National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL

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Department for Work and Pensions

The introduction of the Work Programme

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National Audit Office

Department for Work and Pensions

The introduction of the Work Programme

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

17 January 2012

In 2011, the Work Programme replaced virtually all 'welfare to work' programmes run by the Department for Work and Pensions in England, Scotland and Wales. It offers support to unemployed people who have been claiming Jobseeker's Allowance or Employment Support Allowance to help them get, and keep, jobs.

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Key facts

£3–5bn	3.3m	£1.95
Programme's contract value over five years	Claimants that might pass through the Programme over five years	The Department's estimate of the amount saved for every £1 spent on the Programme

18	prime contractors – 15 private, one public and two third sector
40	number of contracts
25 per cent	an estimate of the percentage of people on previous schemes that actually found work
36 per cent	the percentage of people referred to the Programme the Department expects to find work and which leads to a payment to providers
£250 million	estimated value of discounts offered by successful bidders against contract prices
16	months between the Programme starting and the earliest date the supporting IT will be fully functioning

Summary

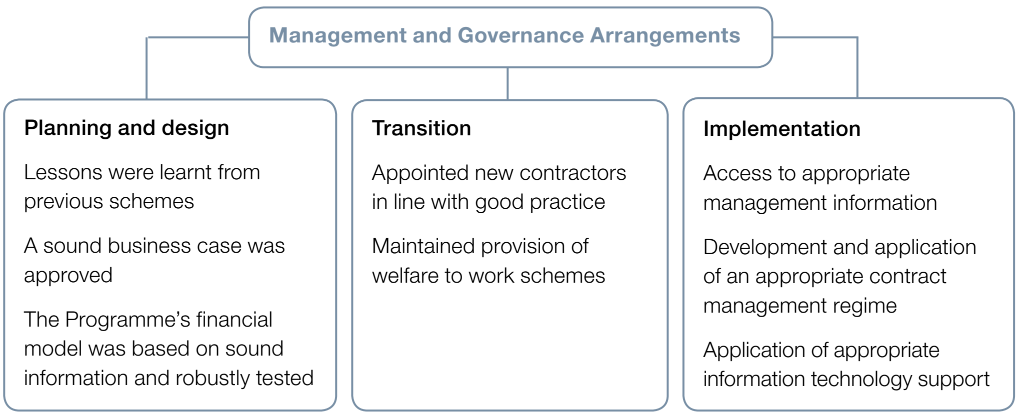
1 In 2011, the Work Programme replaced virtually all welfare to work programmes run by the Department for Work and Pensions (the Department) in England, Scotland and Wales. It offers support to unemployed people who have been claiming Jobseeker's Allowance or Employment Support Allowance to help them get, and keep, jobs.

2 The Work Programme's objectives are to increase employment compared with previous schemes, decrease time spent on benefit, increase time employed for those coming off benefits, and narrow the performance gap between easier and harder to help claimants. The Department will deliver the Work Programme through contractors – a total of 18 with 40 separate contracts.

3 The Programme accepted its first participants in June 2011. The Department estimates that it will cost between £3 billion and £5 billion over the next five years and could help 3.3 million people. The Department estimates that the Work Programme will save £1.95 for every £1 spent.

4 This report assesses how the Department managed risks to value for money in introducing the Work Programme using an evaluative framework summarised in **Figure 1**. It is too early to fully assess the Work Programme as there is not yet reliable data on how successful it is in getting people into work. We have found that the quality of decisions made at the early stage of major programmes are often highly predictive of future success, or otherwise. The report, therefore, identifies risks that the Department will need to manage well if value for money is to be achieved. We intend to examine actual performance in later reports.

Figure 1
Evaluative framework



Source: National Audit Office

Key findings

5 **Welfare to work schemes in the United Kingdom have a history of inherent risk and limited success.** In the past, over 20 programmes operated in the United Kingdom. This was confusing and inflexible, each having its own arrangements and rules. The value for money of the programmes was disappointing with performance levels expected by both the Department and providers proving to be over-optimistic.

