



National Audit Office

The Pathways to Work Prime Contractor Delivery Model

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Part One

Introduction

1 This paper sets out our findings on the operation of the prime contractor delivery model which was established to deliver a large proportion of the Department of Work and Pensions' Pathways to Work programme. A description of this delivery model is outlined below. Pathways to Work is a programme that operates across Britain, and is set up to deliver the Department's strategic objective of reducing the number of people claiming incapacity benefits by one million by the year 2015, by helping them back into sustainable employment. This contracted-out (provider-led) portion of Pathways to Work was rolled out nationally in two waves, the first from December 2007 and the second from April 2008.

2 This piece of work was carried out alongside the National Audit Office's value for money examination into the overall effectiveness of the Pathways to Work programme published on 28 May 2010. We selected the prime contractor delivery model for additional review because it represents a new approach to delivering frontline welfare to work services. The findings from this paper should therefore be of interest to any public sector organisations using or considering a similar approach to service delivery, and to their current or potential delivery partners.

Overview of Pathways to Work and the prime contractor delivery model

3 The overall approach of the Pathways to Work programme is to engage incapacity benefits claimants early on in their period of unemployment to identify their longer-term eligibility for benefit, and to develop an understanding of their support needs as part of the journey into work.

4 The major portion of the programme is delivered through a series of large prime contracts between the department and prime contractor organisations from the private and third sectors. The contracts set out specification for delivery of Pathways to Work services within a given district.¹ In each district, the Department's prime contractor is expected to involve a wider group of other organisations through sub-contracts or other agreements to assist with the delivery of the Pathways to Work service. The Department has used such contracts to deliver 60 per cent of the programme within 34 districts, the remainder is delivered through the Department's network of Job Centre Plus offices.

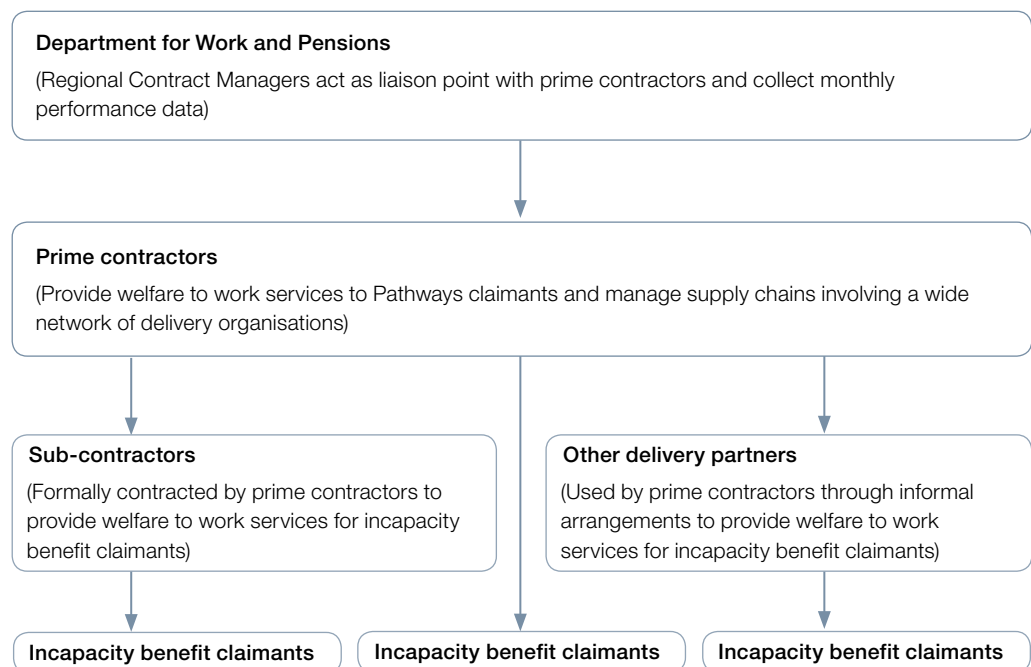
¹ These are the same districts used by Jobcentre Plus to administer the Government's social security and employment programmes.

5 These arrangements work as a supply chain, linking the Department to the prime contractors; they are in turn linked to a larger network of sub-contractors and/or other delivery partners. The Department’s main relationships are with the prime contractors at the top tier of the supply chain: it has limited formal contact with the other organisations involved in delivering the programme at the lower tier.

6 Responsibility for working out delivery arrangements within the supply chain rests with the organisations involved; prime contractors are responsible for agreeing with their sub-contractors and other delivery partners who will deliver what aspects of the Pathways to Work service. Prime contractors have a dual role: they manage the supply chain and they deliver some of the services directly. Given their supply chain management responsibilities, the Department expects prime contractors to observe a Code of Conduct which was put in place to help ensure that there is an equitable relationship between prime contractors and their sub-contractors or other delivery partners. This covers areas such as fairly assigning financial risks and rewards.

7 **Figure 1** provides an outline illustration of these delivery arrangements and how they are designed to work.

Figure 1
The prime contractor delivery model



Source: National Audit Office

In reviewing the prime contractor delivery model, we focused in particular on how supply chains were set up (covered in Part Two) in terms of:

- which organisations were involved and why and how they were signed up; and
- the nature of the contracts that prime and sub-contractors agreed between them.

We also looked at how these supply chains worked in practice (covered in Part Three). This included:

- how both tiers managed their caseloads of claimants;
- the relationships between prime and sub-contractors and between prime contractors and the Department; and
- how the delivery organisations had performed and the profitability of the contracts they had signed up to.

In this review, our results focused mainly on the experience, relationships and performance of prime contractors and their designated sub-contractors. We make it clear in the text where we have provided additional information about the wider network of delivery partners which are used by prime contractors on a more informal basis.

8 Finally, given the long-term nature of the programme, we looked at what delivery organisations thought about their future involvement with Pathways to Work. This is covered in Part Four. A full description of the methods used to carry out this research is set out in the Appendix.

Part Two

Establishing the supply chain

The role of prime contractors is to provide welfare to work services directly and to establish a supply chain to involve other organisations in service delivery. This section looks at which organisations are involved and why and how prime contractors recruited sub-contractors; it also looks at the nature of the contracts between prime and sub-contractors. In summary we find that:

- the main reason that prime contractors involve sub-contractors is because the latter possess specialist skills that can enhance the overall quality of the supply chain;
- prime contractors use a variety of methods to recruit sub-contractors, such as open competition or working with existing partners. However, both prime and sub-contractors felt that the process might have excluded some providers who should have been involved in delivering the programme;
- prime contractors have discretion over the amount of service delivery they carry out themselves or pass on to other organisations. While this amount varies considerably, generally the majority of services are delivered directly by prime contractors; and
- on average, prime contractors are paid around £1,000 per job outcome while sub-contractors are paid around £750.

9 In total, the Department contracted with 11 separate prime contractors in the 34 districts in which the prime contractor model is being used. This means that some prime contractors hold multiple contracts with the Department. These prime contractors have in turn contracted with a larger number of sub-contractors. There is no comprehensive central record of the number of sub-contractors involved in delivery, though prime contractors reported using an average of three sub-contractors within each district.² Our research also found that prime contractors use a variety of arrangements to involve other organisations in delivery. This is set out in **Figure 2**, which shows that only 15 per cent of relationships with delivery partners involve formal contracts, with the vast majority involving service level agreements or other informal arrangements. At the lower tier, our research findings relate mainly to sub-contractors, i.e. those organisations with a formal contract, unless explicitly stated otherwise.

