



National Audit Office

**REPORT BY THE
COMPTROLLER AND
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Department for Work and Pensions

Support to incapacity benefits
claimants through Pathways to Work

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).

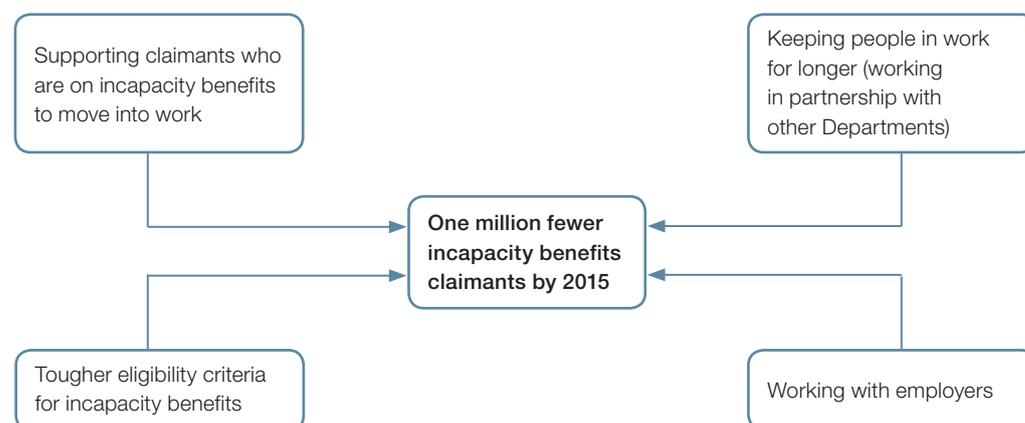
3 The volume of people on incapacity benefits increased markedly from 0.74 million in February 1979 to 2.78 million in November 2003. This was despite improvements in the nation's health. The trend is thought to reflect changing labour market demand and, at a micro-level, the relative advantages of claiming 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

