



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 21
SESSION 2010–2011**

28 MAY 2010

Department for Work and Pensions

Support to incapacity benefits
claimants through Pathways to Work

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claimants through Pathways to Work

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

24 May 2010

This report assesses the progress of the Department for Work and Pensions in reducing the number of incapacity benefits claimants and the effectiveness of its Pathways employment programme.

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This report can be found on the
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[www.nao.org.uk/pathways-to-work-
2010](http://www.nao.org.uk/pathways-to-work-2010)

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Summary

1 This report assesses the progress of the Department for Work and Pensions (the Department) in reducing the number of incapacity benefits claimants and the effectiveness of its Pathways employment programme.

The Department has been actively working to reduce the number of people claiming incapacity benefits by 1 million by 2015

2 Incapacity benefits are a family of working age benefits, including Severe Disablement Allowance, Incapacity Benefit and Income Support claimed on the grounds of disability, as well as the new Employment and Support Allowance. The Department spent £12.6 billion on incapacity benefits during 2008-09. There are currently 2.63 million people (7.2 per cent of working age population) in Great Britain who receive incapacity benefits because of disability or ill health. Great Britain has the ninth highest rate of incapacity benefits claimants across 28 Organisation for Economic Cooperation and Development (OECD) countries (OECD average 5.8 per cent).

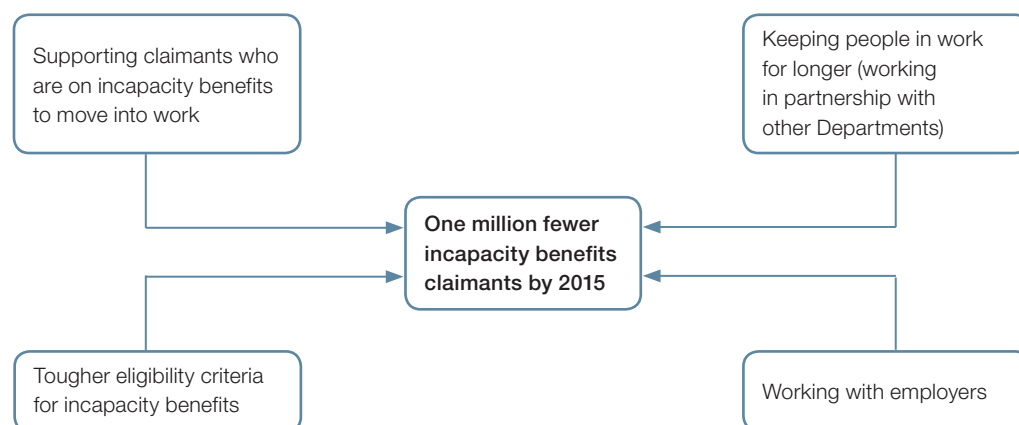
3 The volume of people on incapacity benefits increased markedly from 0.74 million in February 1979 to 2.78 million in November 2003. This was despite improvements in the nation's health. The trend is thought to reflect changing labour market demand and, at a micro-level, the relative advantages of claiming incapacity benefits over the more demanding and less generous Jobseeker's Allowance. At the start of 2006 and against this background, the Department set an objective of reducing the then 2.76 million claimant caseload by one million by 2015. Its strategy for doing so is summarised in **Figure 1**. Since then, the number of incapacity benefits claimants has fallen, reversing a continuous rise in claimants over more than two decades. Between August 2008 and August 2009, however, incapacity benefits claimant numbers increased from 2.59 million to 2.63 million, though this may well have reflected, in part, the onset of the recession.

4 The Department's strategy represents a significant change in approach and it deserves credit for tackling what has been seen as an almost intractable problem. As part of its strategy, the Department introduced:

- Pathways to Work (Pathways), an employment programme for claimants of incapacity benefits; and
- in October 2008, a new benefit called the Employment and Support Allowance which incorporates a new medical assessment to determine eligibility.

5 The Department recognises that the longer someone is on incapacity benefits, the less likely they are to move into work and the more likely they are to develop other barriers to employment like, for example, loss of self-confidence. Pathways introduced a more interventionist model than in the past which focused on earlier assistance and was designed to offer encouragement and support to address the often multiple and complex barriers faced by claimants.

Figure 1
Departmental Strategy



Source: National Audit Office summary of Department information

The Department introduced Pathways to Work to offer earlier and more extensive employment support

6 Pathways was first piloted in 2003-04 in seven Jobcentre Plus districts, before being rolled out nationally, initially through an expansion stage in 14 areas, and then via a first wave of contracted-out (Provider-led) delivery starting in December 2007 and a second wave in April 2008.

7 The programme:

- consists of six obligatory (mandatory) interviews with a personal adviser for new benefit claimants, which take place in the first 12 months of a claim (until recently, in the first eight months);
- provides additional voluntary employment support to all claimants (whether new claimants or those already claiming incapacity benefits at the point Pathways was introduced);
- offers claimants the opportunity to manage their disability or health condition to secure a return to work through the Condition Management Programme; and
- subject to eligibility criteria, gives claimants an extra £40 per week credit for the first 12 months of employment.

At the same time, the medical assessment to determine whether a claimant is entitled to incapacity benefits was brought forward in Pathways areas to around three months into a benefit claim. Prior to the introduction of Pathways, the medical assessment for Incapacity Benefit was not carried out until at least six months into a claim.

8 Participation in Pathways work focused interviews is a condition of benefit receipt for most new claimants of incapacity benefits (**Figure 2**). Most long-term claimants have so far not been required to participate in Pathways, but have been able to do so voluntarily. The Department expects Pathways to reduce the number of incapacity benefits claimants by 160,000 by 2015 through speeding up the rate at which people leave the benefit and increasing the flow of claimants into work. This level of reduction would lead to around a 6 per cent saving in the £12.6 billion spent on incapacity benefits each year.

9 The Department uses external contractors (prime providers) to lead delivery of Pathways in 60 per cent of Jobcentre Plus districts, paying 70 per cent of the contract value on performance. The remaining 40 per cent of districts are led by Jobcentre Plus but also draw on the NHS and external contractors to support delivery. To the end of March 2009, Pathways had cost the Department £538 million.

10 In October 2008, the Department introduced a new benefit called the Employment and Support Allowance for all new incapacity benefits claims. The Allowance introduces a new medical assessment to help determine eligibility which, following Pathways, is completed at the start of the claim. Employment and Support Allowance also incorporates the programme of Pathways obligatory work focused interviews (**Figure 3** on page 8). In December 2009, the Department outlined a proposal to review the Pathways programme in a White Paper, *Building Britain's Recovery*. The outcome of that review was published in the Command Paper *Building Bridges to Work – new approaches to tackling long-term worklessness* in March 2010.

Key Findings

Pathways has not performed as expected at the time of the early pilots

11 In developing a new approach to working with claimants of incapacity benefits and in line with good programme management, the Department implemented a programme of ongoing evaluation. Early results from the Pathways pilot evaluation appeared positive. However, and in contrast to later evaluation phases, the pilot evaluation sampled people who made an enquiry about claiming incapacity benefits, not those who actually went on to claim. At the time the evaluation was commissioned the Department had little evidence of the relationship between the employment impact for people enquiring about incapacity benefits and for those claiming the benefit, so an assumption that the employment impact of the two groups would be similar was not substantiated. This meant that the Department was then not able to tell what the employment impact of Pathways for actual claimants was prior to the national roll out of the programme. It would have been preferable to have looked at the employment impact of those who went on to make a claim.

Figure 2 Customer journey for someone claiming Employment and Support Allowance and receiving Pathways support