Rationale for sub-contracting

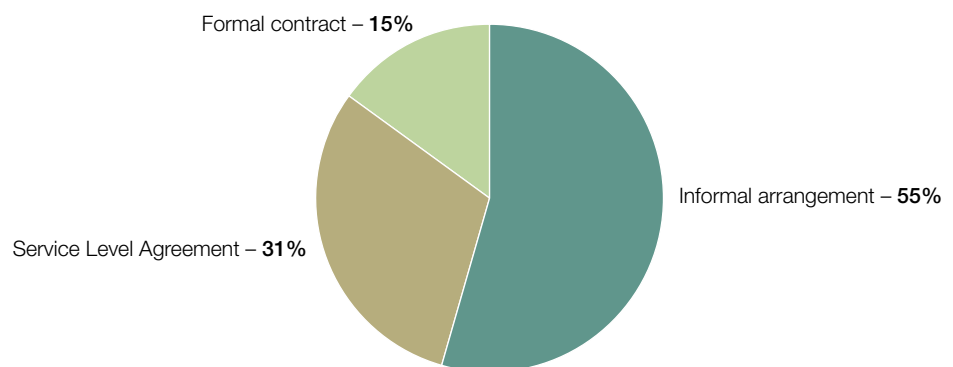
10 Prime contractors are responsible for designing and setting up their own supply chains. This involves deciding the extent to which they will provide services directly or contract them out to other organisations; what the respective roles of each partner will be; and the terms of that agreement in the form of contracts, service level agreements or other, informal, arrangements.

² Assuming this figure is true overall, this would imply around 100 sub-contractors working with prime contractors in the 34 districts. However, some of these organisations will be working as sub-contractors in more than one district, so the number of individual sub-contractors will be less than 100.

11 The most common reason for prime contractors to involve other organisations, including sub-contractors, is to use their specialist skills in working with clients who have more complex needs. Of the sub-contractors interviewed, 61 per cent consider themselves to be specialist providers. **Figure 3** shows the reasons why prime contractors use sub-contractors; 89 per cent did so to work with specialist providers.

Figure 2

Prime contractors use different arrangements to involve other organisations in delivering Pathways to Work



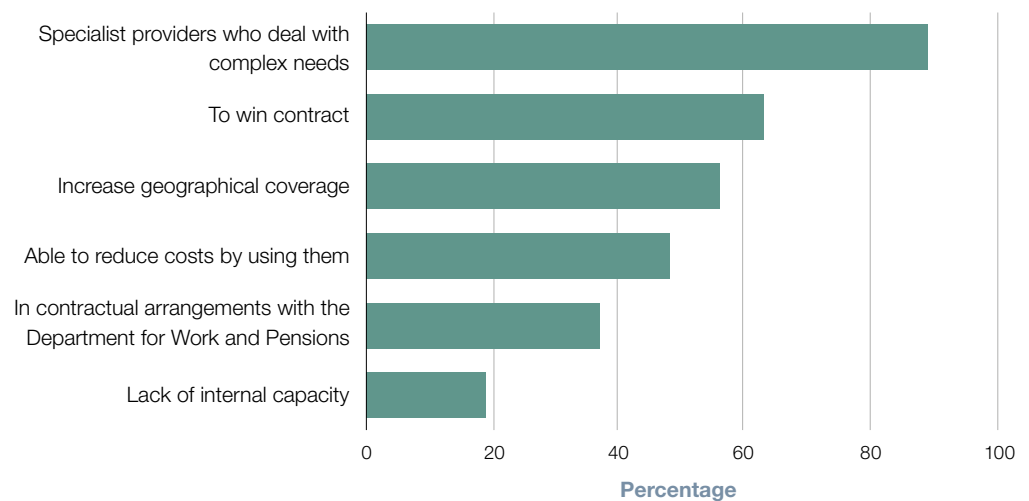
NOTE

1 Base: All prime contractors providing a response, 26.

Source: National Audit Office survey of prime contractors

Figure 3

Reasons why prime contractors use other organisations to deliver Pathways to Work services



NOTE

1 Base: All prime contractors who use other organisations to deliver Pathways to Work services, 27.

Source: National Audit Office survey of prime contractors

Organisations used by prime contractors to deliver Pathways to Work services

12 Our research found that the composition of supply chains was varied but that prime contractors were responsible for managing supply chains that involved a large number of different organisations. On average, each prime contractor uses 26 organisations to help them deliver their Pathways to Work contracts, most of which have an informal working arrangement. Around three quarters of these organisations were drawn from the third sector (see **Figure 4**).

Recruiting sub-contractors

13 Prime contractors used different methods to recruit sub-contractors. In all, 43 per cent of all sub-contractors were approached directly by their prime contractor, while 39 per cent made the initial contact themselves. Larger organisations are more likely to have received a direct approach rather than smaller organisations. Thirteen per cent of sub-contractors reported that they had worked with their prime contractor previously and had thus already established a working relationship.

14 **Figure 5** shows the extent to which there was a competitive process in recruiting sub-contractors. Competition was used to recruit around four out of ten sub-contractors involved in delivering Pathways to Work services.

15 Where there has been a formal process, sub-contractors tend to be more satisfied with their contract. 17 of the 22 sub-contractors appointed following a competitive tendering exercise were satisfied with their contracts. This compares with only 29 per cent who did not follow such a course. Similarly, 10 of the 34 organisations appointed after a competitive tendering exercise say they would definitely enter the same contract again, whereas none of the sub-contractors engaged without competitive tendering say they would definitely do so. This would suggest that formal processes supported a level of due diligence by both parties, prime and sub-contractor, that improved the nature of the agreement between them.

Figure 4

Types of organisations used by prime contractors

Type of organisation	Mean number of organisations used
Private sector	4
Third sector	19
Public sector	3
Total	26

NOTE

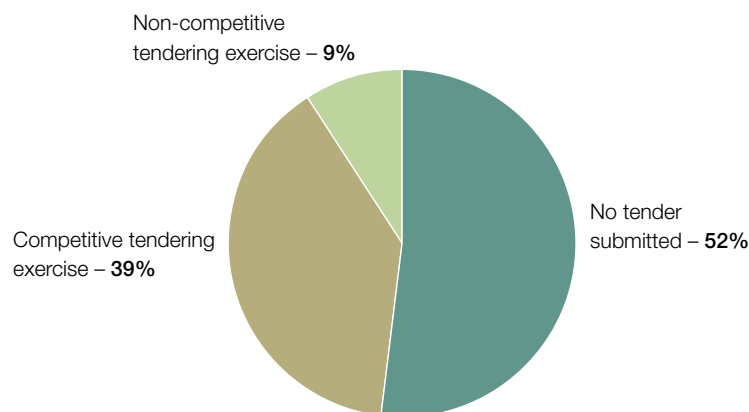
1 Base: All prime contractors providing a response, 26.

2 These figures include both formal sub-contractors and other delivery partners.

Source: National Audit Office survey of prime contractors

Figure 5

Use of tendering processes to recruit sub-contractors

**NOTE**

¹ Base: All sub-contractors providing a response, 56.

Source: National Audit Office survey of sub-contractors

16 Those sub-contractors who engaged successfully with a prime contractor had a largely positive view of the commissioning process: most felt they were given a sufficient length of time to prepare their bid, and that the tendering process was straightforward and simple.

17 The recruitment process depends on prime contractors being aware of potential delivery partners, particularly small and local community-based organisations. All prime contractors responding to our survey thought that their knowledge of service providers in their district was good. However, the general level of awareness of potential delivery partners was questioned during our interviews.

