioning Strategy (as it applies to their organisation).
- Opportunities and barriers associated with the Commissioning Strategy.

### **Section C: Finances**

- Attractiveness of the welfare to work market.
- Modelling, fixed costs versus marginal costs and implications of outcome-based funding.
- Profitability - profitability associated with delivering FND Phase One programmes and services.

### **Section D: Business model**

- Understanding the sub-contractors' FND Phase One supply chain.
- Interactions with Jobcentre Plus offices.
- Contracts with prime providers.

### **Section E: Delivery/performance management**

- Capacity – managing risks, steps taken to increase capacity and operational challenges faced.
- Performance monitoring – systems in place to deal with performance monitoring, how PRaP will change existing management systems.
- Client satisfaction – ability to meet DWP Customer Charter, approaches to manage the hardest to reach customers.
- Sharing best practice and willingness to share information.

### **Section F: Overall impact**

- Views on how the new Commissioning Strategy will impact key stakeholders.

## Wave one provider research: unsuccessful FND Phase One bidder questionnaire summary

### **Background information:**

- Confirmation of respondent's name.

### **Screening questions to ascertain relationship with DWP:**

- Organisational profile questions – classification of sub-contractors, unsuccessful bidders and non-bidders.
- Size of revenue and employee numbers within organisation.

### **Introduction:**

- An understanding of the organisation's position with regards to FND – did it bid as a prime or subcontractor and the stage of the tender(s) they were unsuccessful.
- Views of the changes to the provider market with regards to the new Commissioning Strategy.
- Opportunities and barriers associated with the Commissioning Strategy.
- Provider capabilities – how these have been managed and what DWP could do to foster the growth of/build capacity of providers to enable them to meet these requirements.
- Views on the FND Phase One bidding process.

### **Future business outlook:**

- Impacts of the Commissioning Strategy on the organisation.
- Actions taken as a result of FND Phase One contracting.
- Revenue generated through DWP in next 12 months for the organisation.
- Outlook on future DWP contracts.



## Wave one provider research: non-FND Phase One bidder questionnaire summary

### **Background information:**

- Confirmation of respondent's name.

### **Screening questions to ascertain relationship with DWP:**

- Organisational profile questions – classification of sub-contractors, unsuccessful bidders and non-bidders.
- Size of revenue and employee numbers within organisation.

### **Introduction:**

- An understanding of the organisation's position with regards to FND – confirming it did not bid.

### **View of Changes to the provider market:**

- Impacts of the Commissioning Strategy on the organisation.
- Opportunities and barriers associated with the Commissioning Strategy.
- Provider capabilities – how these have been managed and what DWP could do to foster the growth of/build capacity of providers to enable them to meet these requirements.

### **Non-bidding:**

- Reasons for not bidding and the stage it was decided not to bid.
- Outlook on future DWP contracts.

### **Future business outlook:**

- Actions taken as a result of FND Phase One contracting and any other main funders.
- Rationale for exiting the DWP provider market (where applicable).

# Appendix B

## Survey data

### B1: Provider baseline survey data

<b>B1.1: Please confirm your sector?</b>	<b>%</b>
Public sector	26
Private sector	26
Third/Voluntary sector	46
Other	1
Refused	1

*Base: 593*

<b>B1.2: Please confirm the primary nature of your business?</b>	<b>%</b>
Council Authority	18
Training organisation	27
Educational institution	8
Charity	30
Health organisation	3
Employment organisation	3
Social enterprise	3
Consultancy	2
Other	5
Refused	1

*Base: 593*

<b>B1.3: What is the legal status of your organisation? (Private sector)</b>	<b>%</b>
Sole trader	7
Partnership	2
Limited Liability Partnership (LLP)	1
Limited Liability Company (LLC)	71
Franchise	1
Public/Private partnership	1
Private company limited by shares	9
Other	6
Don't know	2

*Base: 156. Figures may not add to 100% due to rounding*

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<b>B1.4: What is the legal status of your organisation? (Public sector)</b>	<b>%</b>
Non-departmental public body	4
Local authority	71
Trust	6
Public/Private partnership	4
College of Further Education	7
Other	7
Don't know	1

*Base: 156*

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<b>B1.5: What is the legal status of your organisation? (Third/Voluntary Sector)</b>	<b>%</b>
Registered charity	44
Company limited by guarantee	16
Company limited by guarantee with charitable status	35
Social enterprise	2
Other	3

*Base: 263*

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<b>B1.6: What is the approximate total revenue for your organisation for last year?</b>	<b>%</b>
Less than £50,000	4
£50,000 to less than £100,000	3
£100,000 to less than £250,000	9
£250,000 to less than £500,000	9
£500,000 to less than £1 million	10
£1 million to less than £3 million	18
£3 million to less than £5 million	11
More than £5 million	36

*Base: 330 plus 116 organisations for whom revenue was predicted.*

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### Note:

On completion of the Department for Work and Pensions (DWP) provider baseline survey, it was established that a considerably high percentage of respondents (21 per cent) were unable or unwilling to disclose their organisation's annual revenue. At the request of the DWP, a method of estimating the revenue for the organisations that did not disclose annual revenue was formulated.

Discriminant analysis was conducted to build a predictive model of group membership based on observed characteristics of each case. This method of analysis generates a discriminant function based on linear combinations of the predictor variables that provide the best discrimination between the groups.

The functions are generated from a sample of cases for which group membership is known; the functions can then be applied to new cases that have measurements for the predictor variables but have unknown group membership.

In the case of the DWP provider baseline survey, group membership was determined by using two variables; sector (i.e. public/private or third/voluntary) and the number of full-time employees of each organisation. Using these two variables, the discriminant analysis allowed for the estimation of revenue for organisations that did not disclose annual revenue, based on their sector and number of full-time employees. The margins for error in estimating organisations’ revenue varied by sector and were as follows:

- Public sector – 0.926.
- Private sector – 0.848; and
- Third sector – 0.913.

The conditional probability is out of 1.00 in all cases. This means that the predicted revenue figures for public sector organisations are accurate in 92.6 per cent of the cases. For private sector organisations, predicted revenue would be accurate in 84.8 per cent of the cases while for third sector organisations, the predicted revenue would be accurate in 91.3 per cent of the cases.

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**B1.7: What is the approximate total revenue for your organisation for the current financial year-to-date since 1 April 2009?** **%**

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Less than £50,000	5
£50,000 to less than £100,000	4
£100,000 to less than £250,000	8
£250,000 to less than £500,000	8
£500,000 to less than £1 million	7
£1 million to less than £3 million	10
£3 million to less than £5 million	4
More than £5 million	15
Refused	2
Don't know	37

*Base: 416*

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**B1.8: How many full-time employees are involved directly in delivering DWP programmes?** **%**

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0	3
1 – 10	57
11 – 25	15
26 – 50	10
50+	13
Don't know	2

*Base: 416*

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<b>B1.9: How many part-time employees are employed in total by your organisation?</b>	<b>%</b>
0	15
1 – 10	44
11 – 25	10
26 – 50	3
50+	18
Don't know	10

*Base: 416*

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<b>B1.10: How many part-time employees are involved directly in delivering DWP programmes?</b>	<b>%</b>
0	34
1 – 10	51
11 – 25	4
26 – 50	1
50+	2
Don't know	8

*Base: 416*

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<b>B1.11: How many seasonal/contracted employees are employed in total by your organisation?</b>	<b>%</b>
0	69
1 – 10	13
11 – 25	2
26 – 50	2
50+	5
Don't know	9

*Base: 416*

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<b>B1.12: How many seasonal/contracted employees are involved directly in delivering DWP programmes?</b>	<b>%</b>
0	82
1 – 10	9
11 – 25	1
26 – 50	1
50+	0
Don't know	7

*Base: 416*

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<b>B1.13: Including this year, how many years has your organisation provided employment services to DWP?</b>	<b>%</b>
Less than 1 year	2
1 year to less than 2 years	8
3 years to less than 5 years	11
5 years to less than 7 years	9
7 years to less than 10 years	15
10 years or more	53
Don't know	2

Base: 519

### Non-current<sup>17</sup> providers' findings

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<b>B1.14: Have you ever provided employment services to DWP?</b>	<b>%</b>
Yes	62
No	38

Base: 177

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<b>B1.15: What programmes have you previously provided?</b>	<b>%</b>
New Deal	41
Pathways to Work	19
Employment Zones (EZ)	2
Work Path	18
European Social Fund (ESF)	44
Progress to Work	5
Programme Centres	3
Residential Training	1
Deprived Area Fund	4
Work based learning for adults	2
Other	7

Base: 108 (multiple responses)

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<sup>17</sup> Non-current providers are those organisations that have previously provided services to DWP but did not provide any DWP programmes in September 2009 prior to the introduction of the Commissioning Strategy.