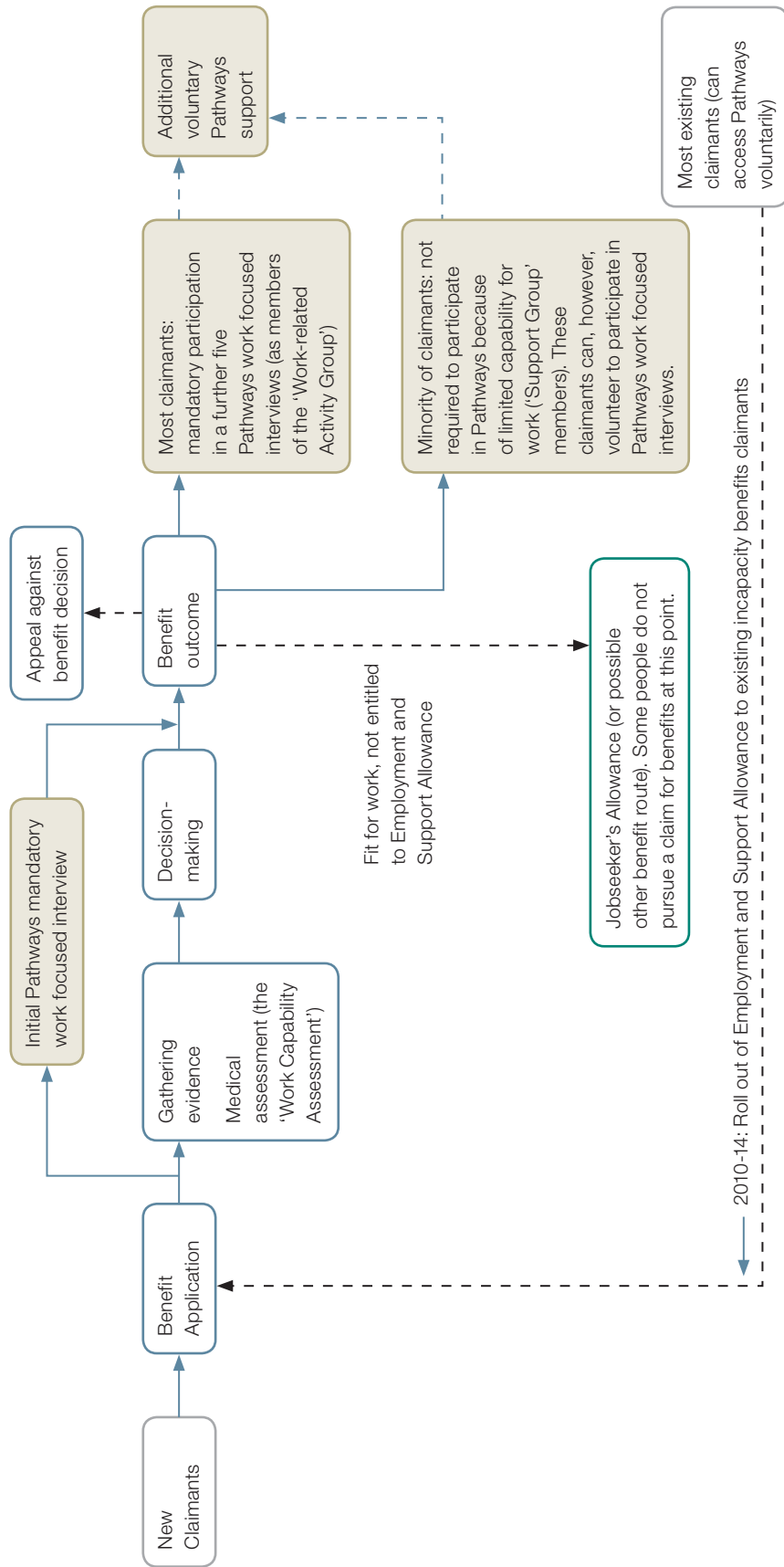
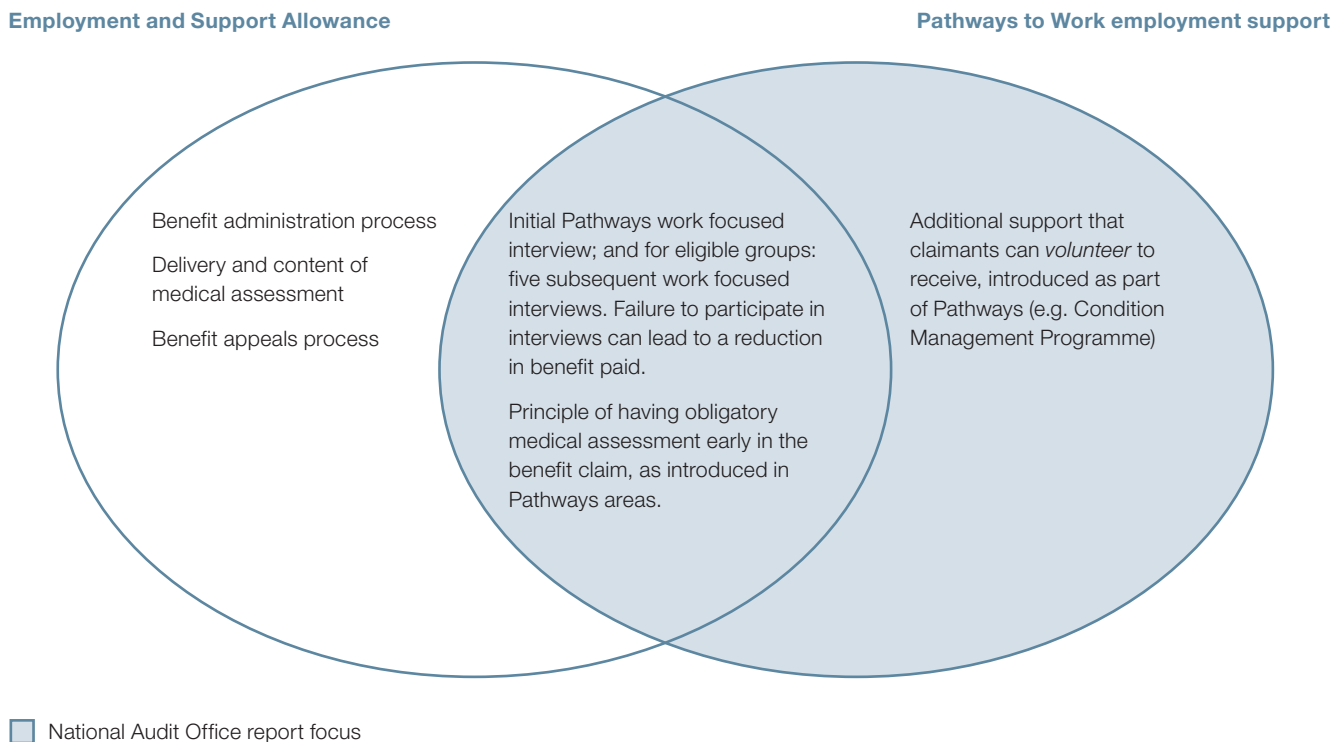


Figure 3
Integration of Pathways and Employment and Support Allowance



Source: National Audit Office analysis of Department information

12 More recent evaluation findings show that Pathways causes some new claimants to move off incapacity benefits sooner than without the programme, reducing the length of claims by around 5 per cent. Some 80 per cent of this reduction is, however, a result of Pathways areas bringing forward the medical assessment for the benefit and some people failing that assessment and so leaving incapacity benefits at an earlier stage, rather than participation in Pathways support itself. Pathways will have contributed in a modest way to the 125,000 reduction in the size of the incapacity benefits caseload between February 2005 and August 2009, but its precise contribution is unclear.

13 Official statistics show that 15 per cent of claimants starting Pathways to the end of March 2009 had moved into employment, at a cost of £2,942 per job. Limitations in the information readily available to the Department prevent a detailed review of the nature and sustainability of jobs achieved following Pathways participation. In the longer established Jobcentre Plus Pathways areas, just over one in four participants have been on the programme before, indicating continued movement between employment and benefits.

14 The Department's evaluation also estimated how many of the jobs recorded for Pathways would not have been achieved without the programme. In the initial pilots, the Department estimated that Pathways increased the probability of moving into employment by about 25 per cent for people making an *inquiry* about incapacity benefits. It was not,

however, possible to determine precisely whether this impact was concentrated on people who actually went on to *claim* incapacity benefits following their initial inquiry or included those who found work without ever claiming incapacity benefits. More recent evaluation results from later phases of Pathways roll out have been far less positive and have shown that once accepted on to incapacity benefits, new claimants are just as likely to move into employment without Pathways support as they are with it. In other words, jobs achieved through *mandatory* participation in Pathways would have been achieved without the programme. Taking all of the evaluation strands together suggests that it is the prospect of obligatory work focused interviews and the early medical assessment in Pathways areas that are key to people moving off incapacity benefits and into work more quickly. The *voluntary* aspects of support offered through Pathways (including the Condition Management Programme and the Return-to-Work Credit) appear to have no additional employment impact.

Contractors have underperformed against targets and have achieved a greater proportion of jobs from voluntary rather than 'mandatory' participants compared with Jobcentre Plus areas

15 Contractors delivering Provider-led Pathways are helping Pathways participants into jobs at a similar rate to the more established Jobcentre Plus-led Pathways areas. Jobs achieved through Provider-led Pathways are of similar cost to those delivered through Jobcentre Plus-led Pathways. However, Jobcentre Plus Pathways have performed better than Provider-led Pathways in supporting claimants who are required to participate in Pathways into employment (jobs for 11.1 per cent of participating claimants, compared with 9 per cent in Provider-led Pathways areas). Around 40 per cent of all jobs achieved in Provider-led Pathways areas are for claimants who have volunteered to participate, compared with around 9 per cent in Jobcentre Plus Pathways areas. Volunteer participants are, arguably, easier to support into employment because they are more motivated to take steps towards securing a job.