Barriers to involvement

18 Thirty per cent of prime contractors and 36 per cent of sub-contractors felt the recruitment process may have presented barriers to some providers, particularly smaller organisations.³ Over half of prime contractors (56 per cent) and 72 per cent of sub-contractors considered that contracts favour larger organisations. This reflects the nature of the prime contractor delivery model, namely the move away from having a large number of contracts with small providers to one in which the Department sought to establish closer working relations with a small number of larger providers.

19 Other potential barriers to getting appropriate sub-contractors involved were attributed to the structure of the prime contractor delivery model. We interviewed welfare to work service providers who are not involved with Pathways to Work and found concerns with:

³ A further 33 per cent of prime contractors were unsure and around a third disagreed with this view.

- the lack of control (sub-contractors did not want to enter into agreements where they would be reliant upon the prime contractor for referrals);
- unattractive contractual provisions which imposed too much risk in terms of payment rates, payment intervals, and the 'proof of employment' requirement after six months⁴; and
- the difficulty in covering costs of providing services.

These concerns had proved to be a barrier to their involvement in the programme. Thirty-three per cent of prime contractors reported that there were organisations with whom they would like to work with on Pathways to Work but who were not involved.

Contracts

20 An important part of how the supply chain works in practice is establishing an effective contract between the prime and sub-contractors at the outset. We therefore looked at how the contracts used within the prime contract model were structured.

21 Prime contractors signed contracts with the Department that set out the expected value of all services to be delivered through Pathways to Work within each district. These are large contracts, worth on average over £15 million. Prime contractors' income is derived from monthly ("service") fees and payments for securing successful job outcomes, i.e. placing incapacity benefits claimants back into work.⁵ The original contracts set out that 70 per cent of the contract value would be paid for securing successful job outcomes, with the remaining 30 per cent paid as service fees. One of the reasons for making such payments was to help finance programme management costs to deliver these services. This was later revised for nine of the 11 prime contractors who received increased service fees for the first 12 months of their three-year contracts (thus reducing service fees due later in the contract).⁶

22 A second feature of the payment mechanism is that prime contractors receive the same outcome-based payment for getting all claimants into work regardless of the amount of resources needed to get that claimant into work (which is generally a function of their job-readiness – see Part Three).

23 The terms on which sub-contractors are involved in delivering services is a matter of negotiation between them and their prime contractor. We found that sub-contractors generally have a small share of service delivery responsibilities. On average, the value of their contracts was around £1 million (though the median value is around £500,000, which points to a wide variation in the value of these contracts). When asked to estimate the total proportion of their contracts they paid to their delivery partners (including those with which they had informal arrangements), prime contractors said that it was on average 13 per cent – nearly all of which was paid to their sub-contractors (see **Figure 6**).

⁴ Forty-six per cent of sub-contractors interviewed stated that the time intervals between payments caused them cash flow difficulties.

⁵ Payment for a successful job outcome is split into two parts – payment for getting the claimant back into work and a second payment if the claimant is still in employment after six months.

⁶ This change was made due to the fact that prime contractors were under-performing in relation to their job outcome targets, and were thus not receiving expected income to fund their services.

24 Over three quarters of sub-contractors are paid fully or in part on the basis of placing claimants back into work. A quarter were paid up-front to help fund set-up costs: just under a half receive regular payments. However, a significant proportion – a further quarter – received no funding to support programme management and set-up costs. This is set out in **Figure 7**. Most sub-contractors (80 per cent) increased their capacity (e.g. increased staff) in order to deliver their contract: in some cases, they received support from their prime contractors, most commonly through training (36 per cent) and providing a venue for meetings (20 per cent).

Figure 6

Proportion of prime contract value paid to other organisations

Type of organisation	Contract value paid by prime contractors to other organisations (%)
Sub-contractors (i.e. with a formal contract)	13.0
Other organisations (with whom contractors have an informal relationship)	0.3
Total	13.3

NOTE

¹ Base: All prime contractors providing a response, 26.

Source: National Audit Office survey of prime contractors

Figure 7

Methods used to pay sub-contractors

Payment method	Percentage of sub-contractors
Paid only when they place a claimant back into work	25
Received some money up-front, and paid balance when they place a claimant back into work	25
Paid a regular fee for services and when they place a claimant back into work	29
Paid a service fee regardless of whether the claimant is placed back into work	20
Paid to carry out assessments of a claimant's suitability for the programme	1
Total	100

NOTE

¹ Base: All sub-contractors providing a response, 56.

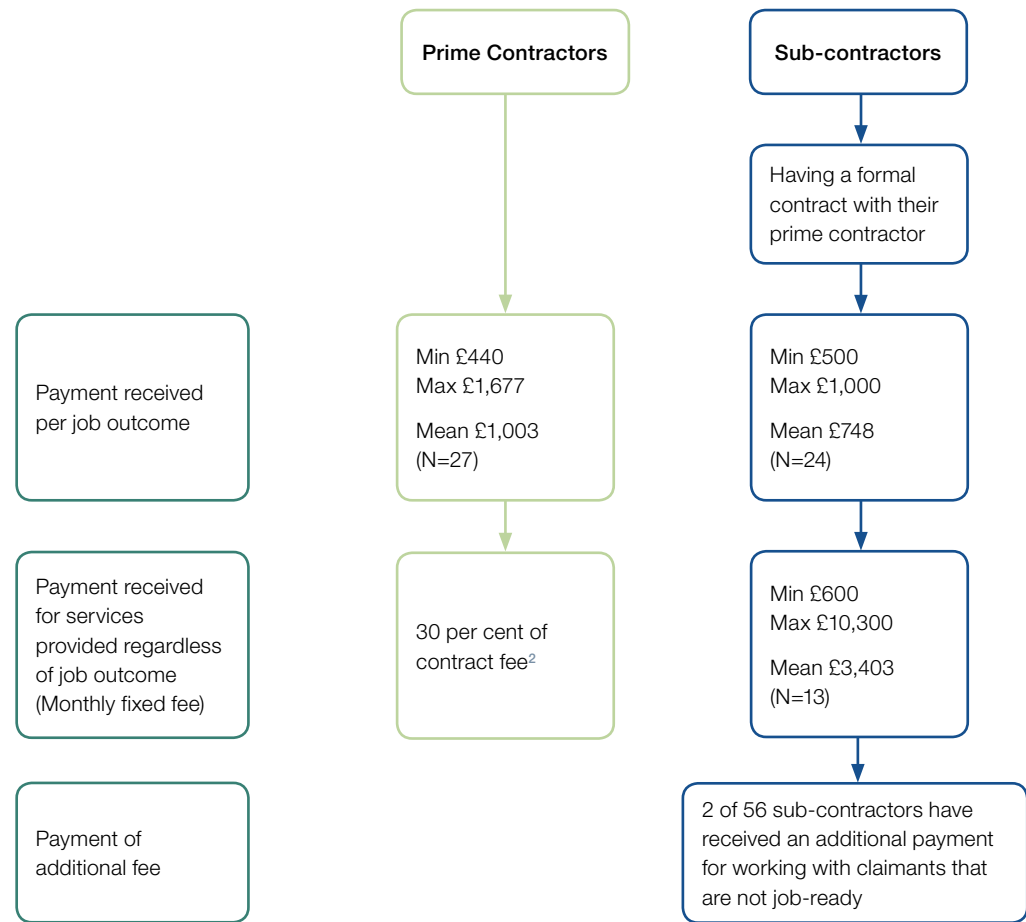
Source: National Audit Office survey of sub-contractors

25 On average, sub-contractors are paid around three quarters of what prime contractors are paid for securing a successful job outcome. The average for prime contractors was just over £1,000; for sub-contractors this was around £750. Other delivery partners, with informal arrangements, were on average paid around £500 for successful job outcomes. Over three quarters of prime contractors (78 per cent) transferred the flat-rate payment mechanism on to their sub-contractors, and thus did not adjust their payments to reflect the distance a claimant was from the job market.