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<b>B1.16: When did you cease to provide employment services to DWP?</b>	<b>%</b>
Under 6 months ago	13
Up to 12 months ago	12
More than one year ago	70
Not applicable	4

*Base: 108. Figures may not add to 100% due to rounding*

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<b>B1.17: What is the primary reason for not currently providing DWP programmes?</b>	<b>%</b>
The cost of providing programmes is prohibitive	2
The reimbursement for providing services is inadequate	3
Do not have the IT/administrative capacity	4
Do not have the relevant skills	2
Because of the contractual requirements of DWP/Jobcentre Plus	16
Pursuing other markets/business opportunities	4
The contracts are too small	2
The contracts are too large	16
Contract/funding came to an end	10
Unsuccessful in winning contracts	7
Haven't bid for contracts	5
My organisation is between contracts	3
Moving to a tiering system (i.e. prime providers/sub-contractors)	4
Don't provide DWP programmes	9
Work in partnership rather than directly contracting	2
Lack of information	2
Other	5
Don't know	4

*Base: 177. Figures may not add to 100% due to rounding*

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<b>B1.18: What are the barriers to future provision?</b>	<b>%</b>
The cost of providing programmes is prohibitive	12
The reimbursement for providing services is inadequate	5
Do not have the IT/administrative capacity	12
Do not have the relevant skills	3
Do not have the relevant experience	3
Contractual requirements of DWP/Jobcentre Plus	33
Pursing other markets/business opportunities	17
The contracts are too small	2
The contracts are too large	17
Moving to a tiering system	12
Difficulty of working with DWP as a small organisation	13
Other	10
Don't know	5

Base: 59 (multiple responses)

### Provider baseline survey cross-tabulations

<b>B1.19: Length of service provided to DWP by revenue derived from DWP</b>	<b>1-10 %</b>	<b>11-20 %</b>	<b>21-30 %</b>	<b>31-50 %</b>	<b>51-75 %</b>	<b>75+ %</b>	<b>Refused %</b>	<b>Don't know %</b>	<b>Total %</b>
Less than 1 year	2	0	0	0	0	2	0	3	1
1 year to less than 2 years	8	12	6	5	3	2	0	3	6
3 years to less than 5 years	6	10	13	18	6	2	0	8	8
5 years to less than 7 years	12	10	6	5	9	2	0	13	9
7 years to less than 10 years	17	12	19	15	13	10	25	17	15
10 years or more	55	56	53	56	69	82	75	51	59
Don't know	1	0	3	0	0	0	0	6	1

Base: 410



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<b>B1.20: Other funders by dependence on revenue derived from DWP</b>	<b>1-10 %</b>	<b>11-20 %</b>	<b>21-30 %</b>	<b>31-50 %</b>	<b>51-75 %</b>	<b>75+ %</b>	<b>Refused %</b>	<b>Don't know %</b>	<b>Total %</b>
We have no other funders or clients	7	7	0	5	6	29	25	13	10
Other Government Department Agency, e.g. Learning and Skills Council	75	63	88	79	78	63	25	69	73
Private sector organisations, e.g. banks, retailers, etc	13	24	9	18	22	2	0	7	13
Community/Voluntary groups	13	15	13	15	19	2	0	17	13
Further Education (FE) Colleges	6	7	9	18	6	2	0	13	8
Charitable Trust	2	0	9	0	3	0	0	1	2
ESF	3	2	0	5	0	0	0	1	2
Grants	2	2	0	0	0	0	0	0	1
Local Authority	14	17	13	8	16	12	0	8	12
Local Government	1	0	0	3	3	0	0	1	1
Lottery Fund	4	5	3	3	0	0	0	1	2
NHS	1	0	0	0	6	0	0	4	2
Other	7	10	3	0	3	2	0	3	5
Refused	0	0	0	0	0	0	25	0	0
Don't know	1	0	0	0	0	0	25	3	1

*Base: 410 (multiple responses)*

<b>B1.21: Other funders by sector</b>	<b>Public sector %</b>	<b>Private sector %</b>	<b>Third/Voluntary sector %</b>	<b>Other %</b>	<b>Refused %</b>	<b>Total %</b>
We have no other funders or clients	18	9	5	0	0	10
Other Government Department Agency, e.g. Learning and Skills Council	68	76	74	50	0	73
Private sector organisations, e.g. banks, retailers, etc	9	13	15	0	0	13
Community/Voluntary groups	8	5	20	50	0	13
FE Colleges	10	6	9	0	0	8
Charitable Trust	1	0	4	0	0	2
ESF	2	3	2	0	0	2
Grants	1	1	1	0	0	1
Local Authority	13	5	16	0	0	12
Local Government	2	1	1	0	0	1
Lottery Fund	0	0	5	0	0	2
NHS	2	3	1	0	0	2
Other	3	3	7	0	0	5
Refused	0	1	0	0	0	0
Don't know	3	0	0	0	0	1

Base: 410 (multiple responses)

<b>B1.22: Sector of non-current providers and those providers who have never provided to DWP</b>	<b>Non-current providers %</b>	<b>Never provided %</b>	<b>Total %</b>
Public sector	20	12	17
Private sector	32	26	30
Third/Voluntary sector	46	57	50
Other	1	1	1
Refused	1	3	2

Base: 177

<b>B1.23: Full-time employees by intent to provide in the future</b>	<b>Yes %</b>	<b>No %</b>	<b>Total %</b>
0	1	5	1
1 – 10	19	19	19
11 – 25	13	10	13
26 – 50	12	19	13
50+	54	38	53
Refused	0	0	0
Don't know	1	10	1

Base: 410

## 148 Appendices – Survey data

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<b>B1.24: Sector by intent to provide in the future</b>	<b>Yes %</b>	<b>No %</b>	<b>Total %</b>
Public sector	27	25	27
Private sector	26	23	26
Third/Voluntary sector	46	43	46
Other	0	3	1
Refused	0	5	1

*Base: 587*

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<b>B1.25: DWP programmes offered by previous, non-current providers</b>	<b>%</b>
New Deal	42
New Deal 18–24	31
New Deal 25+	27
New Deal 50+	12
New Deal for Disabled People	16
New Deal for Lone Parents	20
New Deal for Partners	9
New Deal for Private Sector Leads	4
Pathways to Work	19
Private sector-led	3
Job Centre Plus	16
EZs	2
Work Path	18
Access to Work	7
Work Preparation	6
WorkSTEP	9
ESF	45
Progress to Work	5
Programme Centres	3
Residential Training	1
Other	8

*Base: 105 (multiple responses)*

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B2: Flexible New Deal (FND) Phase One sub-contractor survey data

**Classification questions**

<b>B2.1: What is the approximate total revenue for your organisation for last year?</b>	<b>%</b>
Less than £100,000	3
£100,000 to less than £250,000	8
£250,000 to less than £500,000	7
£500,000 to less than £1 million	13
£1 million to less than £3 million	19
£3 million to less than £5 million	11
More than £5 million	35
Don't know	4

Base: 130

<b>B2.2: How many full-time employees are employed in total by your organisation?</b>	<b>%</b>
1 – 10	15
11 – 25	21
26 – 50	12
50+	52

Base: 118

<b>B2.3: Do you have a contract directly with a Phase One prime provider for these FND programmes and services?</b>	<b>%</b>
Yes – in all cases	90
Yes – in some cases	5
No – we don't have any contracts directly with FND Phase One prime providers	5

Base: 118

<b>B2.4: Market Structure principle: what is the main organisational feature that has enabled you to respond to this change in commissioning?</b>	<b>%</b>
Size of your business	7
Type of services you offer	15
The range of services you offer	15
Your already existing alliances/partnerships	8
Your credibility within the welfare to work marketplace	18
Your network of other providers	5
Your specialist focus	22
Other	3
None of the above	7

Base: 130

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<b>B2.5: What other capabilities do you feel are important in a prime provider?</b>	<b>%</b>
Experience/understanding of the market	1
Experience/understanding of customers	9
Experience/understanding of delivery	2
Organisational culture	17
Transparency/honesty	2
Communication	4
Flexibility	1
Sharing best practice	5
Financial capability	10
Other	3
No others mentioned	46

*Base: 130*

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<b>B2.6: Do you currently have processes, policies or systems in place which enable your organisation to incorporate the principle of customer experience into all of your operations/service delivery?</b>	<b>%</b>
Yes	98
No – very limited/nothing at all	2

*Base: 130*

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<b>B2.7: How do you currently measure customer satisfaction?</b>	<b>%</b>
Annual customer satisfaction survey	56
Feedback forms are included as part of every service	83
Regular informal feedback	91
Complaint forms	86
Monthly feedback	1
Quarterly feedback	1
Focus groups	7
Employer feedback	1
Analysis of outcomes	1
Mystery shoppers	1
Feedback to website/contact centre	2
Other	28