16 Contractors have, however, underperformed against targets set out in contracts with the Department, even taking account of the impact of the recession. Whilst we recognise that it will take time for new contractors to build up experience, Provider-led Pathways has not yet demonstrated better performance than Jobcentre Plus. Consequently, contractors have not received payment in line with what they expected.

In renegotiating contracts the Department made unilateral concessions

17 In responding to contractor underperformance and cash-flow difficulties, the Department invited contractors to submit individual applications for a proportion of the contract service fee to be paid early. During 2008-09 some £24 million of service fees were paid in this way. Payment of these fees was based largely on contractors providing evidence that they had already made service improvements with no commitment to further enhancements required. Bringing forward contract payments in this way was a pragmatic operational and commercial decision reflecting very difficult economic circumstances and risks to the supply chain, but cannot be viewed as ideal practice and should only be used as a last resort.

18 The Department also removed earlier restrictions on allowing contractors to claim performance payments for people who volunteer to participate in Pathways. Contractors can now claim payments for helping an unlimited number of voluntary participants. This has not yet resulted in significant additional numbers and as a result has not yet been to the detriment of value for money.

19 Despite the Department's support to contractors, there remains a risk that contractors will pull out of their contracts because they cannot make them pay. Just over half told us they would not bid for a new Pathways contract under the same terms, a situation the Department informs us it is monitoring.

The Provider-led Pathways model was not piloted and the Department still lacks adequate information across the Pathways supply chain

20 The Department rolled out Pathways nationally at the start of 2008, following early evaluation evidence produced in 2006 and 2007. The Department's approach appears to have been significantly influenced by the timetable for delivery of the Employment and Support Allowance, which required Pathways to be in place to supply the programme of work focused interviews that were a condition of the new benefit for most claimants.

21 The Department did not pilot Provider-led Pathways, drawing instead on lessons from previous welfare to work contracting like New Deal for Disabled People. In August 2007, the Office of Government Commerce reported positively about the Department's procurement capability but concluded that the contracted out model of welfare-to-work was still unproven despite being conceptually sound. Provider-led Pathways was, in turn, subject to four project management reviews (three being conducted by external experts) which gave a favourable account of the planning process for Provider-led Pathways. The first of these reviews, designed to test the initial business case for Provider-led Pathways, was completed after the procurement of contractors had begun – a reflection again of the timetable for delivery of national Pathways and the interdependent Employment and Support Allowance.

22 In procuring Provider-led Pathways, the Department rightly set ambitious benchmarks for contractor performance in tender documents, drawing on experience from the best performing Pathways pilot areas. The tenders subsequently submitted by contractors and agreed with the Department were, however, significantly in excess of these benchmarks and may not have been realistic. Contractors have consistently underperformed on their employment targets, even allowing for the recession, raising concerns about the level of critical review of Pathways bids by the Department, particularly given the extent to which these exceeded performance benchmarks in tender documentation.

23 Whilst the contractors appointed for Pathways had experience of delivering other welfare-to-work programmes, their bids probably underestimated the complex nature of the claimant group in this programme. The more recent introduction of the new work focused medical assessment under the Employment and Support Allowance means that the claimant group participating in Pathways is now likely to be even further away from work and therefore more difficult to help back into the workplace.

24 The Department's Pathways contractors subcontract some of their work. The Department has had no direct contractual relationship with these subcontractors and has not required its prime contractors to provide detailed information about them. Although not directly linked to poor performance of the Pathways programme, we found that the Department had insufficient knowledge of the Pathways supply chain and the subcontractors used by prime contractors to deliver employment support. Similar issues were raised in our report on the Department for Business, Innovation and Skills' 'Train to Gain' programme, where we found that the Department had no information on the subcontractors delivering their programme or how they were managing the risk of fraud on its behalf. Since introducing Pathways, the Department has taken steps to strengthen its knowledge of the supply chain and, through its 2008 Commissioning Strategy, has committed to a 'market stewardship' role in which it is prepared to intervene to support smaller and more specialist contractors further down the delivery chain.

25 The Department has also established a 'Code of Conduct' to support the supply chain, but a lack of information reduces scope to monitor compliance and limits the ability to monitor contractor behaviour against principles set out in the Government's wider objective to work with the third sector. Our research indicates that the financial risk is not shared equally across the Provider-led Pathways supply chain, with two thirds of the subcontractors we surveyed expecting to make a financial loss from Pathways, compared with one third among contractors with whom the Department deals directly.

Implementation of Pathways offers lessons for future employment support programmes

26 Our review of the Department's Pathways evaluation evidence suggests that what has driven impact on employment rates is the prospect of obligatory work focused interviews and an early medical assessment. Alongside obligatory work focused interviews, the Department now delivers an early, revised and more work focused medical assessment as part of the new Employment and Support Allowance. Looking forward, the Employment and Support Allowance looks likely to be a key instrument for achieving a more substantial reduction in the size of the incapacity benefits caseload, based on early feedback. Currently, around 38 per cent of new claimants are found capable of work and not eligible for the Employment and Support Allowance, which appears, at this preliminary stage, to be in line with the Department's expectations.

27 The Employment and Support Allowance and the accuracy of the new medical assessment have, however, yet to be rigorously tested in practice. At the same time, not all claimants found capable of work following an assessment of entitlement to Employment and Support Allowance will actually find employment. Claims for Jobseeker's Allowance are likely to increase as is the proportion of such claimants with some level of disability or sickness.

28 The Department's recent review of Pathways and publication in March 2010 of a Command Paper demonstrates a prompt response to evidence that support through Pathways is not working. The review also acknowledged that Pathways is now delivered in the context of the new Employment and Support Allowance, and that decisions on future procurement of employment support are required because contracts end

in early 2011. In May 2010, the Government set out a proposal to move to a single contracted 'welfare to work' programme, to include those on incapacity benefits, pointing towards a more wholesale reform. There is, nevertheless, an opportunity to build on the Pathways experience for future delivery of employment support to claimants of working age benefits with a disability or long term sickness.

Conclusion on value for money

29 The Department has made a real attempt to reduce the levels of claimants of incapacity benefits, for which we wish to give credit. There has been a modest fall in claimant numbers since 2005, partly, it appears, due to the introduction of a medical assessment at the start of incapacity benefits claims in Pathways areas and Pathways obligatory work focused interviews. Apart from the possible contribution of obligatory work focused interviews, however, there is no evidence that new claimants accessing other elements of Pathways support, at an estimated cost of £94 million in 2008-09, were more likely to find sustainable employment as a result.

30 We understand the short term pressures to sustain the supply base, particularly at a time of recession, but a number of aspects of contracting practice for the programme were undesirable. In particular, having only partial knowledge of the supply chain is not good practice, while having to make concessions such as paying fees should be viewed as exceptional and may have been avoided had a more cautious approach to programme implementation been adopted. In addition, the contracting model the Department has chosen does not appear to be sustainable, with one third of prime contractors and two thirds of subcontractors expecting to make a financial loss.

31 Overall, whilst a serious attempt to tackle an intractable issue, Pathways has turned out to provide poor value for money and the Department needs to learn from this experience. It is showing signs of doing this with recent review proposals an indication of its response to evidence of poor performance. In the future the Department should base its programme decisions on a robust and clear evidence base, follow best contracting practice and establish a measurement regime which allows it to understand better what happens to those it may have helped.

Recommendations

a **Pathways is not having the level of impact on the employment of claimants of incapacity benefits suggested by pilot results.** In March 2010, the Department published a Command Paper setting out the findings of its review of the Pathways programme and a future policy direction for sick and disabled people on benefit. To ensure that the Department had access to all the available evidence, we shared our findings from this study at an early stage. As part of a programme of learning, we recommend that the Department ensures an independent Office of Government Commerce Gateway 'Gate 0' programme review is undertaken (to test the planned outcomes of the programme) before implementation of proposed changes to the programme of support for benefit claimants with a disability or long term sickness.

- b Aspects of the Department's contracting practice for Pathways were undesirable and in other circumstances should not be repeated.** The Department should follow good practice in future procurement and ongoing contract management of employment programmes and, in particular should:
- continue to strengthen the rigour with which it identifies contractors capable of delivering tender commitments to counter the risk to effective procurement and service sustainability prompted by systematic over-bidding, even if, in the short term, the risk of committing to unrealistic targets lies mainly with the contractor;
 - where performance improvement steps and initial default action deployed by the Department have not resulted in measurable change, terminate contracts with contractors that have 'over-promised' to the greatest degree and delivered actual performance that is least cost-effective when compared with other contractors and Jobcentre Plus; and
 - where contractual concessions are deemed necessary as a last resort, first complete a full risk assessment and analysis and carefully monitor subsequent contractor performance, taking action where contractor performance does not improve.
- c Having a good understanding of all parts of the supply chain is basic good practice, and enables effective monitoring of the entire process and assessment of whether government objectives for involvement of the third sector in government procurement are being met.** Whilst the Department has taken steps to strengthen its knowledge of supply chains in more recent contracting, the Department should, in pursuit of the market stewardship role outlined in its Commissioning Strategy:
- ensure that it has a consistent and thorough understanding of its supplier base for all contracted employment programmes which move beyond prime contractor level. It will need to balance the requirement for information with a concern not to undermine the contractual relationship between the prime contractor and the subcontractors; and
 - evaluate its prime provider model to consider the impact of the model on the third sector and on service delivery, as well as to explore the extent to which cost savings promised by this model have been delivered in practice.
- d The balance of financial risk is not allocated fairly between prime and subcontractors.** The Department should take steps to ensure that the Code of Conduct between the different levels of the contractor supply chain is adhered to by all parties.