26 The payment arrangements are illustrated in **Figure 8**.

Figure 8

Average payments to prime and sub-contractors for delivering Pathways to Work services



NOTES

- 1 Only three prime contractors provided information regarding payment terms for sub-contractors with whom they have informal arrangements. This sample is too small to present these figures.
- 2 This was increased to 50 per cent for nine of the eleven prime contractors in the first year of the contracts.
- 3 Base: shown within Figure. The numbers of responses behind some of the calculations in this Figure are small, so caution should be used when using them elsewhere.

27 Given the arrangements set out above, it is no surprise that within each district prime contractors derive a greater share of income from Pathways to Work than from other sources.⁷ Prime contractors generally derive around two-thirds of their total income within a district from their work on the Pathways to Work programme. The average proportion of annual income that subcontracted organisations get from their Pathways to Work contract was lower (38 per cent) than for prime contractors.⁸

Satisfaction with their contracts

28 Just under half (48 per cent) of all sub-contractors are satisfied with the terms of their contract with the prime contractor; 34 per cent are dissatisfied. Although the number of responses was small and caution needs to be taken when interpreting results, there are indications that larger companies are more satisfied with the terms of their contracts than smaller ones. Furthermore, those sub-contractors that were paid via a combination of methods are statistically more likely to be satisfied with their contracts (see Part Three for further details).

⁷ This is based on answers given by the 21 prime contractors able to provide figures for a total annual income and income from Pathways to Work contracts within each district. Of these, ten said that the Pathways to Work provided all of their income with the district.

⁸ This figure is based on the answers that 38 sub-contractors who were able to provide data on their annual income from Pathways and other sources within their district.

Part Three

The supply chain in operation

This section looks at how the supply chains have worked in practice given the types of service user that they have worked with; the relationships between prime and sub-contractors; and the performance of the supply chains and whether these contracts have been profitable. In summary, we find that:

- the majority of benefits claimants that prime and sub-contractors work with fall within the “least job-ready” category: on the whole, contractors expected the profile of claimants in terms of the job readiness to be different;
- the payment mechanism results in efforts being diverted away from those who are less job-ready;
- relationships between prime and sub-contractors and between the Department and prime contractors tends to be good;
- there is a difference in views between prime and sub-contractors about the effectiveness of the programme;
- performance targets have mostly been missed at all levels; and
- prime contracts generally estimate that their involvement in the programme will be profitable; the reverse is true of sub-contractors.

Profile of claimants worked with

29 The majority of contractors use a traffic light system to classify their caseload by the amount of work participants are thought to need in getting back to work:

- those in the ‘green’ category require only a little assistance to be ‘job-ready’;
- those in the ‘amber’ category have a strong desire to return to work, but have significant barriers to overcome in order to do so; and
- those in the ‘red’ category are more reluctant to engage and/or require a lot of assistance to be ‘job-ready’.⁹

30 The other relevant classification established by the Department classifies participants in the Pathways to Work programme as either ‘mandatory’ (i.e. they are obliged to participate in exchange for their Employment Support Allowance), or ‘voluntary’ participants (i.e. their participation in the programme is not conditional on their receipt of benefit).

Figure 9 sets out the overall profile that contractors reported working with. It shows that both prime and sub-contractors work mainly with participants who are least job ready or who are obliged to participate or both (red and/or mandatory participants).

⁹ The ‘RAG’ categorisation was originally used by Jobcentre Plus and, whilst not universally used, it is a widely understood concept. Fifty-nine per cent of prime contractors already use this classification for their claimants. The most common reason for using the system is to enable services for claimants to be prioritised.

Figure 9

Profile of participants worked with by prime and sub-contractors

Participant classification	Prime contractors (%)	Sub-contractors (%)
Green	17	16
Amber	28	31
Red	56	53
Mandatory	72	64
Voluntary	28	36

NOTE

¹ Base: All prime contractors (26) and all sub-contractors (56) providing responses.

Source: National Audit Office survey of prime contractors and sub-contractors

31 Our research found that the number and type of service users that providers worked with did not match the expectations they had at the outset. Eighty-two per cent of prime contractors and 61 per cent of sub-contractors said they had not received the types of claimants they expected. Most prime contractors thought the claimants were further from the job market than originally envisaged. Forty-eight per cent of prime contractors told us that the number of referrals to other organisations was lower than expected, while 7 per cent had referred more than anticipated.

32 Figure 9 also shows that the caseloads of prime and sub-contractors are broadly similar, using the classifications outlined above. This similarity is not necessarily present within each district. In some districts, sub-contractors work with a much higher proportion of 'red' participants than their prime contractor; in others, the opposite is true.¹⁰

33 Although the majority of participants are in the red category, around three-quarters of the prime and sub-contractors we surveyed acknowledged that the current payment system (the flat payment structure) resulted in efforts being diverted away from participants who were less job-ready.

34 **Figure 10** overleaf shows that at an aggregate level prime contractors refer on about 12 per cent of the claimants they receive. This is consistent with the proportion of contract value passed on to sub-contractors (see Figure 6). Most of these claimants are sent to their sub-contractors, and a very small proportion are sent to other organisations with whom they have more informal arrangements. Again, at a district level this pattern varies according to the supply chain created by the prime contract – at the lower end, one prime referred on only 3 per cent of participants while at the upper end, the prime referred on almost 60 per cent of claimants.¹¹ The overall pattern is set out in **Figure 11** overleaf. Most prime contractors tend to refer a small proportion of service users to other organisations.

¹⁰ We did not receive sufficient responses to make this comparison in all districts.

¹¹ In addition to claimants being referred by prime contractors, 41 per cent of sub-contractors also make referrals to other organisations, with 5 per cent doing so in most cases.

Figure 10

Proportion of job claimants referred to other organisations

Type of organisation	Percentage of referrals made by prime contractor
Sub-contractors (i.e. with a formal contract) ¹	11.0
Other organisations (with whom prime contractor has an informal relationship) ²	1.3
Total	12.3

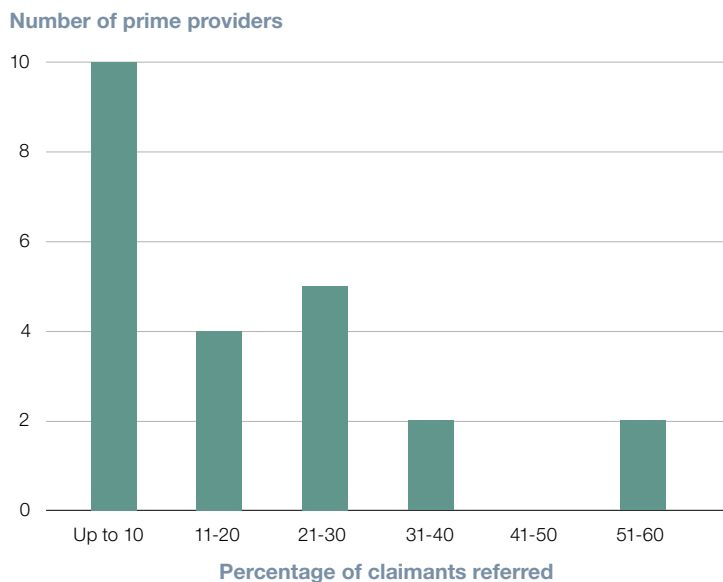
NOTES

- 1 Base: Prime contractors providing a response, 23.
- 2 Base: Prime contractors providing a response, 17.