6 **The Work Programme has a number of innovative design features that address weaknesses in previous welfare to work programmes.** The Work Programme is a single scheme replacing virtually all existing schemes. It gives providers more freedom to decide how to help claimants; gives them a longer period to provide help; and allows them to intervene sooner. Providers are paid primarily for the results they achieve in supporting people into sustained employment so what the provider earns is tied to how well they perform. The definition of what is an outcome has been made more stretching. The Department has also established an innovative funding arrangements with the Treasury which means that providers are being partly paid out of the benefit savings they help to realise when they support claimants into sustained employment. There are also differentiated payment rates for different claimant groups to encourage providers to focus on those groups that are harder to help. A further innovation is that there is more potential for competition after providers have been appointed. There are two or more prime contractors in every geographical area and work can be shifted between them depending on how they perform.

7 **The Work Programme's feasibility is underpinned by assumptions about likely performance but there is a significant risk that they are over-optimistic.** The Department expects that 36 per cent of people referred to providers will be placed into jobs for which providers will be paid. Our analysis of likely performance of the largest group of participants in the Work Programme (and one of the easiest to help into work) is that 26 per cent will get such jobs compared to the Department's estimate of 40 per cent for that group. The Department's estimate of performance and of the non-intervention rate – the percentage of participants that would have got work without the help of the Work Programme – was a major factor in determining the prices and performance incentives it set. If the performance estimates are too low then there is a risk that providers will make excessive profits. If these estimates are too high, prices will have been set too low and providers will find it difficult to meet minimum performance targets and struggle financially.

8 **The National Audit Office and the Department take a different view about the best estimate of likely performance.** Estimating the future performance of a new programme is difficult because it is influenced by many factors, such as the state of the economy, which are themselves difficult to estimate. In coming to its estimate the Department used the information available to it at the time and the funding model and underlying commercial assumptions were subject to scrutiny and challenge from the Treasury, KPMG and the Major Project Review Group. We have set out more fully in paragraphs 1.23 and 1.27 (and in the detailed methodology paper available online) how we have come to a different view to the Department and why we consider our estimate

to be reasonable. This is the Department's programme and the purpose of providing our estimate of likely performance is not to substitute our judgement for that of the Department. Rather it is to provide additional challenge to the Department that indicates the degree of risk inherent in its assumptions so that this risk can be managed. If the assumptions underpinning our calculation are correct, the performance requirements the Department has set are going to be considerably more challenging for providers to meet. This increases the risk that they might seek to protect profits through activities such as overlooking harder-to-help claimants.

9 Providers offered even higher levels of performance than estimated by the Department and discounts on prices. On average the providers appointed by the Department offered performance levels of 38 per cent and discounts of around 6 per cent on contract value. Many of these providers had worked on previous schemes and so had experience of performance previously achieved. They also recognised the risk that economic conditions might deteriorate. Providers we spoke to told us that performance and cost targets were challenging but achievable.

10 There are uncertainties about assumptions underlying the Work Programme. The Department's calculation of the non-intervention level is based on data which varies in quality and which, in some instances, was not tested. It has assumed non-intervention is consistent across the country and for the Work Programme's life. While reducing complexity, these assumptions have potential consequences. For example, providers in areas of high unemployment will find it more difficult to achieve nationally set targets. The Department did not share its data and calculations about non-intervention levels with providers, so providers could not help to make sure the level was set as accurately as possible. There are also uncertainties about estimates of providers' costs.

11 A key uncertainty is the future state of the economy. The state of the economy has a major bearing on the number of people eligible to be placed on the Work Programme and the number of jobs available for them to be placed into. The Department's assumptions are based on economic conditions in the period 2001 to 2008. Economic conditions are currently not as favourable but it is difficult to predict what they will be over the five- to seven-year term of the contract.

12 The Department introduced the Work Programme quickly. Ministers had a clear idea of the programme they wanted to introduce and required the Department to implement the Work Programme by June 2011. Previous programmes had taken four years to introduce. The Department launched the Work Programme in just over 12 months. Launching an innovative scheme to a very challenging timetable was a significant administrative achievement.