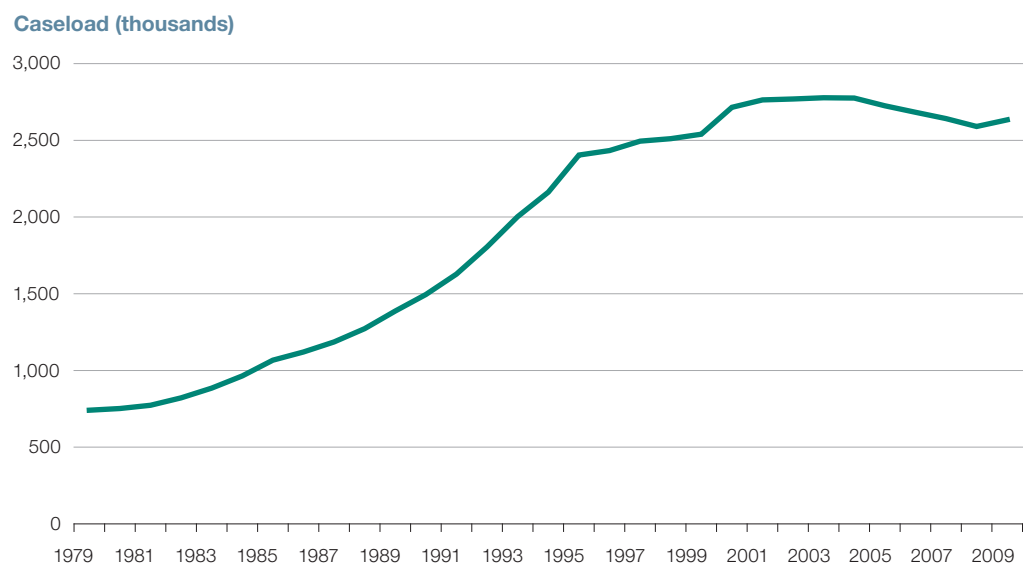
Part One

Incapacity benefits claimants

1.1 Currently 2.63 million people (7.2 per cent of the working age population) in Great Britain receive incapacity benefits because of disability or ill health. The number of people on incapacity benefits grew markedly from a base of 0.74 million in February 1979 to 2.78 million in November 2003. The increase in numbers in the 1980s and early 1990s was particularly pronounced, before moderating in the late 1990s and then falling a little after 2003, reversing a continuous rise over two decades. In the 12 months to August 2009, claimant volumes rose again from 2.59 million to 2.63 million, while the number of claimants has remained in excess of 2.5 million for over a decade (**Figure 4**).

1.2 The long term increase in claimants runs counter to overall trends in the nation's health and is thought to be a reflection of changing labour market demand and, at a more micro-level, the relative advantages of claiming incapacity benefits over the more demanding and less generous Jobseeker's Allowance.¹

Figure 4
Incapacity benefits claimant volumes over time



Source: Department for Work and Pensions Longitudinal Study

¹ See, for example, accounts by the Centre for Regional Economic and Social Research, Sheffield Hallam University.

1.3 Until recently, the rate at which people move on to incapacity benefits has fallen over a number of years (**Box 1**). At the same time, the rate at which people leave incapacity benefits has been stable with an increase in the duration of claims. Great Britain currently has the ninth highest rate of incapacity benefits claimants out of 28 Organisation for Economic Cooperation and Development (OECD)² countries and is above the OECD average claimant rate of 5.8 per cent.

1.4 During 2008-09, the Department for Work and Pensions (the Department) spent £12.6 billion on incapacity benefits. They include Severe Disablement Allowance, Incapacity Benefit, Income Support paid on the grounds of incapacity and, since October 2008, Employment and Support Allowance. Departmental evidence suggests that early in their claim as many as 90 per cent of incapacity benefits claimants say they want to work, but many do not think they are yet able to do so³.

1.5 In 2006, and in an attempt to address the apparently intractable growth in numbers, the Department set an objective to reduce the volume of incapacity benefits claimants by one million between 2005 and 2015, equivalent to a reduction of around 100,000 claimants each year.⁴ To achieve this, the Department developed a strategy and set of activities aimed at helping individuals into work from benefits and preventing people leaving work to claim benefits (Figure 1 referred). The Department's approach was informed by a recognition that the longer someone is on incapacity benefits, the less likely they are to move into work and the more likely they are to develop other barriers to employment such as, for example, declining confidence and deteriorating mental health.

1.6 The complex nature of barriers faced by some claimants of incapacity benefits is therefore recognised by the Department and is reflected in the Department's move towards a set of more individualised support and obligations on claimants. It is clear that the shift in the Department's approach is an ambitious one that will, necessarily, involve a degree of experimentation to determine which approach delivers the optimum value for money.

Box 1

Incapacity benefits: recent flows

- The volume of new claims reduced by 15 per cent between May 2001 and May 2008, before increasing by 9 per cent between May 2008 and May 2009.
- The rate at which people leave incapacity benefits has been stable since 2004.
- The proportion of the incapacity benefits caseload with claims over five years in duration increased from 53 to 57 per cent in the three years to May 2008 but has recently levelled off. Nearly 1.5 million claimants have been in receipt of incapacity benefits for over five years, equivalent to expenditure of at least £36 billion.

Source: Department for Work and Pensions Information Directorate: Work and Pensions Longitudinal Study

- 2 The Organisation for Economic Cooperation and Development (OECD) is an international organisation aimed at helping governments tackle economic, social and governance challenges.
- 3 Department for Work and Pensions Five Year Strategy (2006) Chapter 4; Kemp, P and Davidson, J (2007) Routes onto incapacity benefits: findings from a recent survey of claimants, Department for Work and Pensions Research Report 469.
- 4 This level of reduction is comparable with what academics have estimated as the level of 'hidden unemployment' in Great Britain (950,000) – the volume of incapacity benefits claimants who could reasonably be expected to be in work in a fully employed economy. See Beatty, C Fothergill, S Gore, T and Powell, R (2007) *The Real Level of Unemployment*, 2007, CRESR, Sheffield Hallam University.

1.7 A key part of the Department's strategy to date has been the Pathways employment support programme (Pathways). Pathways introduced a more interventionist model which assumed that most claimants would like to work but in many cases need encouragement and support. The programme dealt with people early in their benefit claim to:

- determine longer-term eligibility;
- identify individual support needs through obligatory work focused interviews; and
- provide additional support for those who wished to take it.

1.8 Pathways to Work was first piloted in October 2003 and April 2004 in seven Jobcentre Plus districts that were broadly representative of all areas and included districts with urban, rural and mixed labour markets. Each pilot district also had localised communities with high proportions of incapacity benefits claimants (**Box 2**). Pathways was further rolled out in an 'expansion stage' to 14 areas between 2005 and 2006 and then through contracted-out delivery to remaining districts in 2007 and 2008. National roll out of the programme was completed in April 2008, with Pathways delivered in 60 per cent of the country by private and third sector contractors and, in remaining areas, by Jobcentre Plus (**Figure 5**).

1.9 The Department measures the success of Pathways by the number of incapacity benefits claimants who move into work. Department-sponsored evaluation of the original seven pilot areas indicated that the volume of claimants moving into work and leaving incapacity benefits in Pathways pilot areas was higher than in districts not operating Pathways.