Source: National Audit Office survey of prime contractors

Figure 11

Profile of individual prime contractors based on percentage of service users referred on to other organisations



NOTE

- 1 Base: All prime contractors providing a response, 23.

Source: National Audit Office survey of prime contractors

35 The generally low level of referrals did create some concerns among sub-contractors. Eighty per cent reported not receiving the volume of referrals expected.¹² Furthermore, one of the most common reasons given by sub-contractors for re-negotiating their Pathways to Work contract was because the terms of their agreements were not being honoured, and as such they felt the prime contractor had reneged on their agreements.

Relationships within the supply chain

36 Good relationships are an important component of effective supply chains. We looked at various aspects of relationship management: this is largely led by the prime contractor, but the department has supported this by creating a Code of Conduct. We also looked at other issues, such as aspects of communications (including meetings and whether complaints procedures were in place and being used).

37 The Code of Conduct was implemented by almost all prime contractors to some degree. Ninety-five per cent of sub-contractors we surveyed said that they were aware of the Code, and of these 58 per cent felt that their prime contractor had fully complied with it. However, 17 per cent felt that the Code of Conduct was not being strictly followed by their prime contractor.

38 More broadly, relationships between prime and sub-contractors were generally described as good. The majority of sub-contractors (73 per cent) and all prime contractors said their overall relationship with each other was either 'very good' or 'fairly good'. Nine per cent of sub-contractors described the relationship with their prime contractor as poor.

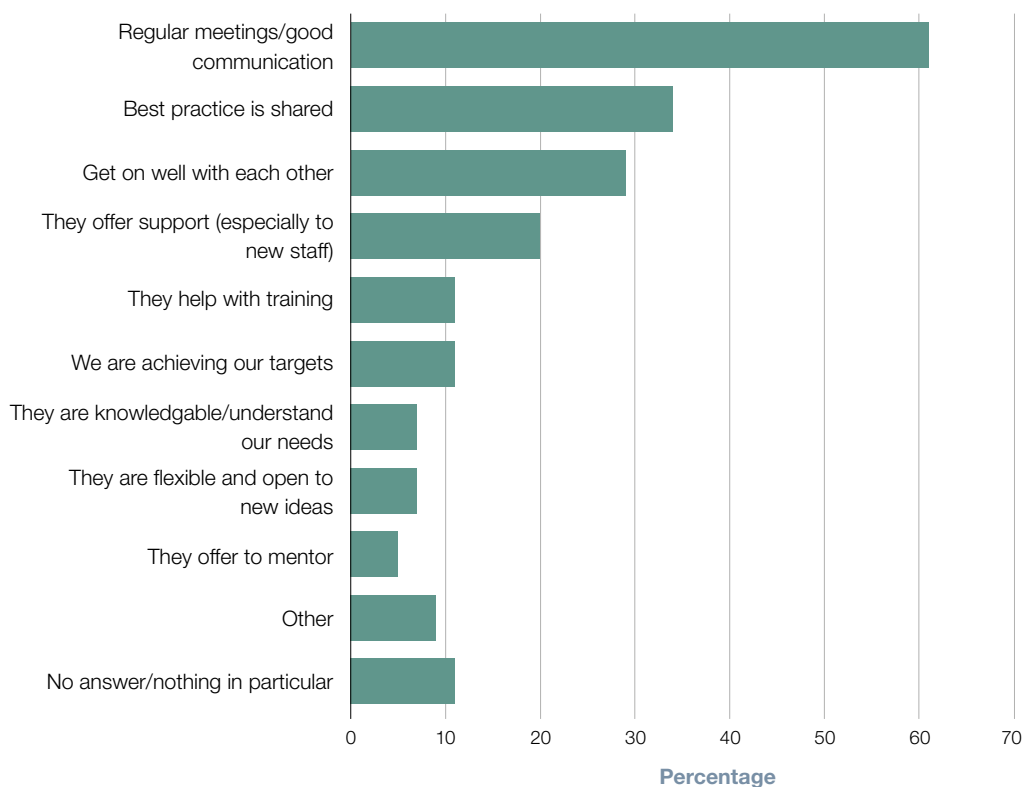
39 The most commonly cited aspects which sub-contractors felt were good about their relationship with their prime contractors are shown in **Figure 12** overleaf. Those aspects which sub-contractors believe could be improved upon are shown in **Figure 13** on page 19. It shows suggestions made by three or more sub-contractors.

40 Recognising the importance of ongoing dialogue and communication, 74 per cent of prime contractors said they used regular meetings with their sub-contractors to improve their relationship with their sub-contractors. With regular meetings being important to sub-contractors, it is no surprise that those who meet at least weekly tend to be more satisfied with their contract in general.

41 All prime contractors interviewed said they have provided training and shared best practice with the organisations they refer claimants to, with 85 per cent saying they have encouraged these organisations to share best practice.

¹² Our survey did not ask prime contractors whether their number of clients was in line with expectations, but this may have been a contributing factor in the lower-than-expected numbers of clients that sub-contractors were working with.