13 Implementing the Work Programme quickly had benefits but also disadvantages. To introduce the Work Programme quickly, the Department used a streamlined approach to project management which meant that benefits from the Work Programme will be realised earlier. It also meant, however, that some activities designed to reduce risk could not be performed in the way that best practice usually dictates. The Department devised the business case for the Work Programme after the main decisions had been made and before data about the performance of existing programmes was available. No alternatives were considered. The Department decided not to pilot the Work Programme because of the short timescales involved and there was nothing against which it could test its assumptions. Policy decisions about the Work Programme overlapped with design and development resulting in very tight timetables and some nugatory work.

14 The Department faces a significant cost in terminating existing welfare to work contracts, including those for ten contractors that won contracts for the Work Programme. The Department has, to date, reached settlements totalling £63 million (unaudited). The Department is currently negotiating a final settlement with two remaining providers. Ten of the 18 prime contractors for the Programme delivered Flexible New Deal.

15 The IT project to support the Programme was not fully functional when the Work Programme was launched. The Department did not consider it possible to speed up the IT procurement process to match the quicker processes used elsewhere in the Work Programme. Until March 2012 the Department will not be able to carry out automatic checks to confirm whether people prime contractors claim to have placed in work, have stopped claiming benefit, and have reached the point where a payment is made to providers. Instead, the Department is relying on manual submissions from providers. The Department estimates that it will make payments to prime contractors of £60 million (excluding VAT) based only on a simple check that the claim is reasonable. In the period from March to May 2012 there will be a full reconciliation of payments made and providers will have to pay back any claimed inappropriately. In the meantime there is an increased risk of fraud and error. Of course, although £60 million is subject to this risk, any fraud or error is likely to be a proportion of this amount. Clearly this will increase if there is a delay in delivering the IT as the Department pays for more outcomes. It is imperative therefore that the Department delivers the improvements on time. The Department will also not be able to use its IT support to generate management information on how many job and sustainment outcomes the Work Programme, or individual providers, are delivering until September 2012 at the earliest.

16 Overall, the speed with which the Work Programme has been introduced has involved the acceptance of risks, or curtailing of safeguards, that potentially will have a bearing on the Programme's success or failure. These include incurring charges for terminating previous schemes early; compiling the business case after the decision had been made to proceed; the absence of piloting; the rapid procurement phase; and going live before IT was in place. The Department has made a conscious decision to proceed in this way but a number of the steps it took are not in accordance with good practice designed to reduce or mitigate risk. Fast tracking the Programme brings forward any potential benefits but in order to achieve value for money the potential risks will have to be managed well.

17 There are risks to value for money that the Department will need to manage as the Work Programme progresses.

- **It is likely that providers will seek to recalibrate prices and other contract conditions during the lifetime of the contracts.** The Department will need to ensure that providers do not see changes in circumstances as an opportunity to weaken the price and performance conditions of contracts. The terms of previous welfare to work schemes have been renegotiated when assumptions proved to be optimistic. The Department has contractual arrangements that regulate changes in conditions and there is more competitive tension than in previous schemes. Knowing when to renegotiate will require the Department to be robust and apply considerable commercial expertise.

- **The Work Programme's demanding performance targets combined with price discounts offered by providers may encourage providers to target easier-to-help claimants while not helping others, reduce the level of service provided in order to reduce costs, or to put disproportionate pressure on subcontractors.** The Department is better placed in the Work Programme to address these risks because of features such as minimum performance standards and different levels of payment for each group and the Merlin standard. Nevertheless, individual needs vary considerably within claimant groups which means targeting claimants by providers remains a significant possibility.

- **It is possible that one or more provider will get into serious financial difficulty during the term of the contract.** The unprecedented performance and cost propositions expected by the Department and offered by prime contractors mean that it is highly likely that one or more will struggle. The Department has a number of options if this happens, including transferring work to other prime contractors, selecting a new provider from a list already qualified, or taking the work in-house. The Department will, however, need to have clear criteria about when it should resort to these options.