*Base: 127 (multiple responses)*

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**B2.8: Will your organisation's processes for measuring customer satisfaction change now that you are a sub-contractor delivering FND Phase One?** **%**

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Yes	29
No	71

*Base: 123*

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**B2.9: For those who said yes; what techniques will you introduce or enhance to measure customer satisfaction?** **Count**

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Annual customer satisfaction survey	42
Include feedback forms as part of every service	52
Regular informal feedback	49
Complaint forms	39
Focus groups	9
Feedback to website/contact centre	6
Benchmarking against other providers	6
Observe prime provider customer satisfaction measures	6
Formalise/increase frequency of existing techniques	18
Other	21

*Base: 33 (multiple responses)*

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**B2.10: Overall, do you feel the Commissioning Strategy and FND Phase One have presented an opportunity for your organisation to expand its existing activity either by expanding into different areas or in terms of providing more services?** **%**

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Yes	62
No	38

*Base: 126*

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**B2.11: Which of the following strategies will you use to achieve this expansion?** **%**

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Organic growth of your organisation	88
Acquisition of other organisations	18
Increased use of sub-contractors	44
Increased participation in Joint Ventures and Special Purpose	73
Other	4

*Base: 77 (multiple responses)*

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## 152 Appendices – Survey data

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**B2.12: Do you feel the Commissioning Strategy and FND Phase One have presented an opportunity for your organisation to concentrate on certain services or provide more specialised, intensive or advanced services to meet particular needs?** %

Yes	60
No	40

*Base: 129*

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**B2.13: Which of the following services will you now be able to concentrate on or provide a more specialised or advanced level of service?** %

Basic employment training	76
Basic skills	68
Longer operational training	56
Mentoring	73
Self employment	54
Short job focused training	85
Trials of services and benefits	1
Counselling	4
Career planning	5
Volunteering	1
Other	9

*Base: 78 (multiple responses)*

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**B2.14: Will the Commissioning Strategy and FND Phase One present an opportunity for your organisation to concentrate on certain customer groups and their particular needs?** %

Yes	62
No	38

*Base: 129*

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<b>B2.15: Which of the following customer groups will you now be able to concentrate on?</b>	<b>%</b>
Customers aged 18-24	73
Customers aged 25+	79
Customers aged 50+	78
Disabled customers	73
Lone parents	75
Partners	61
Private sector lead customers	49
Drug rehabilitation customers	3
Graduates	1
Customers with mental health issues	1
Customers with non-english first language	3
Ex offenders	4
Homeless customers	3
Black/minority ethnic customers	1
Other	15

Base: 80 (multiple responses)

<b>B2.16: Will the Commissioning Strategy and FND Phase One present an opportunity for your organisation to tailor provision of services, on a case by case basis, to meet the individual needs of customers?</b>	<b>%</b>
Yes	69
No	31

Base: 128

<b>B2.17: How will you tailor provision of services, on a case by case basis, to meet the individual needs of customers?</b>	<b>%</b>
Diagnostic assessments	21
Tailored action plans	29
One-to one help	18
Identification of appropriate employment opportunities	7
Signposting to where customers need to go	1
Provision of multiple choices	3
Flexible services	9
Effective case management	2
Have always tailored provision of services on a case by case basis to meet individual needs	5
Other	15

Base: 86 (multiple responses)



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<b>B2.18: Will the Commissioning Strategy and FND Phase One present any other opportunities for your organisation?</b>	<b>%</b>
Yes	52
No	48

*Base: 128*

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<b>B2.19: What other opportunities will it provide your organisation with?</b>	<b>%</b>
Cost effectiveness	2
Target younger people starting age 14	2
Sharing best practice	2
Opportunities for additional contracts	22
Develop our partner arrangements in our provider network	10
Opportunities in local regeneration	2
Sub-contracting experience/contract management experience	8
To build working relationships with other specialist providers	3
Increasing credibility and becoming more well known	5
Other sub-contractors opportunities with prime providers	8
Target specific customer groups	8
Joined-up service delivery	2
Expand geographical coverage	7
To become prime providers	2
Other	18

*Base: 60. Figures may not add to 100% due to rounding*

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<b>B2.20: In your opinion, have the changes brought about by the Commissioning Strategy created new barriers or increased barriers to entry in the DWP employment service market?</b>	<b>%</b>
Yes	59
No	41

*Base: 118*

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<b>B2.21: Which of the following steps can be taken to mitigate these factors and prevent the creation/strengthening of barriers to market entry?</b>	<b>%</b>
DWP should provide financial assistance	54
There should be less administration	56
Reduce the size of contract in terms of range of services	43
Reduce the size of contracts in terms of geographical spread	63
Incentivise specialist providers/niche providers	75
Provide more networking opportunities	61
Make the tendering process more straightforward	77
Networking – to work more closely with organisations	3
Investigate local provision – a lot of good local provisions are ignored by those who won contracts	3
Look at the expertise of smaller organisations	1
Other	19

*Base: 70 (multiple responses)*

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<b>B2.22: On a scale of 1 to 10 where 1 is not attractive and 10 is extremely attractive, how attractive is the welfare to work market?</b>	<b>%</b>
1 – Not attractive	5
2	8
3	13
4	9
5	25
6	13
7	12
8	9
9	2
10 – Extremely attractive	4

*Base: 127. Figures may not add to 100% due to rounding*

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<b>B2.23: What opportunities do you feel FND Phase One offers your organisation as a sub-contractor?</b>	<b>%</b>
Increased revenue generation	55
It allows my organisation to expand its services	59
It allows my organisation to expand geographically	37
It provides my organisation with access to new/different target markets	43
It will allow my organisation to exploit its specialised services	61
It will allow my organisation to focus on a particular market	46
It provides the ability to innovate	55
Survival	2
It allows my organisation to provide our services locally	1
Social reasons	3
Worked with DWP in the past	2
Other	9
Don't know	1

*Base: 127 (multiple responses)*

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<b>B2.24: What is the main opportunity that FND offers your organisation as a sub-contractor?</b>	<b>%</b>
Increased revenue generation	23
It allows my organisation to expand its services	19
It allows my organisation to expand geographically	10
It provides my organisation with access to new/different target markets	8
It will allow my organisation to exploit its specialised services	19
It will allow my organisation to focus on a particular market	4
It provides the ability to innovate, i.e. programme design	5
Other	12

*Base: 124. Figures may not add to 100% due to rounding*

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<b>B2.25: When commercially appraising the FND programme did you undertake financial modelling according to...</b>	<b>%</b>
Case loads, i.e. the number of customers	75
Time on provision, i.e. the length of time required for each customer	67
Length of contract	65
Local labour markets	58
Risks involved	2
Economic circumstances	1
Financial modelling	2
Success rates and historical achievement rates	1
How it would fit in with your business and overlap with your other programmes	2
Unemployment and job opportunities	1
Other	3
Don't know	4
We did not undertake any modelling at all	8

*Base: 130 (multiple responses)*

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<b>B2.26: What impact, if any, will the move towards outcome-related funding have on your organisation during the first year or two of the contract? Will it:</b>	<b>%</b>
Increase profits	12
Decrease profits	58
Increase working capital requirements	62
Decrease working capital requirements	10
Increase operational costs	58
Decrease operational costs	5
Increase investment costs	62
Change the culture of third sector organisations	1
Lead to a potential short-fall and increase uncertainty in the marketplace	1
Other	9
Don't know	5

*Base: 130 (multiple responses)*

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## 158 Appendices – Survey data

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<b>B2.27: What impact, if any, will the move towards outcome-related funding have on your organisation more long-term (three years+)? Will it:</b>	<b>%</b>
Increase profits	42
Decrease profits	25
Increase working capital requirements	44
Decrease working capital requirements	20
Increase operational costs	47
Decrease operational costs	12
Increase investment costs	43
Change the culture of Third Sector organisations	1
Other	8
Don't know	9

*Base: 130 (multiple responses)*

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<b>B2.28: Thinking about how your organisation will operate in an outcome based funding system, what financial strategies, if any, would you consider to allow your organisation to deliver FND programmes/services successfully?</b>	<b>%</b>
Refinancing	22
Re-negotiation of existing credit arrangements	32
Utilise existing balance sheet assets	53
Secure direct equity investment	18
Re-negotiate terms with suppliers	53
Re-negotiate contracts with employees	41
Other	8
Refused	2
Don't know	7

*Base: 130 (multiple responses)*

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<b>B2.29: How would you refinance to allow your organisation to deliver the FND Phase One programmes/services successfully?</b>	<b>Count</b>
Through consultation with a bank	18
Through a parent company	8
Through reserves	1
A charitable equity fund	1
Other	5
Refused	0
Don't know	1