Figure 12
Good aspects of the relationship with their prime contractor



NOTE

1 Base: All sub-contractors providing response, 56.

Source: National Audit Office survey of sub-contractors

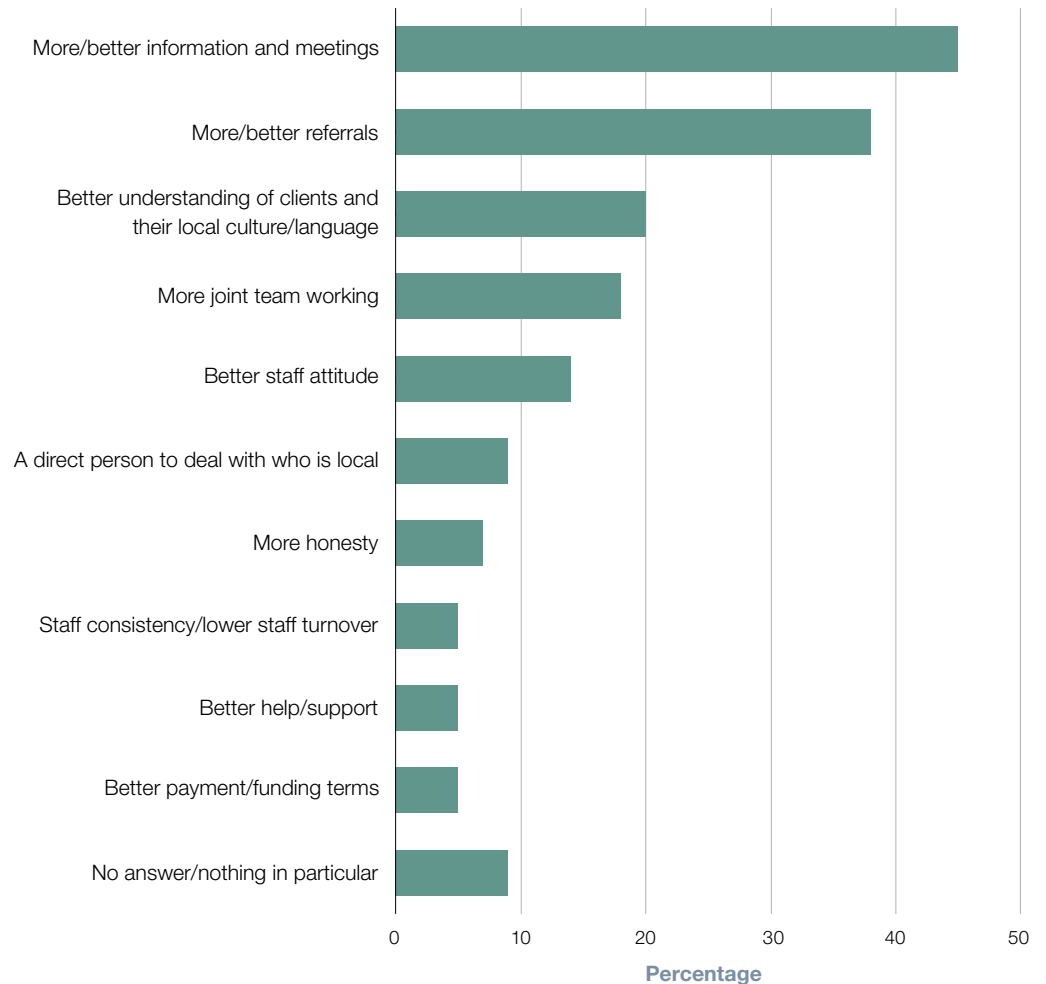
Complaints Procedures

42 Normal means of communication may not always resolve problems; in such cases, having mechanisms for formal complaints may be necessary. Within these supply chains, complaints are relatively common and can be an important part of supply chain management. Forty-eight per cent of sub-contractors have previously made a complaint about the way in which their prime contractor operates. The most common issues focussed on the administrative burden placed on sub-contractors. Other complaints included poor levels of communication, a lack of referrals, and the poor quality of referrals.

43 Of the 29 sub-contractors who have never complained, 66 per cent said they would know where to go in order to place a complaint. We have little evidence concerning the awareness levels amongst those with informal arrangements about how to register formal complaints.

Figure 13

Aspects of the relationship with their prime contractor that could be better

**NOTE**

¹ Base: All sub-contractors providing a response, 56.

Source: National Audit Office survey of sub-contractors

The relationship with the Department

44 Generally speaking, the relationship between prime contractors and the Department was described as good. When asked how they would describe their relationship with departmental representatives, over half (59 per cent) of prime contractors said it was 'very good', with a further 33 per cent saying 'fairly good'. Only two prime contractors claim their relationship with departmental representatives to be 'fairly poor', with none claiming it to be 'very poor'.

45 When asked to consider the level of administration sought by the department as part of the Pathways to Work contract, 48 per cent of the prime contractors feel that a significantly higher level of administration is required in comparison to other similarly sized contracts. A further 22 per cent of prime contractors feel a slightly higher level of administration is required.

46 When asked what, if any information they would like to receive from the department regarding delivery of Pathways to Work, 37 per cent suggested the department should provide different ways of reporting results and/or compiling national league tables. Other popular forms of information prime contractors would like to receive from the Department included better profiles of customers coming onto the programme (mentioned by 22 per cent), changes to be made to the ATOS medical assessment¹³ (22 per cent), and more and better information about the role of the Benefits Delivery Centre within Job Centre Plus (19 per cent).

Performance and Profitability

47 Good relationships notwithstanding, prime and sub-contractors had markedly different views about the overall effectiveness of the programme as shown in **Figure 14**. Ninety-six per cent of prime contractors believed it to be at least 'fairly effective' in getting people back into sustained employment, albeit that only 7 per cent of them thought it was 'very effective' in doing so. The view of sub-contractors was ambivalent, with 52 per cent considering the programme to be at 'very' or 'fairly effective' and 49 per cent 'fairly' or 'very ineffective'.

Figure 14
Providers' views of the overall effectiveness of the Pathways to Work programme

	Prime contractors (%)	Sub-contractors (%)
Very effective	7	9
Fairly effective	89	43
Not very effective	4	45
Not at all effective	–	4

NOTE

1 Base: All prime contractors (27) and sub-contractors (56) providing responses.

Source: National Audit Office survey of Prime and sub-contractors

¹³ Each client participating on the Pathways programme is first given a medical assessment to determine eligibility to the programme. ATOS Healthcare undertake this assessment.

48 Prime contractors negotiated performance targets with the Department and in turn negotiated targets with each of their sub-contractors. Nine per cent of sub-contractors reported that they had not been given targets and a further 4 per cent did not know what targets they had or whether they have them. Prime contractors have targets based on voluntary and mandatory job starts and sustained job outcomes, these being the triggers for payments from the department. Sub-contractors' targets reflected this:

- thirty-nine per cent have targets related to numbers of voluntary job starts per month;
- thirty-eight per cent have targets for number of sustained job outcomes per month;
- thirty-two per cent have targets for job starts per month (regardless of voluntary and mandatory status); and
- twenty-nine per cent have targets for number of mandatory starts per month.

49 Achievement of performance targets was also somewhat mixed, see **Figure 15**. At the prime contractor level, no providers had so far met their contracted job outcome targets for mandatory or voluntary participants. Similarly, very few sub-contractors had met their targets.

Figure 15
Sub-contractor achievement of targets

	Sub-contractors (%)
"We achieve our targets all the time"	8
"We achieve our targets most of the time"	16
"We achieve our targets some of the time"	47
"We rarely achieve our targets"	18
"We never achieve our targets"	12

NOTE

1 Base: All sub-contractors with targets, 51.

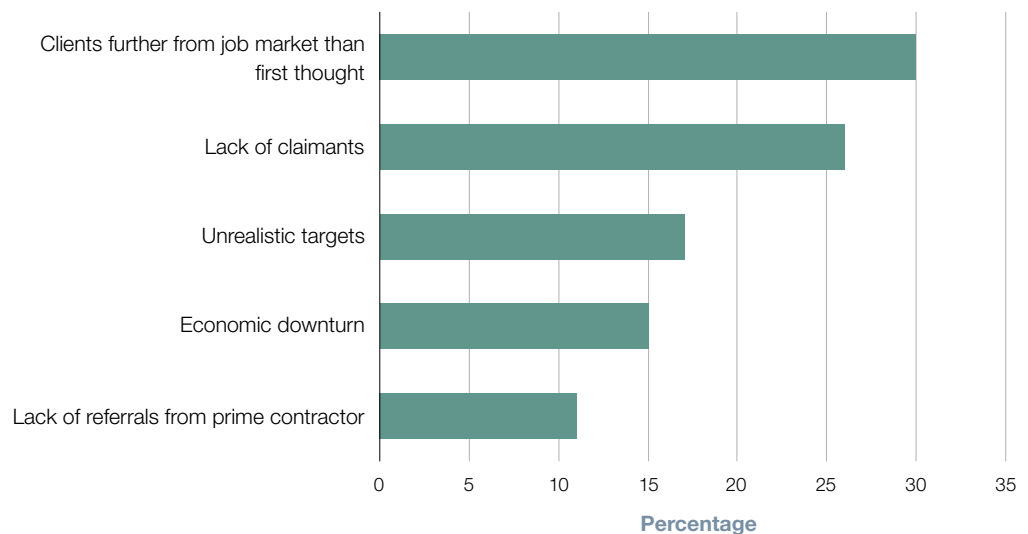
Source: National Audit Office survey of sub-contractors

50 Of the 47 sub-contractors who have not achieved or are not on course to achieve all of their targets, they reported a range of reasons. It is interesting to note that the economic downturn was not thought to have had the most impact on sub-contractors failing to meet their targets. The main reasons cited for missing targets related to clients being further from the job market than originally thought, or a lack of clients to work with (including a lack of referrals from the prime contractor – see **Figure 16**).