- **The Department might not refer claimants to prime contractors in a way that secures best value.** Currently many fewer harder-to-help claimants than expected have been referred to prime contractors. As a consequence, some subcontractors are frustrated at the speed with which claimants have been referred to them. In previous schemes, there was a risk that when providers were finding it difficult to place claimants in employment the Department referred easier claimants to them. To manage this risk, the Department has set out in guidance to providers when different claimants should be referred to the Work Programme.

Conclusion on value for money

18 The Department has made a significant effort to learn lessons from previous welfare to work programmes and incorporate improvements in the design of the Work Programme. Its performance assumptions were based on data from previous schemes, which varies in quality and completeness. In the absence of complete information, both the Department and providers have, however, made aggressive assumptions about the level of performance that can be achieved by the Work Programme and at what price. Value for money will depend largely on the extent to which the Department can hold providers to the offers they have made and ensure that a good service is provided, particularly in the face of changing economic conditions.

19 It is possible that, at some point in the Work Programme, adjustments will need to be made to the terms and conditions of providers. To maintain value, the Department needs to collect information to validate the assumptions it has made, be prepared to be robust in its negotiations and maintain competitive tension between providers. In the meantime, given that performance targets will be difficult to achieve, the Department should monitor providers to ensure that value is not eroded by such activities as aggressive targeting of easy-to-help participants whilst overlooking harder-to-help groups or by reductions in the quality of the experience of participants.

Recommendations

20 Our recommendations are designed to help the Department secure value for money from the Work Programme, and there are wider lessons for future programmes.

For implementing the Work Programme

a **There are a range of assumptions underlying the Work Programme's design that are untested.** The Department intends to assess all of the assumptions that underpin the pricing model as part of its monitoring of the Programme. It should draw up a schedule, by the end of July 2012, of the assumptions it needs to monitor, including non-intervention rates and providers' costs, and its approach to gathering the necessary information.

b **In the period to March 2012, the Department will not be able to complete automatic checks on prime contractors' claims for payments for securing outcomes.** The Department should develop and carry out preventative controls to reduce the likelihood of fraud and error and make sure that planned improvements to IT are made on time.

c **The unprecedented levels of performance and high price discounts promised by prime contractors increase the risk that they will be tempted to 'game' the contract, seek concessions from the Department or even that some prime contractors will fail.** The Department has a number of proceses and structures in place to manage this risk and will need to be prepared to use them fully. In particular, the Department needs to focus on:

- monitoring whether its management regime is detecting effectively any gaming, such as focusing on easier-to-help claimant groups;
- whether its regimes to handle concessions and contract variations are sufficiently robust including visbility of all relevant provider's costs; and
- assessing whether their systems are giving sufficiently early warning of failing contracts so that they can develop contingency plans for any failures within geographical areas and across the Work Programme as a whole.

d **Early indications show that subcontractors are dissatisfied with the approach taken by some prime contractors.** The Department should carry out spot checks to make sure that its own standards for prime contractor management of subcontractors are implemented and should consider conducting a survey of subcontractors to be assured that the standards have been applied.

For implementing future programmes

e **The Department decided not to share the detail underlying its assumptions with potential suppliers who could have helped validate them.** The Department considered that this would encourage providers to engage with local organisations in order to formulate their own assumptions and it would transfer the risk of failure from the Department to the provider. In the future, subject to constraints of commercial confidentiality, the Department should share its assumptions and underlying data.

f **The Department's processes for developing the IT system were slower than the speeded-up processes for managing the rest of the Work Programme.** The Department should identify the main lessons from this experience and, in line with current good practice, should adopt a more agile and timely approach to managing IT.

Part One

Developing the Work Programme

The Work Programme's objectives

1.1 The coalition agreement stated the Government's intention to "create a single welfare to work programme to help all unemployed people into work."[1] This single programme – the Work Programme (the Programme) – covers England, Scotland, and Wales. It is a central part of the Government's welfare reform, alongside introducing Universal Credit and revised Jobcentre Plus support. This report focuses exclusively on the Programme, which is the responsibility of the Department for Work and Pensions (the Department). The key dates in introducing the Programme are in Appendix Two.