*Base: 30 (multiple responses)*

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<b>B2.30: What impact do you think your role as a sub-contractor for FND contract will have on your net profits in the next year or two? Will it...</b>	<b>%</b>
Increase	32
Decrease	34
Stay the same	34

Base: 125

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<b>B2.31: Why do you think your role as a sub-contractor for FND Phase One contracts will increase your net profits in the next year or two?</b>	<b>Count</b>
Confident about reaching outcome targets	25
Contracts will be larger and therefore, more profitable (i.e. more customers)	23
Strong or good relationship with prime contractors will lead to a increased customer numbers (i.e. high level of referrals)	31
Able to access new markets	23
Sharing of resources	1
Will be paid for things we did already	1
Other	1

Base: 40 (multiple responses)

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<b>B2.32: Why do you think your role as a sub-contractor for FND Phase One contracts will lead to a decrease in your net profits in the next year or two?</b>	<b>Count</b>
Number of referrals (customers) significantly lower than first anticipated	24
Competition for referrals (customers) within the supply chain, i.e. competing with other sub-contractors	12
Only receive payment for successful outcomes and not for process	27
Margins will be squeezed under new contracting arrangements	30
A high level of investment is required to deliver services, e.g. new IT systems, accommodation, staff	26
Other	6
Don't know	1

Base: 43 (multiple responses)

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## 160 Appendices – Survey data

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<b>B2.33: Why do you think your role as a sub-contractor for FND Phase One contracts will have no impact on your net profits in the next year or two?</b>	<b>Count</b>
Customer numbers are expected to stay the same	13
Competition for referrals (customers) within the supply chain, i.e. competing with other sub-contractors	11
Not providing any additional services	2
Other	17
Don't know	4

*Base: 42 (multiple responses)*

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<b>B2.34: Have you raised any financial concerns with respect to the FND contracts with your prime provider? If so, were they...</b>	<b>%</b>
Concerns regarding the change in payment schedule	15
Concerns regarding the move to payment by results	15
Concerns regarding the length of time between payments	9
Concerns regarding expenditure before receiving payments	1
Concerns regarding payment of staff	1
Concerns of not getting client numbers	2
Concerns regarding actual target outcomes expected from providers	1
Concerns regarding the amount of referrals budgeted for and the delay of them coming through	5
Other	9
Have not raised any financial concerns	54

*Base: 130 (multiple responses)*

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<b>B2.35: Have you asked your prime provider for, or is your prime provider offering help to put you on a sound financial footing?</b>	<b>%</b>
Yes	18
No	82

*Base: 123*

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<b>B2.36: What action(s) has your prime provider taken?</b>	<b>Count</b>
Phased in a new payment schedule	4
Agreed to pay a flat fee	9
Nothing has been agreed	2
They have supplied some equipment	1
Other	8
Don't know	1

*Base: 22 (multiple responses)*

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<b>B2.37: How many prime providers did you actually submit a bid with?</b>	<b>%</b>
1	16
2	16
3	10
More than 3	58

Base: 128

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<b>B2.38: Do you have any contractual or partnership arrangements with your own sub-contractors to deliver the FND Phase One services as part of your contract with the prime providers you are contracted to?</b>	<b>%</b>
Yes	3
No	97

Base: 128

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<b>B2.39: How much involvement did you have in the development of your prime provider(s) FND Phase One supply chain? For some/all of your prime providers, did you...</b>	<b>%</b>
Have an involvement throughout the whole selection process	13
Provide some input into the process	34
Have no involvement, i.e. the prime provider handled all the appointments/selection	53
Other	2
Don't know	2

Base: 130 (multiple responses)

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<b>B2.40: What selection criteria/processes did your FND Phase One prime provider subject you to?</b>	<b>%</b>
Had to submit an expression of interest	88
Had to provide financial and operational details	85
Was interviewed by the provider	68
Had to bid competitively against other sub-contractors to be selected	50
Other	7
Don't know	1

Base: 130 (multiple responses)

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## 162 Appendices – Survey data

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<b>B2.41: How strongly do you agree or disagree the prime’s selection process was robust?</b>	<b>%</b>
Strongly disagree	5
Disagree	8
Neither/nor	29
Agree	33
Strongly agree	25

*Base: 119*

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<b>B2.42: How strongly do you agree or disagree selecting your own sub-contractors was challenging?</b>	<b>%</b>
Strongly disagree	20
Disagree	6
Neither/nor	49
Agree	14
Strongly agree	12

*Base: 51. Figures may not add up to 100% due to rounding*

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<b>B2.43: How strongly do you agree or disagree it was a time consuming process to establish relationships?</b>	<b>%</b>
Strongly disagree	5
Disagree	15
Neither/nor	19
Agree	23
Strongly agree	38

*Base: 125*

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<b>B2.44: How strongly do you agree or disagree it was a complicated process to establish relationships?</b>	<b>%</b>
Strongly disagree	12
Disagree	26
Neither/nor	26
Agree	18
Strongly agree	18

*Base: 125*

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<b>B2.45: How strongly do you agree or disagree it has been a positive experience building your contacts?</b>	<b>%</b>
Strongly disagree	6
Disagree	9
Neither/nor	17
Agree	37
Strongly agree	31

Base: 125

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<b>B2.46: How strongly do you agree or disagree the prime providers' selection process was fair?</b>	<b>%</b>
Strongly disagree	6
Disagree	8
Neither/nor	19
Agree	39
Strongly agree	28

Base: 108. Figures may not add up to 100% due to rounding

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<b>B2.47: Thinking about how you came to be in the FND Phase One supply chain, which of the following organisations/groups of stakeholders did you consult with as part of your efforts in gearing up for FND Phase One?</b>	<b>%</b>
Other providers operating in the same contract area(s) that you were bidding for	53
Other providers operating in neighbouring contract areas	45
Other providers operating in areas serving a similar client base as you, i.e. professionals, newly unemployed, largely rural, other hard to reach – lone parent, disabled	47
Jobcentre Plus	43
Other government service providers, e.g. Local Authorities, probation, social housing, health organisations	47
Other learning providers – Learning and Skills Council, FE Colleges, Schools, Apprenticeship programmes	51
Employers in the contract areas you serve	55
Local community and regional groups, e.g. chambers of commerce, charities, addiction service providers, churches	54
Customers	51
Local strategy partnerships	59
Others, e.g. debt agencies, skills providers, etc...	28
Refused	4
Don't know	9

Base: 130 (multiple responses)

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<b>B2.48: Which of these, if any, have become a delivery partner?</b>	<b>%</b>
Other providers operating in the same contract area(s) that you were bidding for	29
Other providers operating in neighbouring contract areas	18
Other providers operating in areas serving a similar client base as you, i.e. professionals, newly unemployed, largely rural, other hard to reach – lone parent, disabled	25
Jobcentre Plus	30
Other government service providers, e.g. Local Authorities, probation, social housing, health organisations	23
Other learning providers – Learning and Skills Council, FE Colleges, Schools, Apprenticeship programmes	29
Employers in the contract areas you serve	29
Local community and regional groups, e.g. chambers of commerce, charities, addiction service providers, churches	27
Customers	23
Local strategy partnerships	22
Skills provider	1
None	7
Other, e.g. debt agencies, skills providers, etc	6
Refused	14
Don't know	24

Base: 130 (multiple responses)

<b>B2.49: Of those delivery partners you had mentioned previously, are there any areas of conflict with them?</b>	<b>%</b>
Yes	18
No	82

Base: 79

<b>B2.50: What areas of conflict are you experiencing with these delivery partners?</b>	<b>Count</b>
Conflicting policies	4
Duplication of services	6
Unwillingness to work together	4
Communication issues	4
Delivery methods	5
Sanctions/eligibility	1
Other	3

Base: 14 (multiple responses)

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<b>B2.51: Did you consult with any other stakeholder groups such as City Strategy Partnerships, City Region Pilots, Multi Area Agreements etc</b>	<b>%</b>
Yes	25
No	75

Base: 130

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<b>B2.52: For those who said yes; does your organisation play an active role in this group?</b>	<b>Count</b>
Yes	28
No	4

Base: 32

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<b>B2.53: I'd now like to look at your interactions with Jobcentre Plus offices... In your opinion, what could Jobcentre Plus offices and their staff do which would increase the likelihood of providers achieving successful outcomes for the customers referred to them? Could they...</b>	<b>%</b>
Identify and address deficiencies in basic skills that act as barriers to employment	55
Link development of skills to solid knowledge of local job prospects/understanding of job market	62
Send the referrals promptly	3
Improve understanding of FND	1
Continuously train and improve the skills of staff	2
Improve communication	2
Don't have awareness of volunteering, they send customers who are not ready or don't want to volunteer	1
They need to have a clear idea to link the provider with the clients' requirements	7
Ensure referral information is more accurate	2
Improve relationships with providers	1
Other	3
Refused	2
Don't know	8