51 Linked to under-performance, just under half (48 per cent) of sub-contractors reported having had the terms of their contracts re-negotiated. The main reasons, given by a third of interviewees, were a lack of referrals and unrealistic or unachievable targets. The full range of reasons given by sub-contractors is set out below (**Figure 17**).

52 Numerous prime contractors reported actual and potential occurrences of contractual default among their sub-contractors due to poor performance or financial difficulties (see **Figure 18**).

Figure 16
The main reasons for sub-contractors missing targets



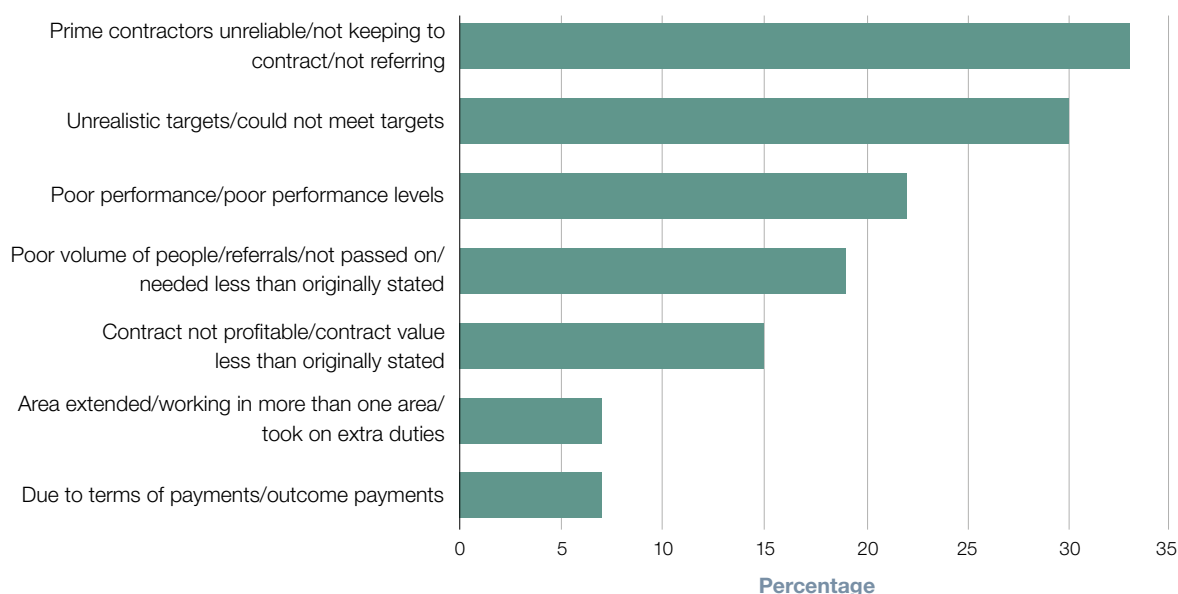
NOTE

1 Base: All sub-contractors who do not achieve their targets all the time, 47.

Source: National Audit Office survey of sub-contractors

53 Given the under-performance and the way in which the Pathways to Work model is structured, one would expect providers to make a loss from these contracts. However, there was a difference between prime and sub-contractors responses as to whether their contracts were profitable or not (see **Figure 19** overleaf). Over half (56 per cent) of prime contractors anticipated making a profit from their contracts, while a third (31 per cent) thought that they would make a loss. On the other hand, less than 20 per cent of sub-contractors anticipated a profit and 61 per cent thought they would make a loss.

Figure 17
Reasons for renegotiating contracts



NOTE

1 Base: All sub-contractors whose contracts were renegotiated, 27.

Source: National Audit Office survey of sub-contractors

Figure 18
Handing back or annulment of contracts with sub-contractors

	Have handed back or annulled contract (%)	At risk of handing back or annulling contract (%)
Due to poor performance	44	30
Due to financial difficulties	30	22

NOTE

1 Base: All prime contractors providing a response, 27.

Source: National Audit Office survey of sub-contractors

Impressions of fairness

54 Both prime and sub-contractors were asked how closely they agreed with a number of statements relating to how fair they thought the contracting arrangements were.

55 Proportions of prime and sub-contractors agreeing that contracts are fair vary considerably with the majority of prime contractors considering the contract to allocate financial risk fairly, while many sub-contractors disagree with this. Additionally, prime contractors are much less likely than sub-contractors to consider that the contract size favours larger organisations (see **Figure 20**).

56 Most sub-contractors expect to make a loss on their Pathways to Work contract. The Department expects that all providers will offer prices so that they are in a position to recover their costs. This has not been the case for sub-contractors, for which over half (57 per cent) disagree that the payments they receive under their contract cover all associated costs. This is particularly true amongst smaller sub-contractors, and those from the third sector.

Figure 19

Prime and sub-contractor expectations of the profitability of their Pathways to Work contracts

“Do you think your contract will...?”	Prime contractor (%)	Sub-contractor (%)
Make a large profit	–	–
Make a small profit	56	18
Break even	11	21
Make a small loss	7	21
Make a significant loss	26	39

NOTE

1 Base: All prime contractors (27) and sub-contractors (56) who provided responses.

Source: National Audit Office survey of prime and sub-contractors

Figure 20

Perceptions of fairness of the contracting arrangements

	Agree with the statement (strongly or slightly)		Disagree with the statement (strongly or slightly)	
	Prime (%)	Sub (%)	Prime (%)	Sub (%)
The contract between us ensures the financial risk is allocated fairly	78	45	4	40
The contract size favours large organisations	56	72	37	19

NOTE

1 Base: All prime contractors (27) and sub-contractors (56) who provided responses.

Source: National Audit Office survey of prime and sub-contractors.

Part Four

The Future

57 The previous sections explored how the supply chains were set up and how they are operating to deliver Pathways to Work services. The Department is dependent on the provider market to continue to bid for and deliver services, and thus has an interest in providers' views about their future engagement in delivery. Their views might have implications for the future design of welfare-to-work service contracts.

58 Just over half of prime contractors (56 per cent) said that they would not bid again for a new Pathways to Work contract under the same conditions with the Department. The reasons they gave for this view tended to focus on the difficulty of making money from the contracts and the related reasons that the costs of delivering services were greater than they had anticipated, and also a general lack of funding being available to finance service delivery.

59 Similarly, well under half (38 per cent) of sub-contractors said they would sign up to the same terms with their prime contractors. The most common reasons for this view were:

- the 'standard' of participants referred to them by the prime contractor (a reason given by 17 sub-contractors);
- a lack of resources (12 sub-contractors); and
- a need for a more even balance of financial risk/losing money on the contract (13 sub-contractors).

60 More positively, however, a large majority (80 per cent) of sub-contractors expected to be involved in future Pathways to Work contracts, at least partly reflecting their specialist role in delivering services to this particular customer group. Interestingly from the perspective of contract management, there was a statistically significant relationship between this view and:

- receiving an upfront payment greater than 10 per cent of the contract value;
- receiving payment through a combination of methods¹⁴; and
- feeling that the financial risk was evenly balanced between themselves and the prime contractor.¹⁵

¹⁴ E.g. payments are received for achieving a job outcome as well as a monthly service fee.