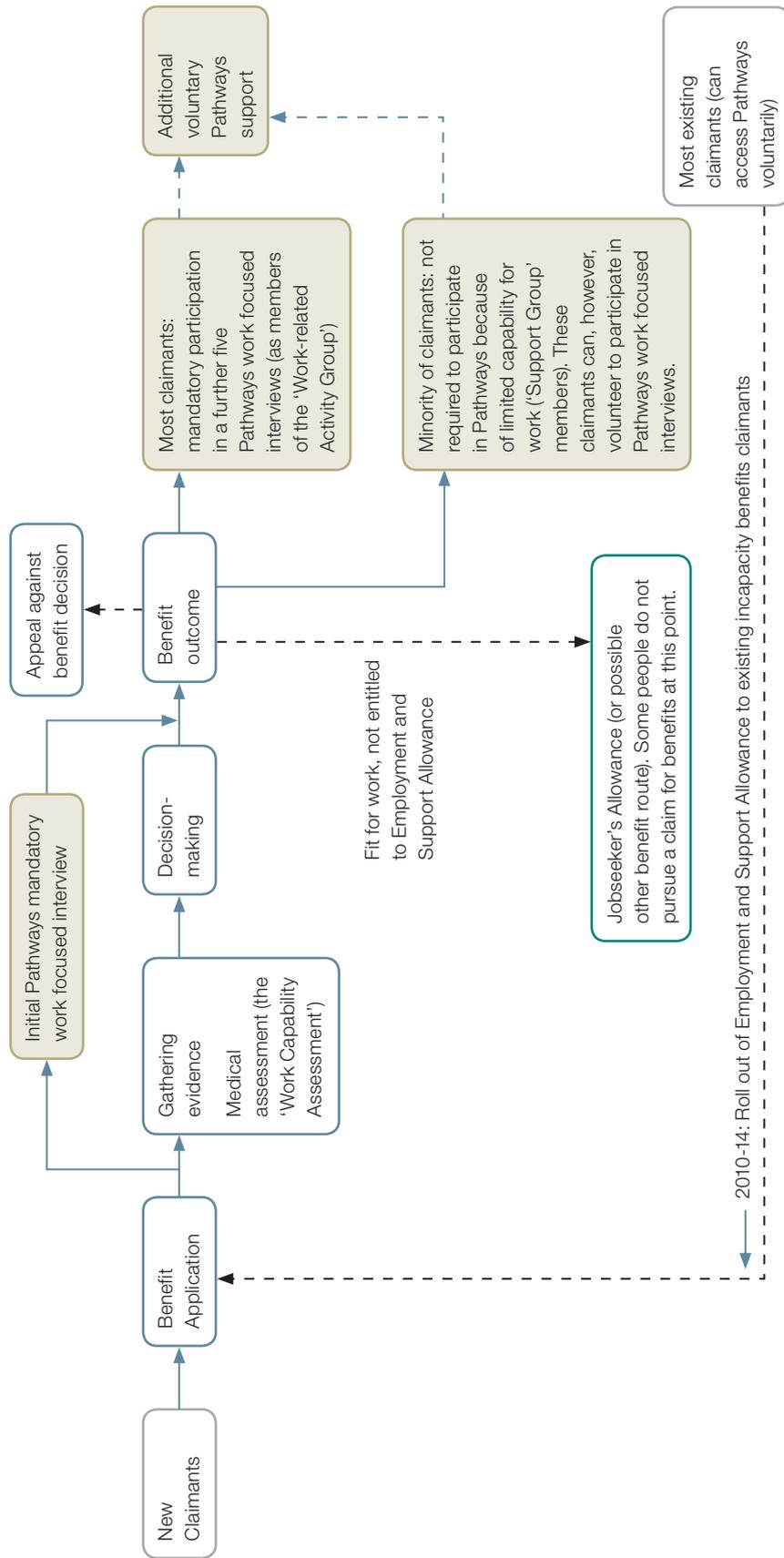
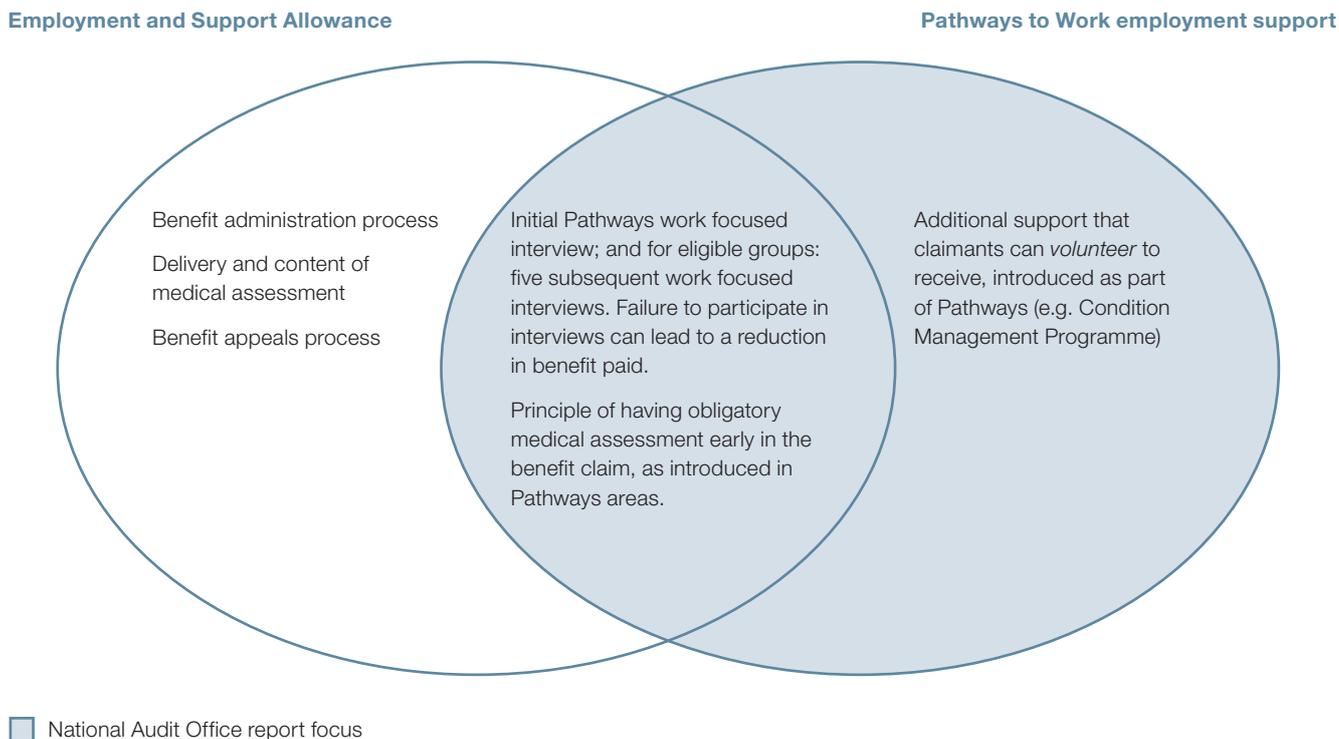


Figure 3
Integration of Pathways and Employment and Support Allowance



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.