Base: 130 (multiple responses)

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<b>B2.54: Ultimately do you feel the new commissioning arrangements will improve the way in which you deliver services to customers?</b>	<b>%</b>
Yes	61
No	39

Base: 121

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<b>B2.55: Why do you say that ultimately the new commissioning arrangements will improve the way in which you deliver services to customers?</b>	<b>%</b>
More tailored support	70
More innovative delivery	69
Greater competition	24
Less competition	16
More time with customers	64
More sales orientated providers	1
Involvement of specialist organisations to meet needs	1
More flexibility	3
More effectively managed	13
Other	3

*Base: 74 (multiple responses)*

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<b>B2.56: Why do you say that ultimately the new commissioning arrangements will not improve the way in which you deliver services to customers?</b>	<b>Count</b>
Greater competition	7
Less competition	1
Less time with customers	17
Don't know	1

*Base: 21 (multiple responses)*

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<b>B2.57: Thinking of the FND Phase One contracts you currently have in place with prime providers... have your contracts with them changed as a result of the Commissioning Strategy?</b>	<b>%</b>
Yes	19
No	76
We haven't set up contracts up yet	4

*Base: 118. Figures may not add up to 100% due to rounding*

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<b>B2.58: In what ways have your contracts changed as a result of the Commissioning Strategy?</b>	<b>Count</b>
Payment arrangements have changed	13
We now have standardised contracts	10
We now have embedded obligations derived from the Code of Conduct	11
Performance targets are now aligned to those set by DWP	11
Sanctions have been introduced	10
Other	4
Don't know	2

*Base: 22 (multiple responses)*

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<b>B2.59: How have payment arrangements changed as a result of the Commissioning Strategy?</b>	<b>Count</b>
Payment is now based on performance	10
The prime provider has passed on terms of payment from their contract with DWP to sub-contractors regarding specific targets	6
The payment cycle has changed, i.e. sub-contractors are paid when the prime provider gets paid by DWP	7
Performance targets for sub-contractors are now aligned to those set by DWP	7
Don't know	1

*Base: 14 (multiple responses)*

<b>B2.60: Did any particular areas of contention arise during contract negotiations with the prime provider as part of delivering FND?</b>	<b>%</b>
Yes	38
No	62

*Base: 113*

<b>B2.61: What were the areas of contention that arose during contract negotiations with the prime provider as part of delivering FND?</b>	<b>Count</b>
Payment terms	19
Payment triggers	5
Invoice payment timescales	2
Performance measures	7
Liability	6
Contract terms	4
Clarifying volumes	4
IT systems not being ready	4
Delivery	5
Length of time customers spend on programmes were too short	1
Security	3
Sanctions	1
Other	3
Refused	1

*Base: 43 (multiple responses)*

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<b>B2.62: Are there any sanctions that your prime provider can exercise should you fail to perform as intended with respect to outcomes achieved?</b>	<b>%</b>
Yes	80
No	18
Not applicable	2

*Base: 121*

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<b>B2.63: What are these sanctions and how do they work?</b>	<b>%</b>
Termination of contract	80
Reduction/freeze in referrals	60
Withholding service payments/performance payments	54
Staged performance management framework which includes support and assistance	3
Reducing profiles	1
Financial penalties	5
Other	1
Don't know	1

*Base: 97 (multiple responses)*

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<b>B2.64: What, if any, did you see as the additional risks in delivering the contract?</b>	<b>%</b>
Larger volumes of customers	36
Decrease in job opportunities	62
Added costs	3
Payment on outcome	4
Number of people referred by job centre plus on interview who have no interest in volunteering	1
Not getting the client numbers	3
Lack of information	1
Other	3
Don't know	2
Didn't see any additional risks in delivering the contract	13

*Base: 130 (multiple responses)*

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<b>B2.65: What steps have you taken to manage these risks?</b>	<b>%</b>
Careful budgeting	69
Robust due diligence/checks on sub-contractors/delivery partners	50
Recruited additional staff	53
Additional accommodation, i.e. office space/premises	38
New/enhanced performance monitoring	60
Refused	1
Don't know	8

*Base: 104 (multiple responses)*

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<b>B2.66: Which of the following key operational challenges, if any, have you identified in delivering FND Phase One?</b>	<b>%</b>
Accommodation, i.e. obtaining office space	29
Infrastructure	34
Human resources	40
IT	46
Management resource and attention	38
Working for more than one prime provider	12
Data protection	2
We are not operating	1
Other	5
Don't know	1
We have not identified any operational challenges as a result of FND	22

*Base: 130 (multiple responses)*

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<b>B2.67: In addition to the data recorded above, what other data/information are you collecting with respect to programme delivery and outcomes?</b>	<b>%</b>
Quality/feedback from customers	10
Equality of opportunity data, clients performance against targets	3
Keeping our own database	2
Equal opportunities, retention data, keeping data on referral to staff ratios	3
Money level spent in terms to additional cost	1
We assess all customers, e.g. we check for disabilities. We collect a lot of customer information in order to see the support needed	1
Timing programme	2
Tracking referrals, outcomes, all contract data required	2
Individuals personal circumstances	12
Flows from Jobcentre Plus	2
Pre employment training needs	2
Other	14
None	47

*Base: 125. Figures may not add up to 100% due to rounding*

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<b>B2.68: Thinking about the Provider Referrals and Payments system (PRaP), will its introduction require your organisation to change its existing management information systems?</b>	<b>%</b>
Yes	41
No	59

*Base: 125*



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<b>B2.69: In what ways specifically will the introduction require your organisation to change its existing management information systems?</b>	<b>%</b>
Introduce new systems	71
Take on additional staff	33
Implement staff training	53
Inherit management information from prime providers	4
Other	4
Don't know	10

*Base: 51 (multiple responses)*

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<b>B2.70: Would you be willing to share the following performance monitoring data/information with the wider supply chain?</b>	<b>Yes %</b>
A profile of the employment related needs of customers you serve	71
The number of cases handled	75
The average cost of providing services to each customer you serve	50
The employment related outcome achieved by each customer, at the point when an individual ceases to be a customer	76
Customer satisfaction scores	75
Other	4
Refused	2
Don't know	7
Would not share any information	8

*Base: 129 (multiple responses)*

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<b>B2.71: Would you be willing to share the following performance monitoring data/information with other providers?</b>	<b>Yes %</b>
A profile of the employment related needs of customers you serve	62
The number of cases handled	65
The average cost of providing services to each customer you serve	41
The employment-related outcome achieved by each customer, at the point when an individual ceases to be a customer	66
Customer satisfaction scores	65
Other	5
Don't know	8
Would not share any information	17

*Base: 130 (multiple responses)*

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**B2.72: On a scale of 1 to 10 where 1 represents not very well, and 10 represents very well, how well do you feel your organisation is performing in meeting the customer charter standards?**

	%
1 – Not very well	0
2	0
3	2
4	4
5	5
6	6
7	15
8	37
9	19
10 – Very well	12

*Base: 108*

**B2.73: In what ways do you feel that you have met these standards?**

	%
In the way we treat customers	66
Providing the right result for customers	62
Customers have confidence and understand any decisions made	62
Outcomes are fully explained – especially when they are what customers expected	64
Customers are dealt with as quickly as possible	60
Customers are informed how long the process will take and that timeframe is adhered to	61
Customers can easily contact us	66
All of the above	31
Don't know	1

*Base: 108 (multiple responses)*

**B2.74: Thinking of customers who are hardest to place into employment and have difficulty sustaining employment, have you adopted any new approaches or systems for managing these types of customers?**

	%
Yes	54
No	46

*Base: 125*

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<b>B2.75: What approaches have you taken for managing these types of customers?</b>	<b>%</b>
Dealing with customers' underlying problems, e.g. health, housing, skills etc	72
Refocusing them on areas where employment opportunities exist, e.g. call centres, retail etc	67
Bonus payments for clients	1
Work placements	1
More mentoring and more in work support	3
Financial incentives	1
Additional assessments	3
Working with partners and having European funds available	1
Basic training opportunities	1
Refer clients who are not suitable for our programmes to other providers	1
Other	10

*Base: 67 (multiple responses)*

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<b>B2.76: Are you aware of any processes/medium that your prime provider has in place to share knowledge and encourage adoption of best practice across your network of FND delivery?</b>	<b>%</b>
Yes	64
No	36

*Base: 126*

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<b>B2.77: What processes/medium are these?</b>	<b>%</b>
Shared database	33
Newsletters/bulletins sent to the network	36
Refocusing customers on areas where employment opportunities exist, e.g. call centres, retail etc	9
Meetings and events	41
Sharing best practice/case studies	3
Sharing the experience of large contractors	1
Other	10
Don't know	2