¹⁵ The first and third relationships were statistically significant at the 99 per cent confidence level; the second relationship was statistically significant at the 90 per cent confidence level. These associations were derived using the Fischer Exact Test

61 Meanwhile, 16 per cent of sub-contractors expected no future involvement in the Pathways to Work programme. These include small and large companies who have been disappointed with the delivery model rather than their individual relationship with their prime. In particular, they cite:

- a poor procurement process; and
- payment by job outcomes, making contracts financially unviable.

62 Since the launch of the Pathways to Work Programme there have been several key developments that will affect the Department's approach to prime contracting. In 2008, the Department published a new Commissioning Strategy which covered its future approach to contracting out welfare to work provision. The Department is also currently piloting the Merlin Standard to support the development of good practice in supply chain management within the provision of welfare to work services.

63 In June 2010, following the general election, the new Coalition Government announced that all existing welfare to work programmes would be rolled into a single Work Programme, which will go live in Summer 2011. The Work Programme will use a prime contractor delivery approach.

Appendix

Methodology

This paper sets out our findings on the operation of the Pathways to Work prime contractor delivery model and supplements the National Audit Office's value for money examination into the overall effectiveness of the Pathways to Work programme which was published on 28th May 2010.

The elements of our research methodology are set out below. Our fieldwork was designed to explore:

- which types of organisations were involved within the prime contractor supply chains and how they were recruited;
- the nature of the contracts that prime and sub-contractors agreed between them;
- how prime and sub-contractors managed their caseloads of claimants;
- how prime and sub-contractors had performed and the profitability of the contracts they had signed up to.

Our research mainly focused on prime contractors and their designated sub-contractors. Where we have results relating to the wider network of delivery partners that are involved to some extent in the delivery of Pathways to Work services, we have stated this explicitly in the main body of the text.

The fieldwork was conducted between June and September 2009.

Selected Method	Purpose												
<p>Semi-structured interviews</p> <p>We conducted:</p> <ul style="list-style-type: none"> ● seven interviews with senior Departmental staff (in some cases following these up with further meetings and correspondence). We drew on information collected during interviews undertaken by NAO colleagues working on the main Value for Money study on Pathways to Work ● two interviews with the staff from the Office of the Third Sector ● 22 face to face or telephone interviews with staff from prime and sub-contractors. Many of these were carried out as a follow-up to the telephone survey to explore the reasons behind some of the responses that we received. These interviewees included four lapsed sub-contractors and 14 prime and sub-contractors that were not involved in delivery of Pathways to Work services. 	<p>To identify strategic and operational issues in the planning, implementation and management of the Pathways to Work programme.</p> <p>To clarify understanding of provider experiences of Pathways and to inform the design and content of a questionnaire survey of providers and sub-contractors as around the commissioning process.</p>												
<p>Telephone survey of prime contractors and sub-contractors delivering Pathways to Work services</p> <p>We commissioned FDS International to undertake a census survey of Pathways to Work prime contractors operating in each Jobcentre Plus district. Responses were received from 27 (out of 34) prime contractors (representing a response rate of 80 per cent), covering 27 of the 34 districts in which providers were delivering Pathways to Work. Where a particular provider held more than one contract with the Department, we interviewed representatives separately for each contract held.</p> <p>We also commissioned FDS International to do an equivalent survey of Pathways to Work sub-contractors, drawing on a sampling frame supplied by the prime contractors at the request of the Department. We received a sample frame of 81 sub-contractors, of which 56 were interviewed (a response rate of 69 per cent). Between them these sub-contractors were operating within 16 separate districts. Where a particular sub-contractor held more than one contract to deliver Pathways to Work services, we interviewed representatives separately for each contract held. In those 16 districts where we interviewed at least one sub-contractor, we achieved the following coverage within the district:</p>	<p>To quantify aspects of the provider caseload management, resources allocated to Pathways, experience of procurement, systems for contract management and relations between the Department, prime and sub-contractors.</p>												
<table border="1"> <thead> <tr> <th data-bbox="406 1859 742 1912">Percentage of sub-contractors interviewed within district</th> <th data-bbox="742 1859 925 1912">Number of districts</th> </tr> </thead> <tbody> <tr> <td data-bbox="406 1912 742 1944">100%</td> <td data-bbox="742 1912 925 1944">6</td> </tr> <tr> <td data-bbox="406 1944 742 1975">Between 50% and 75%</td> <td data-bbox="742 1944 925 1975">0</td> </tr> <tr> <td data-bbox="406 1975 742 2007">Between 25% and 50%</td> <td data-bbox="742 1975 925 2007">3</td> </tr> <tr> <td data-bbox="406 2007 742 2038">Below 25%</td> <td data-bbox="742 2007 925 2038">7</td> </tr> <tr> <td data-bbox="406 2038 742 2069">Total</td> <td data-bbox="742 2038 925 2069">16</td> </tr> </tbody> </table>	Percentage of sub-contractors interviewed within district	Number of districts	100%	6	Between 50% and 75%	0	Between 25% and 50%	3	Below 25%	7	Total	16	
Percentage of sub-contractors interviewed within district	Number of districts												
100%	6												
Between 50% and 75%	0												
Between 25% and 50%	3												
Below 25%	7												
Total	16												

Selected Method	Purpose
<p>The response rates achieved for these surveys resulted in the following maximum margins of error:</p>	
<ul style="list-style-type: none"> ● +/- 8.69 per cent at 95 per cent confidence level ● +/- 7.32 per cent at 95 per cent confidence level 	
<p>These surveys were conducted in parallel: the telephone interviews were conducted between 20 July and 28 August 2009. The position of the respondents in each of the organisations surveyed varied but in general we sought to speak to a member of staff with detailed understanding of or access to information relating to their Pathways to Work contracts, the bidding process, performance management issues and, in the case of prime contractors, the nature and number of organisations working in their supply chain. In practice, respondents were Operations Managers, Centre Managers, Performance Managers and so on. Where we were interviewing an organisation more than once about contracts covering different districts, we asked to speak to the person most able to answer our survey questions. In most cases, we ended up speaking to different people within those organisations.</p>	
<p>Almost all of the organisations in the sub-contractor sample held formal contracts with their prime contractor. We do know, however, that there is a large number of delivery partners who are engaged to deliver a small share of Pathways to Work services. Very few of these organisations were interviewed in this survey. It also became apparent through our follow-up interviews that the supply chains working beneath prime contractors are fluid. Therefore these results present a picture of views at a particular point in time.</p>	

Selected Method	Purpose
<p>Analysis of the survey findings</p> <p>We looked for statistically significant relationships between key variables reported in our survey findings based upon an analysis framework developed prior to the start of the survey.</p> <p>We used the Fischer Exact Test to see if there were associations between these variables. Of these we found only one set of significant relationships, reported in paragraph 60.</p> <p>We have reported a range of responses and descriptive statistics throughout the report. For some questions, we received a lower response rate either because the information was not available to the survey respondents or because the question was not relevant to them.</p> <p>We have provided response numbers for the results reported in the main text, particularly where these were less than the total number of responses to the survey. In some cases, the number of responses was quite low but we have reported the answers anyway because we felt that the reader would be interested in the answers, though caution needs to be applied when using them.</p>	
<p>Literature review</p> <p>We carried out an extensive review of existing literature. The review covered:</p> <ul style="list-style-type: none"> ● departmental reviews and evaluations; ● policy papers; ● research on supply chain management; ● existing reviews on approaches to prime contracting; ● research on effective engagement with third sector organisations to deliver public services. 	<p>This review enabled us to understand supply chain management issues. This in turn helped with the design of survey questionnaire and questions that we wanted to explore through our interviews.</p>