Box 2

Pilot areas

Pathways to Work: The original seven pilot districts

- Bridgend and Rhondda, Cyon, Taf
 - Derbyshire
 - Renfrewshire, Inverclyde, Argyll and Bute
 - Essex
 - Gateshead and South Tyneside
 - Lancashire East
 - Somerset
-

Figure 5

Jobcentre Plus and Provider-led Pathways districts and claimant rates

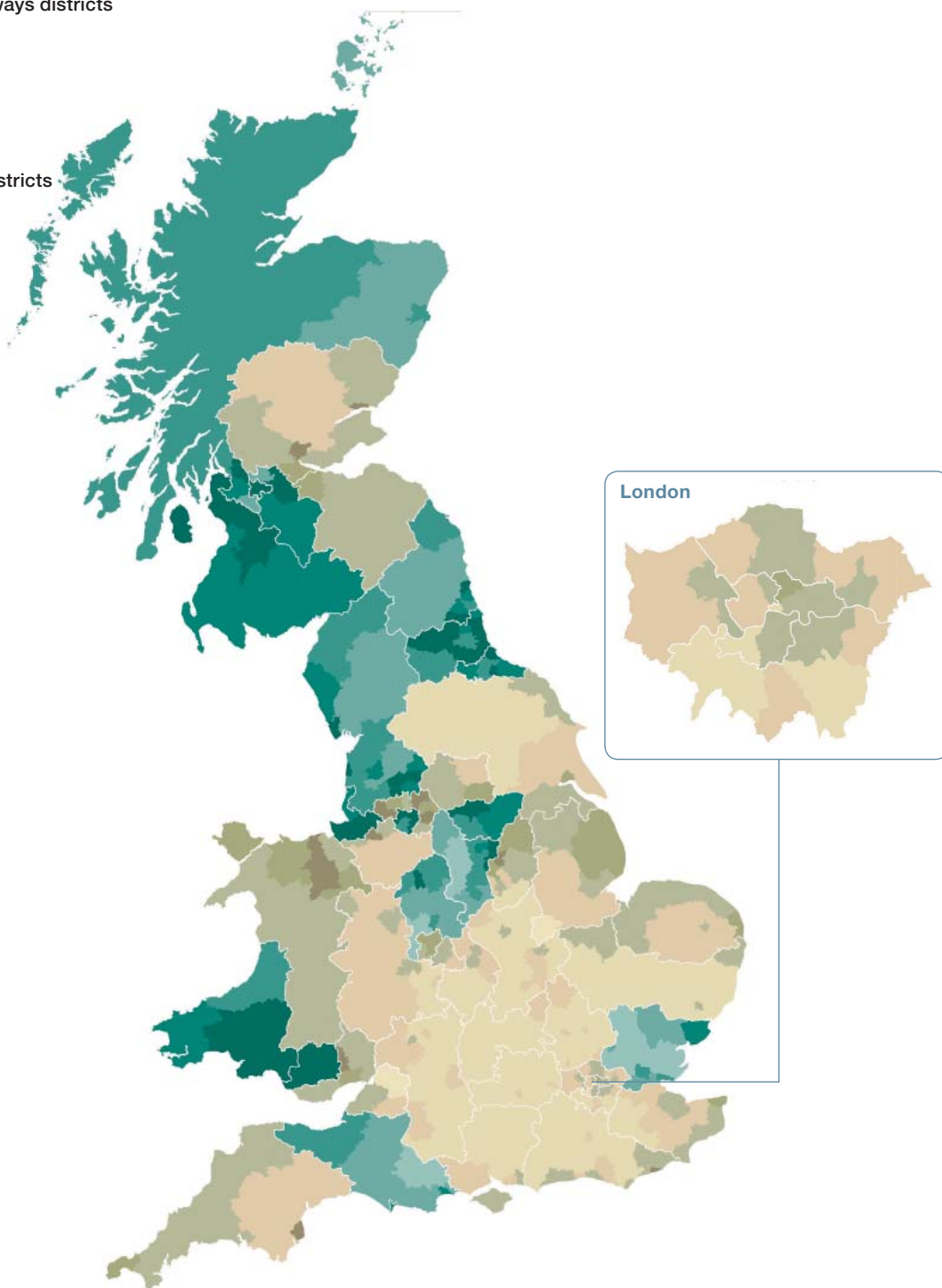
Incapacity benefits claimants per thousand working age population

Jobcentre Plus-led Pathways districts

- 101 to 165
- 82 to 100
- 64 to 81
- 47 to 63
- 21 to 46

Provider-led Pathways districts

- 101 to 165
- 82 to 100
- 64 to 81
- 47 to 63
- 21 to 46



Source: National Audit Office presentation of Department for Work and Pensions administrative data, Tabulation tool, November 2008

1.10 In October 2008, the Department introduced a new benefit called the Employment and Support Allowance for all new incapacity benefits claims (Figure 2 referred). The Allowance delivers a new work focused medical assessment, which, following Pathways, is completed at the start of a claim to inform eligibility. The allowance also requires most claimants to attend the programme of Pathways obligatory work focused interviews. Our report focuses on Pathways to Work and not on the implementation and delivery of the new Employment and Support Allowance.⁵ We examine the effectiveness of the Pathways to Work programme in reducing the number of people receiving incapacity benefits and supporting claimants into employment. The report does not look in detail at the Department's systems for managing contractors and related systems of financial control.

⁵ See Work and Pensions Select Committee (2010) *Decision-making and Appeals in the Benefit System*, Second Report of Session 2009-10, HC 313, London: The Stationery Office Limited.

Part Two

Performance of Pathways to Work

Pathways participants

2.1 Pathways participation is a condition of receiving full benefit entitlement for most new claimants of incapacity benefits. Most people claiming incapacity benefits before the introduction of Pathways in their area have not been required to participate in the programme but can do so voluntarily. Participation in Pathways or equivalent provision will become obligatory for many of these claimants as Employment and Support Allowance is rolled out over the period 2010-2014. Around a quarter of those currently on incapacity benefits have been required to participate in Pathways to secure their full benefit entitlement.

2.2 Claimants who must participate in Pathways attend up to six work focused interviews within the first eight months of their claim (recently extended to within the first 12 months) and must undergo an early medical assessment to determine longer term benefit eligibility. Before Pathways, incapacity benefits claimants did not have a medical assessment to determine longer term benefit eligibility until six months or more into their claim. Failure to attend work focused interviews can lead to a benefit reduction of around 25 per cent. The Department calls this reduction a 'benefit sanction'. The Department does not hold robust data on sanction rates for incapacity benefits claimants, but our field visits and the Departmental data that is held suggest the incidence of sanctioning is very low indeed (around 1 per cent of Pathways participants).

2.3 All incapacity benefits claimants can gain access to a range of additional Pathways support on a voluntary basis. Some of this support is new to Pathways (for example, the 'Condition Management Programme' and the 'Return to Work Credit') while other elements are inherited from previous departmental programmes (for example, the New Deal for Disabled People). The most significant voluntary elements of Pathways are:

- **Employment support** – delivered through the *New Deal for Disabled People* programme in Jobcentre Plus Pathways areas and through contractors in Provider-led Pathways areas;
- **Condition Management Programme** – delivered through the NHS in Jobcentre Plus areas and delivered through contractors in Provider-led Pathways areas. Designed to help individuals manage their disability or health condition to permit a return to work; and

- **Return to Work Credit** – £40 per week paid for 12 months to eligible former incapacity benefits claimants who enter work of at least 16 hours a week and whose salary is not more than £15,000 per year.

Costs and participant volumes

2.4 Pathways had cost the Department £538 million to the end of March 2009⁶, with expenditure increasing over time, consistent with the roll out of the programme (**Figure 6**). In 2008-09, the first year of the national Pathways programme, Pathways cost £247 million, of which £130 million related to provision in Provider-led Pathways areas (**Figure 7**).

2.5 In 2008-09, there were 650,000 new claims for incapacity benefits, leading to 501,000 (77 per cent of new claims) individual ‘starts’ to the Pathways programme from people required to participate.⁷ There were a further 77,000 individual ‘starts’ to the programme from longer term incapacity benefits claimants who have volunteered to participate, of whom around 90 per cent have been engaged by contractors in Provider-led Pathways areas.

Pathways performance review

Reducing the number of incapacity benefits claimants

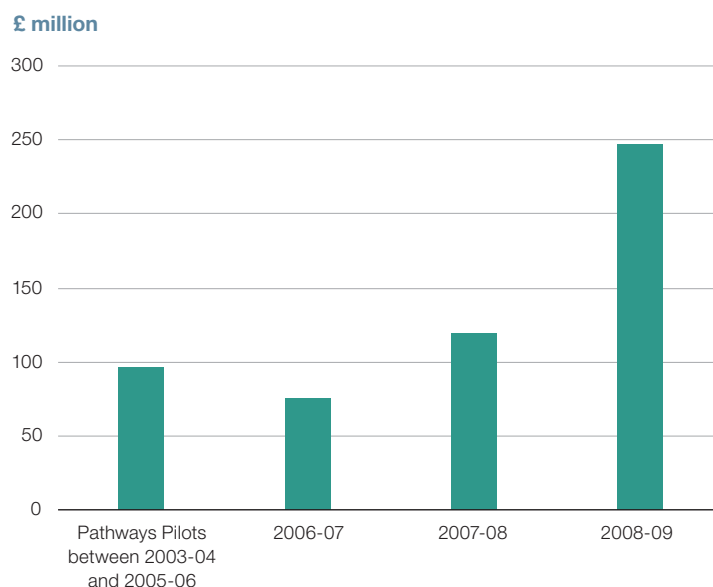
2.6 The Department did not set out a clear target for the reduction in the number of incapacity benefits claimants it expected Pathways to deliver when it launched the Pathways pilot.