*Base: 81 (multiple responses)*

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<b>B2.78: What do you think have been the impacts of the new Commissioning Strategy upon your organisation, if any?</b>	<b>%</b>
Reduced revenue for your organisation	33
Increased revenue for your organisation	38
Limited opportunities now within the marketplace for your organisation	25
More opportunities now within the marketplace for your organisation	53
Your organisation has had to change its business strategy/direction	52
It has removed opportunities for growth	16
It has created opportunities for growth	57
It has created more stability (through longer-term contracts)	52
It has allowed for services to be better tailored for customers	58
The Commissioning Strategy has had little impact – have sufficient business in the wider welfare to work market	3
Other	7
Don't know	3

*Base: 130 (multiple responses)*

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<b>B2.79: What has been the one major impact of the Commissioning Strategy?</b>	<b>%</b>
Reduced revenue for your organisation	15
Increased revenue for your organisation	10
Limited opportunities now within the marketplace for your organisation	11
More opportunities now within the marketplace for your organisation	13
Your organisation has had to change its business strategy/direction	6
It has removed opportunities for growth	4
It has created opportunities for growth	17
It has created more stability (through longer-term contracts)	6
It has allowed for services to be better tailored for customers	11
The Commissioning Strategy has had little impact – have sufficient business in the wider welfare to work market	2
Other	5

*Base: 126*

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<b>B2.80: With respect to the Commissioning Strategy, what do you think is the single most important priority during the next 12 months for your organisation as a sub-contractor?</b>	<b>%</b>
Achieving targets	24
Survival	5
Getting the volume of referrals	7
Increasing revenue	2
Communicating with our prime providers	2
Improving performance	2
Making the contract work	11
Securing employment opportunities	1
Getting additional work	5
Accessing more funding opportunities	1
To start sub-contracting	1
To secure the appropriate training to increase the customer employability	1
Consolidating all the new infrastructure	1
Achieving sustainable outcomes	5
Targeting specific customer groups	2
Working with partners	1
Maintaining cash flow/financial stability	8
Developing networks	2
Delivering high quality services/meet customer needs	5
Getting people into work	1
Assessing how FND contract is progressing and decide on whether to continue with it	2
Other	10
Not applicable	1

*Base: 126. Figures may not add to 100% due to rounding*

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<b>B2.81: What do you think is the single most important priority during the next 12 months for your prime provider(s)?</b>	<b>%</b>
Meeting outcome targets	21
Offering support and work closely with their sub-contractors	15
Ongoing performance and improve capabilities	14
Developing their network and partnerships	2
Maximising their relationship with DWP and Jobcentre Plus	3
Paying their staff	1
To get some mechanisms in place for sharing good practice and make it seamless	2
Developing and maintaining credibility as a prime	2
Managing the supply chain	11
Increasing revenue	2
Understanding the needs of customers/localities	4
Securing more welfare to work contracts	1
Obtaining volumes	2
Financial stability	3
Protecting/increasing use of specialist providers	2
Delivering high quality services/meet customers needs	1
Other	13

*Base: 123. Figures may not add to 100% due to rounding*

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<b>B2.82: What do you think is the single most important priority during the next 12 months for Jobcentre Plus in the contract area(s) you serve?</b>	<b>%</b>
Improving relationships with all stakeholders	15
Improving the referral process	18
Improving understanding of FND	8
Improving understanding of the customers	9
Developing understanding of all providers	3
Understanding the local market	3
Reducing number of claimants	4
Training their staff and understanding the new provision	7
Cutting costs	1
Security	1
Improving performance	6
Consistency and efficiency	5
Improving knowledge of specific barriers	3
Facilitating information on vacancies	1
Dealing with increased demand/capacity	2
Other	14

*Base: 120. Figures may not add to 100% due to rounding*

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<b>B2.83: What do you think is the single most important priority during the next 12 months for contract/supply relationship management (within DWP)?</b>	<b>%</b>
Building a good network	4
Working closely with prime and sub-contractors	14
Communication	20
Ensuring the Code of Conduct is implemented	3
Understanding the customer journey, i.e. how the delivery of FND is working for the customer	13
Understanding the impact the Commissioning Strategy is having to smaller contractors as well as the prime contractors	6
Reducing unemployment	2
Enabling the best quality provision	3
Consistency in their management system	2
Understanding their roles and responsibilities	3
Ensuring FND is implemented	3
Improving performance	5
Understanding FND delivery/supply chains	6
Other	15
Not applicable	1

*Base: 100. Figures may not add to 100% due to rounding*

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<b>B2.84: What do you think is the single most important priority during the next 12 months for DWP (in general)?</b>	<b>%</b>
Ensuring FND is a success through getting people into employment	20
Customer service	4
Creating more job opportunities	4
Monitoring the contracts they have allocated and make sure all contract providers deliver	5
Good communication and gain a better understanding of providers	8
Avoiding the exclusion of good small contractors	5
Supporting Jobcentre Plus and providers and to manage the contracts better	6
Monitoring and change FND including funding requirements	11
Maintaining a diverse supply of providers	3
Focusing on referral process	3
Continuity and addressing potential changes in government	11
Other	18
Not applicable	1

*Base: 115. Figures may not add to 100% due to rounding*

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## B3: Unsuccessful FND Phase One bidders' survey data

**Classification questions**

<b>B3.1: What is the approximate total revenue for your organisation for last year?</b>	<b>Count</b>
Less than £100,000	3
£100,000 to less than £250,000	1
£250,000 to less than £500,000	3
£500,000 to less than £1 million	2
£1 million to less than £3 million	4
£3 million to less than £5 million	4
More than £5 million	4
Don't know	0

*Base: 21*

<b>B3.2: How many full-time employees are employed in total by your organisation?</b>	<b>Count</b>
1-10	7
11-25	5
26-50	3
50+	6

*Base: 21*

<b>B3.3: Did you submit your bid as a prime contractor or as a sub-contractor?</b>	<b>Count</b>
Prime contractor	3
Sub-contractor	18
Both	0

*Base: 21*



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<b>B3.4: What do you think have been the impacts of the new Commissioning Strategy upon your organisation, if any?</b>	<b>Count</b>
Reduced revenue for your organisation	15
Increased revenue for your organisation	2
Limited opportunities now within the marketplace for your organisation	17
More opportunities now within the marketplace for your organisation	3
Your organisation has had to change its business strategy/direction	17
It has removed opportunities for growth	15
It has created opportunities for growth	4
It has created more stability (through longer-term contracts)	2
It has allowed for services to be better tailored for customers	4
Refused	1
Don't know	0

*Base: 21 (multiple responses)*

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<b>B3.5: What has been the one major impact of the Commissioning Strategy?</b>	<b>Count</b>
Reduced revenue for your organisation	5
Limited opportunities now within the marketplace for your organisation	6
More opportunities now within the marketplace for your organisation	2
Your organisation has had to change its business strategy	5
It has removed opportunities for growth	1
It has created opportunities for growth	1
Refused	1

*Base: 21*

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<b>B3.6: To what extent do you agree that the Commissioning Strategy will help develop a stronger, more consistent base of top-tier of prime providers who will work closely with regional and sub-regional partners to deliver programmes?</b>	<b>Count</b>
Strongly disagree	6
Disagree	8
Neither/Nor	3
Agree	2
Strongly agree	2
Don't know	0

*Base: 21*

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**B3.7: To what extent do you agree that the Commissioning Strategy will allow smaller, local providers who have the capabilities to be able to perform and develop through working with larger providers?**

	<b>Count</b>
Strongly disagree	10
Disagree	7
Neither/Nor	2
Agree	1
Strongly agree	1
Don't know	0

*Base: 21*

**B3.8: To what extent do you agree that the Commissioning Strategy will increase competition and therefore, improve service delivery within these areas with the introduction of multiple contract areas?**

	<b>Count</b>
Strongly disagree	9
Disagree	7
Neither/Nor	4
Agree	0
Strongly agree	0
Don't know	1

*Base: 21*

**B3.9: To what extent do you agree that the Commissioning Strategy will introduce the appropriate capabilities and requirements that make up a high performing supply chain and an effective first tier provider?**

	<b>Count</b>
Strongly disagree	6
Disagree	8
Neither/Nor	3
Agree	2
Strongly agree	0
Don't know	2

*Base: 21*

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<b>B3.10: To what extent do you agree that the Commissioning Strategy will enable DWP to develop its own skills, making a positive contribution to business partnership?</b>	<b>Count</b>
Strongly disagree	4
Disagree	13
Neither/Nor	3
Agree	0
Strongly agree	0
Don't know	1

*Base: 21*

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<b>B3.11: To what extent do you agree that the Commissioning Strategy will enhance the customer experience by putting customers at the centre of all service delivery?</b>	<b>Count</b>
Strongly disagree	7
Disagree	6
Neither/Nor	4
Agree	3
Strongly agree	0
Don't know	1