1.2 The Programme replaced around 20 pre-existing schemes including Employment Zones, Flexible New Deal, New Deal and Pathways to Work. The number and variety of schemes were inefficient for the Department to manage and complex for claimants. They operated different delivery models, outcome definitions, and contracting and incentive structures. In addition, performance was often disappointing. For example:

- Provider led Pathways to Work[2] failed to deliver additional job outcomes and was poor value for money; and
- Flexible New Deal, while still at a relatively early stage, was not securing the expected numbers back into work to deliver value for money.

1.3 **Figure 2** contrasts previous provision with the Programme.

1.4 Depending on circumstance, such as age and barriers faced in entering employment, claimants are classified into one of nine groups. **Figure 3** on page 14 sets out the characteristics of these groups and their access arrangements to the Programme.

1.5 The Programme's objectives are to get more people off benefits and into sustainable employment more quickly and for longer. The Programme also seeks to narrow the gap in the speed of gaining work between disadvantaged groups and other groups. The Department has incorporated themes raised in the Freud Report[3] on the Government's welfare to work strategy into its Commissioning Strategy,[4] emphasising longer and larger contracts with well-capitalised providers that are rewarded for securing successful outcomes.

1 *The Coalition: our programme for government*, Cabinet Office, May 2010, p. 23.
2 Support to incapacity benefits through Pathways to Work (HC 21, Session 2010-11).
3 *Reducing dependency, increasing opportunity: options for the future of welfare to work – An independent report to the Department for Work and Pensions*, David Freud, 2007.
4 Department for Work and Pensions, *Commissioning Strategy,* 2008.

Figure 2
The Programme compared with previous schemes

	Previous schemes	The Programme (estimates)
Annual number of claimants handled	0.75 million to 1.1 million	1.0 million to 1.5 million
Annual cost to the Department	£786 million (2010-11 outturn)	£651 million[1]
Performance (percentage of claimants starting the Programme placed into employment)	25 per cent (National Audit Office estimate based on actual Flexible New Deal performance representative of half the Programme)	36 per cent (the Department's expectation)[2] 38 per cent (providers' estimate)

NOTES
1 This figure corresponds to the Programme's annual cost of the Department's central performance expectation of 36 per cent based on a typical year of volumes.
2 Whilst the Department's expectation of 36 per cent is a job outcome rate, more people may find work but not meet the criteria for a payment to providers.

Source: Department for Work and Pensions and National Audit Office analysis

1.6 The Department contracts with individual providers – known as prime contractors – that may manage one or more subcontractors. Jobcentre Plus refers a claimant to a prime contractor, who may refer the claimant on to a subcontractor. The claimant is likely to be allocated a personal adviser to help assess, among other things, their barriers to employment. The nature of the support will vary according to an individual's circumstances and each provider's approach.

1.7 The Department pays prime contractors using a payment-by-results mechanism. The system maximises payments for securing successful job outcomes that would not have occurred without the provider's intervention – known as the non-intervention rate. The system is designed to incentivise providers to secure sustainable job outcomes for all claimants, particularly those who face multiple barriers to employment.

1.8 There are four elements to the payment mechanism (**Figure 4** on page 15):

- **An attachment payment.** For taking a claimant on to the Programme. The attachment fee reduces to nil by the start of the fourth year.
- **A job outcome payment.** When a claimant has been in work for either a continuous or cumulative period of employment, as defined by the Department. Job outcome payments for some claimant groups will be reduced in the later years of the contract.
- **A sustainment outcome payment.** A further payment every four weeks for keeping a claimant in employment.
- **An incentive payment.** For jobs delivered beyond a given performance level – defined by the Department as 30 per cent above non-intervention – the number of claimants who would have found employment without a programme.