2.7 The Department implemented a programme of ongoing evaluation, in line with good programme management. Early results from this evaluation for the Pathways pilot appeared positive. The pilot evaluation however, took a sample of people who made an inquiry about claiming incapacity benefits, not those who went on to actually claim incapacity benefits. At the time the evaluation was commissioned the Department had little evidence of the relationship between the employment impact for people enquiring about incapacity benefits and for those claiming the benefit. This meant that the Department was then not able to tell what the employment impact of Pathways for actual claimants was prior to the national roll out of the programme. An inability to disentangle findings in this way limited the Department’s understanding of the effectiveness of Pathways at this time. It would have been preferable to have looked at the employment impact of those who went on to make a claim. More recent findings, while also helping to clarify the nature of the employment impact of Pathways, have shown that the benefits seen in the pilot areas were not replicated elsewhere.

⁶ This figure excludes the cost of New Deal for Disabled People in Jobcentre Plus Pathways areas which we estimate to be £120 million. In Provider-led Pathways areas, the New Deal for Disabled People programme and funding are integrated into the Pathways model.

⁷ The difference between the figure for new claims and the number of claimants starting Pathways is largely due to the natural flow off benefit for some people between making a claim and the point at which someone starts Pathways (around two to three months into a claim).

Figure 6
Pathways to Work expenditure over time



Source: Department for Work and Pensions

Figure 7
Costs of Pathways to Work, 2008-09

	Jobcentre Plus-led Pathways Areas (£m)	Provider-led Pathways Areas (£m)	Total (£m)
Work-focused interviews	44	13 (Initial Interview conducted by Jobcentre Plus)	57
Provider-led Pathways contract payments	–	99	99
Condition Management Programme	25	–	25
Return to Work Credit	45	18	63
Other	3	–	3
Total (2008-09)	117	130	247

NOTE

1 Jobcentre Plus-led Pathways costs exclude cost of New Deal for Disabled People in 2008-09 (£34 million). The Provider-led Pathways model incorporates what was New Deal for Disabled People provision and budget.

Source: Department for Work and Pensions

2.8 The evidence shows that the Pathways programme reduces the length of claims by around 5 per cent. Eighty per cent of this reduction is, however, a result of Pathways areas bringing forward the medical assessment, and some people failing that assessment and leaving incapacity benefits at this earlier stage. In 2008, taking account of the national roll out of Pathways and the introduction of the Employment and Support Allowance, the Department estimated that, by shortening the length of claims, Pathways would reduce the volume of incapacity benefits claimants by 160,000 by 2015. The expected reduction is equivalent to around 23,000 a year, and would represent a potential saving of around 6 per cent in the £12.6 billion per annum spent on these benefits.

2.9 The Department is not able to say precisely what proportion of the 125,000 reduction in incapacity benefits claimants recorded between February 2005 and August 2009 is directly attributable to Pathways. We would expect it to be small, given the relatively recent expansion of Pathways, the Department's estimate of the overall contribution of Pathways to 2015, and our understanding of the impact of Pathways.

Increasing the take-up of jobs

2.10 Official statistics show that around 15 per cent of claimants starting Pathways to the end of March 2009 had found employment.⁸ We estimate that Pathways as a whole, including delivery of New Deal for Disabled People in Jobcentre Plus Pathways areas, has cost £451 per programme start or £2,942 per job achieved for claimants starting Pathways up to the end of March 2009.⁹ This compares with £3,530 per job for the former New Deal 25 plus scheme for the long-term unemployed recorded in our 2007 report on *Helping Workless Households into work* and £2,150 per job in the Coalfields Regeneration Trust 'Family Employment Initiative' recorded in our 2009 report on *Regenerating the English Coalfields*.

2.11 The Department's evaluation results also estimate how many of the jobs recorded for Pathways would not have been achieved without the programme. In the initial pilots, the Department estimated that Pathways increased the probability of moving into employment by around 25 per cent for people making an inquiry about incapacity benefits. More recent evaluation results have however shown that once on incapacity benefits, new claimants are just as likely to move into employment without Pathways support as they are with it. In other words, jobs achieved through *mandatory* participation in Pathways would have been achieved without the programme. Taking all of the evaluation strands together suggests that it is the prospect of obligatory work-focused interviews and the early medical assessment in Pathways areas that are key. The *voluntary* aspects of support offered through Pathways (including the Condition Management Programme and the Return to Work Credit) appear to have no additional employment impact. In 2008-09, the Department spent an estimated £94 million of Pathways' budget on this support for new claimants.

⁸ This rate will increase slightly over time as more time elapses in which people can move into employment.

⁹ Gross costs, not taking into account any benefit savings.

2.12 The Department has taken steps to improve information on the destination of benefit leavers in recent years but continues to have only partial information on the quality, progression and duration of jobs achieved following participation in Pathways. The data available suggest that employment is not always sustained and often low paid. In the longer established Jobcentre Plus Pathways areas, just over one in four participants have been on the programme before. Around 60 per cent of Pathways participants who move into employment receive the Return to Work Credit, indicating earnings of less than £15,000 a year. Departmental data also show that jobs achieved by participants were nearly twice as likely to be classified as ‘routine’ or ‘semi-routine’ compared with those of the general population, although this may reflect the low skills base of many claimants moving onto the Pathways programme.

Comparing costs and jobs for Jobcentre Plus and Provider-led Pathways

2.13 In reviewing the costs and benefits of Pathways, we also analysed the performance of Provider-led and Jobcentre Plus-led Pathways by looking at participants starting both programmes over the same time period. Jobs achieved through Provider-led Pathways were of similar cost to those delivered through Jobcentre Plus-led Pathways¹⁰. However, **Figure 8** overleaf shows that Jobcentre Plus Pathways have performed better than Provider-led Pathways in getting claimants who are *required* to participate in Pathways into employment.

2.14 Around 40 per cent of all jobs achieved in Provider-led Pathways areas are from claimants who have volunteered to participate, compared with around 9 per cent in Jobcentre Plus Pathways areas. Volunteer participants are easier to support into employment because they are more motivated to take steps towards work.

2.15 Contractors have, however, universally underperformed against targets set out in contracts with the Department. Whilst we recognise that it will take time for new contractors to build up experience, Provider-led Pathways has not yet demonstrated better performance than Jobcentre Plus.

¹⁰ For the purpose of comparison, we deduct the contract fee brought forward from the second and third years of contracts and paid early by the Department to contractors in 2008-09 to help manage contractor cash-flow difficulties. Any comparison of costs based on the second and third years of Pathways contracts will need to include this figure. We undertook calculations that both included and excluded the annually managed expenditure (AME) costs of Return to Work Credit.

Figure 8
Performance of Pathways to Work

	Total Jobs (December 2007- July 2009)	Achieved Job Rate (jobs/programme starts)	
		Claimants who <i>volunteer</i> to participate in Pathways (%)	Claimants <i>required</i> to participate in Pathways in exchange for their benefit (%)
Jobcentre Plus-led Pathways Districts	56,360	18.3	11.1
Provider-led Pathways Districts (All areas)	43,680	18.4	9.0
Provider-led Pathways Districts (Phase 1 areas)	27,270	21.7	9.8
Provider-led Pathways Districts (Phase 2 areas)	16,410	14.8	7.9

NOTES

- Percentages are derived from the Department's official statistics and are based on programme 'starts' data from December 2007 to June 2009 and jobs data to July 2009 for this group of starts. We would expect the job rate to improve for the group of programme starts captured here – as time passes there is more opportunity for participants to move into work.
- Official statistics rely on data matching to HM Revenue and Customs data on jobs. This data source under-records certain occupations (self-employed for example) and uses a different definition of jobs to that prescribed in contracts in Provider-led Pathways areas. Also see Methodological Annex at www.nao.org.uk.

Source: *Department for Work and Pensions*

2.16 Analysis of Provider-led Pathways, in particular those that were last to 'go-live' in April 2008, shows that they are generally operating in areas where the proportion of incapacity benefits claimants and the level of unemployment among the working age population is relatively low¹¹. A greater proportion of Jobcentre Plus Pathways operate in areas with higher levels of incapacity benefits claimants and unemployment. On this basis, it might be expected that Provider-led Pathways are better placed to deliver a higher proportion of participants into work, given relatively strong demand for labour in the areas they operate. However, other factors, not related to the delivery model and labour demand, may be important in determining performance, for example, whether 'work pays' in those areas of the country with high housing and transport costs, or whether the demographic characteristics of claimants in certain areas is significant.