*Base: 21*

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<b>B3.12: As a result of the introduction of the Commissioning Strategy, do you think there are greater, lesser or the same opportunities in the market for providers such as yourself?</b>	<b>Count</b>
Greater	2
The same	0
Less	19

*Base: 21*

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<b>B3.13: Why do you think there are less opportunities in the market for providers such as yourself?</b>	<b>Count</b>
Larger contract areas	9
Breadth of services is prohibitive	6
Financial capability/capacity requirements are prohibitive	8
Operational capability/capacity requirements are prohibitive	6
Other	5
Don't know	0

*Base: 19 (multiple responses)*

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<b>B3.14: Have the changes brought about by the Commissioning Strategy created new barriers or increased barriers to entry in the DWP employment service market?</b>	<b>Count</b>
Yes	18
No	3

Base: 21

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<b>B3.15: Are these appropriate requirements to ask of top tier or prime providers within the marketplace?</b>	<b>Count</b>
Yes	21
No	0
Don't know	0

Base: 21

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<b>B3.16: What could DWP do to foster the growth of/build capacity of providers like you to enable them to meet these requirements?</b>	<b>Count</b>
Provide financial support for specific capacity building activities	14
Provide training in the requirements such as supply chain management	13
Facilitate more provider networking opportunities/events	14
Develop a database of providers and services provided	16
Nothing – we don't want to become a prime provider	0
Nothing – we would never be large enough to be a prime provider	2
Other	4
Don't know	0

Base: 21 (multiple responses)

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<b>B3.17: Which of the following options describes how your organisation approached the bidding process for the FND contract?</b>	<b>Count</b>
We bid as a sub-contractor and had to look at partnering or sub-contracting with other providers in order to meet the contract's requirements	13
We bid as a prime provider and had to look at partnering or sub-contracting with other providers in order to meet the contract's requirements	2
We bid as a prime provider and could provide all the services ourselves	1
We were approached by another provider and we submitted our bid as a sub-contractor	9
Don't know	1

Base: 21 (multiple responses)

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<b>B3.18: When commercially appraising the FND Phase One programme did you undertake financial modelling according to:</b>	<b>Count</b>
Case loads	13
Time on provision	11
Length of contract	11
Local labour markets	10
Other	1
Don't know	1
We did not undertake any modelling at all	5

*Base: 21 (multiple responses)*

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<b>B3.19: What were the reasons for your bid being unsuccessful - was it because?</b>	<b>Count</b>
Your bid did not have the required capability	5
It was not financially viable	4
The pricing of the contract	5
Your bid was unable to offer the entire range of services	6
Your bid was unable to cover the entire geographic region	6
Could not find suitable sub-contractors in the local market	4
Submitted bids with organisations that unsuccessfully bid as prime providers	2
Other	2
Don't know	2
None of these	1

*Base: 21 (multiple responses)*

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<b>B3.20: Has the Commissioning Strategy had any of the following impacts to your organisation?</b>	<b>Count</b>
Caused lost revenue	16
Changed business direction	12
Closed the market	8
Reduced the business opportunities within the market place	14
Removed/reduced the opportunity to partner with other providers	13
Other	0
Don't know	0
Has not had any impact/little impact	2

*Base: 21 (multiple responses)*

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<b>B3.21: Which of the following actions, if any, have you taken as a result of the FND contracting?</b>	<b>Count</b>
Changed business strategy by looking at/moving into new markets	16
Are looking to become a specialist provider	10
Will be changing our operating model	13
Still assessing the situation	1
Are focusing on other DWP Contracted Employment Programmes	13
Are now focusing on other contracts	19

*Base: 21 (multiple responses)*

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<b>B3.22: Do you still plan to operate in the welfare to work market/contracted employment services market?</b>	<b>Count</b>
Yes	18
No	1
Unsure	2

*Base: 21*

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<b>B3.23: Will you bid for other DWP contracts?</b>	<b>Count</b>
Yes	18
No	0
Unsure	2

*Base: 20*

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<b>B3.24: What percentage of revenue or income for your organisation do you estimate will be generated through DWP employment services contracts in 12 months' time?</b>	<b>Count</b>
1-10	7
11-20	3
21- 30	1
31-40	2
41-50	2
Over 50	4
Don't know	1

*Base: 20*

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<b>B3.25: Apart from DWP/Jobcentre Plus, who do you think your main funders/clients will be in 12 months time?</b>	<b>Count</b>
Other Government department agency, e.g. Learning and Skills Council	14
Private sector organisations, e.g. banks, retailers etc	2
Community/voluntary groups	3
FE colleges	3
Other	3
Don't know	3

*Base: 20 (multiple responses)*

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B4: FND Phase One non-bidders' survey data

**Classification questions**

<b>B4.1: What is the approximate total revenue for your organisation for last year?</b>	<b>Count</b>
Less than £100,000	4
£100,000 to less than £250,000	6
£250,000 to less than £500,000	3
£500,000 to less than £1 million	9
£1 million to less than £3 million	7
£3 million to less than £5 million	2
More than £5 million	10
Don't know	3

Base: 44

<b>B4.2: How many full-time employees are employed in total by your organisation?</b>	<b>Count</b>
1-10	17
11-25	8
26-50	3
50+	16

Base: 44

<b>B4.3: Does your organisation currently provide other DWP welfare to work programmes/ services?</b>	<b>Count</b>
Yes	29
No	15

Base: 44



<b>B4.4: What impacts, if any, has the Commissioning Strategy had on your organisation?</b>	<b>Count</b>
Reduced revenue for your organisation	14
Increased revenue for your organisation	7
Limited opportunities now within the marketplace for your organisation	24
More opportunities now within the marketplace for your organisation	10
Your organisation has had to change its business strategy/direction	18
It has removed opportunities for growth	19
It has created opportunities for growth	12
It has created more stability (through longer-term contracts)	9
It has allowed for services to be better tailored for customers	13
The Commissioning Strategy has had little impact – have sufficient business in the wider welfare to work market	12
Other	4

Base: 44 (multiple responses)

<b>B4.5: What has been the one major impact of the Commissioning Strategy?</b>	<b>Count</b>
Reduced revenue for your organisation	4
Limited opportunities now within the marketplace for your organisation	8
More opportunities now within the marketplace for your organisation	3
Your organisation has had to change its business strategy/direction	3
It has removed opportunities for growth	4
It has created opportunities for growth	3
It has created more stability (through longer-term contracts)	2
It has allowed for services to be better tailored for customers	5
The Commissioning Strategy has had little impact – have sufficient business in the wider welfare to work market	10
Other	2

Base: 44

<b>B4.6: To what extent do you agree that the Commissioning Strategy will help develop a stronger, more consistent base of top-tier of prime providers who will work closely with regional and sub-regional partners to deliver programmes?</b>	<b>Count</b>
Strongly disagree	10
Disagree	7
Neither/Nor	10
Agree	12
Strongly agree	4
Don't know	1

Base: 44

<b>B4.7: To what extent would you agree that the new Commissioning Strategy is seeking to... allow smaller, local providers who have the capabilities to be able to perform and develop through working with larger providers?</b>	<b>Count</b>
Strongly disagree	18
Disagree	13
Neither/Nor	5
Agree	4
Strongly agree	3
Don't know	1

Base: 44

<b>B4.8: To what extent would you agree that the new Commissioning Strategy is seeking to... increase competition and therefore, improve service delivery within some districts with the introduction of multiple contract areas?</b>	<b>Count</b>
Strongly disagree	11
Disagree	16
Neither/Nor	7
Agree	6
Strongly agree	3
Don't know	1

Base: 44

<b>B4.9: To what extent would you agree that the new Commissioning Strategy is seeking to... introduce the appropriate capabilities and requirements that make up a high performing supply chain and an effective first tier provider?</b>	<b>Count</b>
Strongly disagree	9
Disagree	6
Neither/Nor	18
Agree	6
Strongly agree	3
Don't know	2

Base: 44

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**B4.10: To what extent would you agree that the new Commissioning Strategy is seeking to... enable DWP to develop its own skills, making a positive contribution to business partnership?** **Count**

Strongly disagree	3
Disagree	7
Neither/Nor	21
Agree	7
Strongly agree	0
Don't know	6

Base: 44

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**B4.11: To what extent would you agree that the new Commissioning Strategy is seeking to... enhance the customer experience by putting customers at the centre of all service delivery?** **Count**

Strongly disagree	11
Disagree	8
Neither/Nor	8
Agree	13
Strongly agree	2
Don't know	2

Base: 44

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Base:44

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**B4.12: As a result of the introduction of the Commissioning Strategy, do you think there are greater, less or the same opportunities in the market for providers such as yourself?** **Count**

Greater	8
The same	3
Less	28
Don't know	5

Base: 44

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**B4.13: Why do you think there are less opportunities in the market for providers such as yourself?** **Count**