¹¹ See HM Treasury (2006) *Employment opportunity for all: Analysing Labour Market Trends in London*, HMSO, London; and Little, A (2009) *Spatial Pattern of Economic Activity and Inactivity in Britain: People or Place Effects?*, Regional Studies, Vol 43.7 p877-897.

Part Three

Delivering a national Pathways programme

3.1 The decision to expand Pathways to remaining areas of the country through contractors, first outlined in January 2006, was based on early evidence of the positive employment impact of the Pathways pilot in Jobcentre Plus. Further evaluation findings emerged during 2007 but, as with earlier work, evaluation outputs left some uncertainty about for whom Pathways was achieving impact. It was also unclear which Pathways elements were making the difference and the Department commissioned further analysis to determine whether it was possible to disaggregate the contribution of obligatory work focused interviews from other aspects like the Condition Management Programme. This exploratory analysis concluded that further disaggregation was not achievable.

3.2 The Department's timetable for national roll out of Pathways appears to have been significantly influenced by the timetable for Employment and Support Allowance delivery. This required Pathways to be in place to supply the programme of work focused interviews that were a condition of the new benefit for most claimants.

Using a new delivery model

3.3 The decision to deliver Pathways through contractors was subject to options appraisal alongside the alternative of delivering through Jobcentre Plus. The Department did not pilot its proposed contractor model to deliver Pathways, drawing instead on the lessons from previous welfare to work contracting like New Deal for Disabled People. Reporting in August 2007, some 12 months after the initial work on procuring Pathways had begun, and in an otherwise broadly positive assessment of procurement capability, the Office of Government Commerce concluded that the contracted out model of welfare-to-work was still unproven despite being conceptually sound.

3.4 Implementation of Provider-led Pathways followed in December 2007 and April 2008. Initial management of the procurement process was overseen by Jobcentre Plus before being transferred to the Department's Commercial Directorate in April 2007. The transfer was in recognition of the need to strengthen commercial capability in relation to welfare-to-work programmes, a concern also raised by the Office of Government Commerce in their review of Department procurement in summer 2007.

3.5 Provider-led Pathways was subject to four project management reviews (three of which were conducted by external experts) during the planning stage. All these reviews, which followed the Office of Government Commerce-sponsored 'Gateway review' process, were positive and the final review described Pathways as a model of welfare-to-work programme implementation. The first review undertaken – a 'Gate 1' review, designed to evaluate the strategic business case prior to project development – was conducted after the procurement process for Provider-led Pathways had begun. There is, therefore, evidence of project management short cuts, albeit modest, to meet the timetable for delivery of Pathways and the Employment and Support Allowance.

3.6 Following options appraisal, the Department elected to pursue a two-phased approach to delivery of Provider-led Pathways. The benefits of this approach were to some extent reduced because of the need to reissue the invitation to tender to Phase 1 bidding organisations in the light of updated information on how the Employment and Support Allowance was to be delivered (linked to the legislative progress of the 2007 Welfare Reform Act).

Risk management and transfer

3.7 In its business case for Pathways, the Department expected contracted-out delivery to exceed the performance achieved in the seven original Jobcentre Plus-led Pathways pilots. Around one in four people who were required to participate in Pathways moved into employment in the best performing pilots. The target job rates subsequently agreed with successful contractors exceeded this performance, with contractors expected to move, on average, more than one in three (37 per cent) participants into employment over the life of contracts.

3.8 The Department agreed separate targets with contractors for voluntary Pathways participants reflecting evidence that, on average, this group is closer to employment. Contractors were expected to move nearly one in two (47 per cent) 'voluntary participants' into work.

3.9 No contractor has met their contracted job target rates for either type of participant, and all are well below the level of performance set out in departmental planning documents. The Department's 'Provider-level Management Information' to end June 2009, showed that actual job rates for claimants who were required to participate in Pathways ranged from 3 to 11 per cent.¹² The 42 per cent reduction in the job vacancy rate between May 2008 and May 2009 is a factor but does not fully explain the degree of underperformance¹³.

¹² Data is based on Provider-level Management information and uses different definitions of jobs (and covers a different time period) to official statistics.

¹³ Contractor underperformance is universal even when compared with a figure (21.5 per cent) which represents the average target job rate for claimants required to participate in Pathways discounted by the reduction in the job vacancy rate in the 12 months to May 2009.

3.10 The risk of contractor over-commitment lies with the contractors themselves in the first instance. A culture in which there is an expectation that contractors need to 'bid high' to secure a contract leaves a risk that more conservative, but nevertheless realistic, bids are ignored as 'outliers'. Whilst the contractors appointed for Pathways had experience of delivering other welfare-to-work programmes, bids probably underestimated the nature of the claimant group in this programme. This raises concerns about the level of critical review of bids by the Department given the degree to which performance benchmarks in tender documentation were exceeded. At the same time, the more recent introduction of the new work focused medical assessment under the Employment and Support Allowance has meant that the claimant group participating in Pathways is likely to be further away from work and therefore more difficult to help back into the workplace. Nevertheless there remains an issue of contractor underperformance which, at the margins, may require contract termination procedures to be implemented to prevent a further waste of taxpayer money.

Part Four

The Department's management of Provider-led Pathways

4.1 The national expansion of Pathways in two phases in December 2007 and April 2008 significantly increased the Department's programme of contracted-out welfare delivery, establishing 34 separate area-based contracts with 11 organisations, to a maximum value of £521 million. Phase one area contracts are due to end in December 2010 and Phase two in April 2011. Provider-led Pathways contractors are expected to help participants into work through whatever support they deem appropriate but, at a minimum, they provide the Condition Management Programme and provision equivalent to the former New Deal for Disabled People, while also conducting five of the six Pathways obligatory work focused interviews.

Provider-led Pathways to Work contracts

4.2 Seventy per cent of contract value is paid on the basis of the volume and durability of the jobs contractors achieve and 30 per cent through a monthly service fee over the life of the contract. Payment for performance means that contractors must have sufficient working capital to invest in claimants before a move into employment. Around four-fifths (£407 million) of the contracted cost is allocated to just five contractors.

4.3 The Department requires the contractor to retain documentary evidence for all jobs claimed for, but undertakes sample checks on 10 per cent of these with each claim submitted. The level of testing does not appear adequate to ensure value for money because there is no routine independent validation of payment claims with the employer or the claimant, and no routine basis for reviewing the rest of a contractor claim where an error in the 10 per cent sample of evidenced-backed claims is found. The Department has recently undertaken internal audit and process reviews in relation to the validation of contractor payment claims and has indicated that it is planning to introduce changes in response to their findings.

Managing the supply chain in Provider-led Pathways

4.4 Provider-led Pathways creates a new supply chain model in which the Department operates largely performance-related, outcome-based contracts with a small number of prime contractors. Prime contractors are responsible for engaging and subcontracting work to other 'second tier' organisations which have more specialised or localised expertise, for example, local authorities, charities with specific disability interests and other training providers. The Prime contractor model significantly reduces the number of contracts the Department has with external organisations and is intended to deliver efficiencies.

4.5 The Department does not directly manage processes between prime contractors and their subcontractors and has only limited knowledge of the supply chain, both of subcontractors and the transfer of participants between contractor tiers. Second tier organisations contracted by prime contractors therefore have no formal relationship with the Department. The Department does not monitor the terms of contracts and relationships between prime and subcontractors and has not required contractors to provide information about them. Whilst the Department is taking steps to strengthen its knowledge of supply chains in more recent contracting and is, through its 2008 Commissioning Strategy, committed to a more proactive 'market stewardship' role, we found a lack of understanding within the Department of the commercial delivery chain in Pathways.

4.6 Nine of the 11 prime contractors are private-sector organisations¹⁴. A number of prime contractors have several contracts to deliver Pathways in different areas. Working with prime contractors, we identified 81 subcontractors. As part of our study, we surveyed the prime contractor operating in each district and the 81 subcontractors. This survey was designed to increase our understanding of the delivery of contracted out Pathways. Of the 34 area contracts the Department has with prime contractors, we received 27 responses. Of the 81 subcontractors identified, we received 56 survey responses, nearly three-quarters of which were from third-sector organisations.

4.7 Prime contractors determine the extent to which they draw on second-tier organisations to support delivery. Prime contractors have referred around one in eight Pathways participants to subcontractors with nearly half of prime contractors referring fewer than expected participants to subcontractors or other second-tier partners. Subcontractors have also reported to us that the level of referrals has been lower than expected.

¹⁴ One of these nine organisations is part owned by private, public and third sector bodies.