Larger contract areas	19
Breadth of services is prohibitive	12
Financial capability/capacity requirements are prohibitive	18
Operational capability/capacity requirements are prohibitive	13
Other	4
Don't know	1

Base: 28 (multiple responses)

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<b>B4.14: In your opinion, is there anything that DWP should be doing or could do differently to change the number of opportunities for providers such as yourself?</b>	<b>Count</b>
Yes	28
No	3

Base: 31

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<b>B4.15: What could DWP be doing differently to change the number of opportunities for providers such as yourself?</b>	<b>Count</b>
Encourage the prime providers to employ more sub-contractors	9
Do not commission other programmes using this strategy	12
Reduce contract areas	13
Set up an approved sub-contractor list for each contract area	8
Support smaller/local providers	7
Other	6

Base: 28 (multiple responses)

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<b>B4.16: In your opinion, have the changes brought about by the Commissioning Strategy created new barriers or increased barriers to entry in the DWP employment service market?</b>	<b>Count</b>
Yes	32
No	12

Base: 44

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<b>B4.17: What barriers to market entry do you think have been created or increased?</b>	<b>Count</b>
The level of investment in systems required	15
The requirements set out by DWP	19
The range of services in contracts	16
The geographical spread of contracts	19
Specialist skills that are required	10
The introduction of performance based payments	15
The size of providers who can compete for the contracts	24
Other	5
Don't know	1
None of these	1

Base: 32 (multiple responses)

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<b>B4.18: Which of these is the main barrier to market entry that you think has been created or increased?</b>	<b>Count</b>
The level of investment in systems required	3
The requirements set out by DWP	2
The geographical spread of contracts	5
Specialist skills that are required	2
The introduction of performance based payments	1
The size of providers who can compete for the contracts	12
Other	5
Don't know	1
None of these	1

Base: 32

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<b>B4.19: What do you feel can be done to mitigate these factors and prevent the creation/strengthening of barriers to market entry?</b>	<b>Count</b>
DWP should provide financial assistance	12
There should be less administration	17
Reduce the size of contracts in terms of range of services	21
Reduce the size of contracts in terms of geographical spread	25
Incentivise specialist providers/niche providers	27
Provide more networking opportunities	19
Make the tendering process more straightforward	23
Other	9
Don't know	0

Base: 32 (multiple responses)

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<b>B4.20: In your opinion, are these appropriate requirements to ask of top- tier or prime providers within the marketplace?</b>	<b>Count</b>
Yes	37
No	7

Base: 44

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<b>B4.21: In your opinion, what could DWP do to foster the growth of/build capacity of providers like yourself to enable them to meet these requirements?</b>	<b>Count</b>
Provide financial support for specific capacity building activities	32
Provide training in the requirements such as supply chain management	25
Facilitate more provider networking opportunities/events	28
Develop a database of providers and services provided	35
Other	7
Don't know	1

Base: 44 (multiple responses)

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<b>B4.22: In your opinion, what is the main thing DWP could do to foster the growth of/build capacity of providers like yourself to enable them to meet these requirements?</b>	<b>Count</b>
Provide financial support for specific capacity building activities	17
Provide training in the requirements such as supply chain management	2
Facilitate more provider networking opportunities/events	9
Develop a database of providers and services provided	11
Other	4
Don't know	1

Base: 44

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<b>B4.23: As part of developing the provider market, the DWP has introduced multiple contract packages within some contract areas. Thinking about these districts where there are multiple contract packages, do you think that this type of competition will lead to...</b>	<b>Count</b>
Yes	13
No	18
Don't know	13

Base: 44

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<b>B4.24: What were the reasons why your firm organisation did not bid for any of the FND Phase One contracts?</b>	<b>Count</b>
Could not meet Commissioning Strategy requirements	13
Financially not viable	11
Not an area of interest	2
Unable to offer the entire range of services	9
Unable to cover the entire geographic region	18
Inadequate sub-contractors	2
Could not find other providers to partner with	4
Did not have sufficient resources to submit a bid	18
We are a specialist provider	4
Other	5

Base: 43 (multiple responses)

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<b>B4.25: Which of these is the main reason for your organisation not submitting a bid?</b>	<b>Count</b>
Insufficient capabilities to meet requirements	8
Financially not viable	4
Not an area of interest	2
Unable to offer the entire range of services	2
Unable to cover the entire geographic region	10
Could not find other providers to partner with	1
Did not have sufficient resources to submit a bid	8
Other	8

*Base: 43*

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<b>B4.26: At what stage did you decide not to bid?</b>	<b>Count</b>
As soon as I had reviewed the new Commissioning Strategy	20
I had reviewed the terms of contract and what was involved	11
I had commercially appraised the opportunity	3
I was unable to find a partner to sub-contract with	0
Other	9
Don't know	1

*Base: 44*

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<b>B4.27: Would you consider submitting a bid when the FND contracts are up for renewal?</b>	<b>Count</b>
Yes	25
No	19

*Base: 44*

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<b>B4.28: What is likely to have changed?</b>	<b>Count</b>
Would be in a better position financially	5
Would have built up partnerships	5
Would be able to meet DWP's requirements	5
It would depend if any changes in the contract had occurred	10
Other	5
Not applicable	1

*Base: 24 (multiple responses)*

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<b>B4.29: Why would your organisation not consider submitting a bid for FND services again?</b>	<b>Count</b>
Company's position would not have changed from this bidding process	8
It would depend upon if any changes in the contracts	7
Too small to bid as a provider	4
Other	3
Not applicable	1

*Base: 19 (multiple responses)*

<b>B4.30: In your opinion, is there anything DWP could have done to encourage you to bid?</b>	<b>Count</b>
Could have provided more information	4
Could have reduced the requirements for providers	12
Could have provided training events on how to bid	11
Could have provided a list of other providers	15
Could have used a different payment approach	14
Could have allowed for a transitional period/provided support	13
Could have provided financial assistance	17
Could have reduced the paperwork required to tender	10
Could have given us more time	1
Needs to be more and bigger recognition by funding provider	1
Not change the system	1
Could have let me go on with my original contracts	1
No DWP contracts in our area	1
Reassessed what was an appropriate outcome for customers in first phase	1
Could have dropped all barriers	1
Other	6

*Base: 36 (multiple responses)*

<b>B4.31: What actions, if any, have you taken as a result of the FND contracting?</b>	<b>Count</b>
Changed business strategy by looking at/moving into new markets	17
Are looking to become a specialist provider	11
Will be changing our operating model	8
Still assessing the situation	16
Are focusing on other DWP contracted employment programmes	18
Are now focusing on other non-DWP contracts	22
Other	4
Don't know	0
Have not taken any actions yet	10

*Base: 44 (multiple responses)*



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<b>B4.32: Do you still plan to operate in the welfare to work market/contracted employment services market?</b>	<b>Count</b>
Yes	39
No	1
Unsure	4

*Base: 44*

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<b>B4.33: Will you bid for other DWP contracts?</b>	<b>Count</b>
Yes	35
No	3
Unsure	5

*Base: 43*

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<b>B4.34: What percentage of revenue for your organisation do you estimate will be generated through DWP employment services contracts in 12 months' time?</b>	<b>Count</b>
1 – 10	20
11 – 20	5
21 – 30	2
31 – 40	2
41 – 50	1
Over 50	6
Don't know	4

*Base: 40*

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<b>B4.35: Apart from DWP/Job Centre Plus, who do you think your main funders/clients will be in 12 months' time?</b>	<b>Count</b>
Other Government department agency, e.g. Learning and Skills Council	30
Private sector organisations, e.g. banks, retailers etc	11
Community/voluntary groups	8
FE colleges	11
Other	5
Don't know	1

*Base: 40 (multiple responses)*

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The Department for Work and Pensions (DWP) published its Commissioning Strategy in February 2008. Within the welfare to work arena this new approach to commissioning provides the basis for a more strategic relationship between the Department and its providers. The Commissioning Strategy aims to achieve a step change in performance whilst ensuring appropriate and sustainable job outcomes for the Department's customers. It seeks to transform the employment services market by introducing more levers to promote competition, to enhance performance and by placing an emphasis on supply chain management. This is expected to be achieved through the use of larger contracts of greater duration which are flexible and outcome-based. These contracts would be drafted in such a way as to encourage the emergence of a core of consistently high performing top tier providers who bring smaller providers with specialisms into their supply chain.

In implementing this new prime contracting model it is necessary to understand how providers are responding to the change and to incorporate their feedback into policy development. This report considers the impact of the Commissioning Strategy from a provider perspective by examining the welfare to work market in Great Britain prior to the introduction of the Commissioning Strategy and then post-implementation by focusing on Flexible New Deal Phase One, the first programme commissioned under the new strategy.

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