4.8 Drawing on principles set out in the Government's 'Compact' with the third sector, the Department has established a Code of Conduct which outlines how it expects prime contractors to manage relationships with second-tier organisations to ensure that contractor risks (for example, financial risk) and rewards are fairly assigned. The Department's lack of information on the Pathways supply chain, however, reduces scope to monitor the model against principles set out in the Code of Conduct and in the Compact. At the same time, our survey of prime contractors and subcontractors suggests that the financial risks and rewards are not allocated evenly, with evidence that subcontractors, most of whom are third sector organisations, are sharing a greater proportion of risk (**Figure 9**).¹⁵

4.9 The Department is, since the procurement of Pathways, taking steps to improve its oversight of supply chains by requiring a list of subcontractors as part of tenders and the permission of the Department for subsequent changes to that list. The Department is also piloting a new process of assessment and accreditation called the 'Merlin Standard'.

4.10 Figure 9 shows that the supply chain for delivery of Provider-led Pathways is unstable and may not be sustainable in its current form in the medium term. Just over half (56 per cent) of prime contractors state that they would not bid for a new Pathways contract under the same terms and conditions. One in three prime contractor respondents and six in 10 subcontractors said they expected to make a financial loss from their contract. Thirty per cent of prime contractor respondents have seen subcontractors withdraw from Pathways provision because of financial difficulties. We also found that one in three prime contractor respondents said that there were potential subcontracting organisations they would like to work with on Pathways but these organisations had chosen not to participate, citing concerns about cash flow management in the context of a substantially outcome-based payment model.

Responding to contractor underperformance

4.11 Contractor underperformance led to a departmental review of Provider-led Pathways in January 2009 and the setting up of a Task Force in spring 2009. A number of recommendations from the review and Task Force have been implemented and are designed to improve performance across Provider-led Pathways. Significant changes include the creation of local Pathways Action Plans bringing together Jobcentre Plus and contractor staff and measures to improve the handover of claimants between Jobcentre Plus and contractors.

4.12 In February 2009, to increase contractor stability and help maintain the supply of services, the Department revised the contract service fee for nine of the 11 Pathways contractors so that an additional £24 million was paid in the first year of the three year contract, thus reducing payments due later in the contract. Changing contract terms in this way may risk rewarding failure.

¹⁵ Also see Work and Pensions Select Committee (2010) *Management and Administration of Contracted Employment Programmes*, Fourth Report of Session 2009-10, HC 101 London: The Stationery Office Limited.

Figure 9
Review of Provider-led Pathways supply chain

Indicators	Prime Contractors (working with 88 per cent of Pathways participants)	Subcontractors (working with 12 per cent of Pathways participants)
Average payment received per job	£1,003	£750
Service and performance-related fees	All receive a monthly service fee of 30 per cent of contract value.	A quarter only receive payment when they secure a job (i.e. they receive no upfront payment or regular service fee).
Contractual flexibilities	Following a Departmental review, all contractors were able to apply for 'front-loading' of the service fee to improve cash flow (most were granted this flexibility).	Two thirds of subcontractors said that they had received no equivalent flexibility in their contract with prime contractors.
Expected profit from contract	One third expect to make a loss.	Nearly two thirds expect to make a loss.
Future contracts	85 per cent (23 out of 27 districts) would definitely/probably sign up to the same terms with subcontractors for Pathways. But 56 per cent (15 districts) would not bid to the Department for a new Pathways contract under the same terms.	38 per cent would definitely/probably sign up to the same terms with their prime contractor. But most (80 per cent) nevertheless expect to be involved in future Pathways contracts.
Balance of financial risk	78 per cent (21 districts) felt that the financial risk was allocated fairly across the supply chain.	45 per cent felt that the financial risk was allocated fairly across the supply chain.

NOTE

1 Each contractor survey response is from a senior representative of the local area contract. Some prime contractors have more than one local area contract.

Source: National Audit Office Survey of prime and subcontractors (prime contractors, n = 27 (from 34 area contracts); subcontractors, n = 56 (from estimated 81 subcontractors))

4.13 The Department has also removed earlier limits to allow contractors to recruit, and receive job payments for an unlimited number of 'voluntary participants'. In the event, contractors have not received or achieved the level of Pathways participants anticipated in contracted profiles which means that additional flexibilities offered to contractors have not been drawn on in practice. Given that contractors receive the same payment for all participants – regardless of whether they are motivated to engage in work-search activity – this change of approach risks encouraging contractors to focus resources on easier to help participants at the expense of those who are less ready to move into employment. Three quarters of prime and second-tier contractors who responded to our survey said that the current payment system diverts efforts away from those who need extra support before moving into work. Such changes risk rewarding poor performance and cannot be considered best practice.

Applying the lessons from Pathways

4.14 Our review of the Department's Pathways evaluation evidence suggests that what has driven impact on employment rates is the prospect of obligatory work focused interviews and an early medical assessment. Alongside obligatory work focused interviews, the Department now delivers an early, revised and more work focused medical assessment as part of the new Employment and Support Allowance. Looking forward, the Employment and Support Allowance seems likely to be a key instrument for achieving a more substantial reduction in the size of the incapacity benefits caseload, based on early feedback. Currently, around 38 per cent of new claimants are found capable of work and not eligible for the Employment and Support Allowance, which appears, at this preliminary stage, to be in line with Department expectations.

4.15 The Employment and Support Allowance and the accuracy of the new medical assessment have, however, yet to be rigorously tested. At the same time, not all claimants found capable of work will actually find employment. Claims for Jobseeker's Allowance, although a lower-cost benefit, are likely to increase as is the proportion of Jobseeker's Allowance claimants with some level of disability or sickness that may, ultimately, be some way from the labour market.

4.16 Whilst Provider-led Pathways performance has improved slightly since early 2009, it is still well below targets set out in contracts. The Department's decision to review Pathways in late 2009 responded to recent evaluation evidence on the employment impact of the programme, continued contractor underperformance and a recognition that contracts were due to end in early 2011 and a decision on future procurement was needed. The timely completion of this review represents good programme management.

Appendix One

Methodology

The main elements of our fieldwork, which largely took place between April and December 2009, were:

Selected Method	Purpose
<p>1 Review of key documents</p> <p>Included Departmental corporate documents, operational planning and delivery documents, policy papers (e.g. Green Papers), other Departmental reports (e.g. internal audit reports, Official Statistics) and correspondence. Parliamentary Reports were also sourced.</p>	<p>Analysis of the Department's planning and implementation of Pathways to Work and related activities.</p>
<p>2 Review of research and evaluation literature</p> <p>Included analysis of evidence base linked to Pathways. Our review also included consideration of previous NAO reports and correspondence on related themes.</p>	<p>Review evidence on Pathways effectiveness and to understand use of evidence to inform national roll out of Pathways.</p>
<p>3 Analysis of Departmental administrative and financial data, and management information</p> <ul style="list-style-type: none"> ● Secondary analysis of the Department's online administrative data drawn from benefit caseloads. ● Financial and administrative data supplied by the Department. ● Departmental information on provider performance. 	<p>Analysis of incapacity benefits caseload, programme performance and costs.</p>
<p>4 Interviews with Department staff, Jobcentre Plus staff, Pathways contractor staff and Pathways participants</p> <p>We commissioned FDS International on our behalf to conduct semi-structured interviews with 47 claimants of incapacity benefits.</p> <p>We conducted 46 interviews with Departmental staff, 22 telephone interviews with Pathways providers and subcontractors in Provider-led Pathways areas and 15 interviews with stakeholder organisations. FDS also interviewed representatives from 13 subcontractor providers no longer involved in Pathways delivery.</p>	<p>Clarify understanding and identify strategic and operational issues in the planning and implementation of Pathways to Work and interdependent programmes.</p> <p>Strand also informed the development of a survey of providers and sub-contractors.</p>

Selected Method	Purpose
<p>5 Case study visits to Pathways districts</p> <p>We conducted visits of front-line Pathways delivery in eight Jobcentre Plus districts (four Provider-led and four Jobcentre Plus-led districts). An initial 'orientation' visit to South Tyne and Wear (Sunderland local office) was also undertaken.</p>	<p>Understand and evaluate the front-line delivery of Pathways to Work employment support and its integration with benefit structures; and, to identify issues for further exploration through discussion with the Department and analysis of administrative data and documentary sources.</p>
<p>6 Telephone survey of prime providers and their subcontractors delivering Pathways in 'Provider-led' districts</p> <p>We commissioned FDS International to undertake:</p> <ul style="list-style-type: none"> • a census survey of Pathways prime contractors operating in each Jobcentre Plus district. FDS achieved 27 responses from 34 provider contracts (79 per cent); and • an equivalent survey of Pathways subcontractors, drawing on a sampling frame supplied by the Department and our own investigative work/liaison with prime contractors. FDS received 56 responses from an estimated 81 subcontractors involved in Pathways (69 per cent). 	<p>Quantify aspects of Provider caseload management, resources allocated to Pathways, experience of procurement, systems for contract management and relations between the Department, prime and subcontractors.</p>
<p>7 Discussion of drafting findings with experts in the field</p>	<p>Support review of draft findings.</p>

A more detailed version of our methodology can be found at: www.nao.org.uk/pathways-to-work-2010.



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