Figure 3
Work Programme claimant groups and referral points

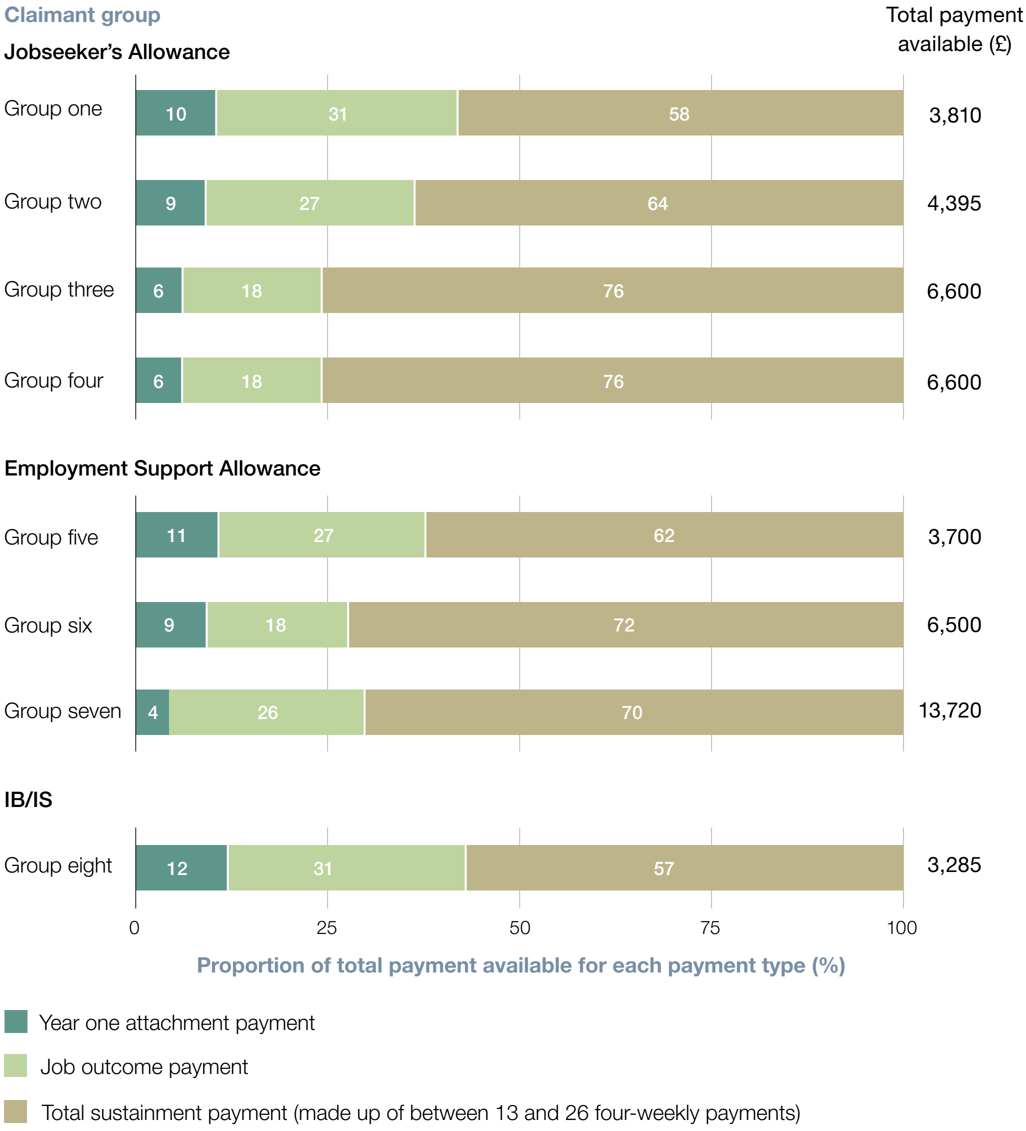
Claimant group	Time of referral	Basis for referral
1 Jobseeker's Allowance claimants aged 18 to 24	From nine months	Mandatory
2 Jobseeker's Allowance claimants aged 25 and over	From 12 months	Mandatory
3 Jobseeker's Allowance – Early Access claimants facing significant disadvantage	From three months	Mandatory or voluntary depending on circumstance
4 Jobseeker's Allowance claimants recently moved from Incapacity Benefit	From three months	Mandatory
5 Employment Support Allowance claimants who are unlikely to be fit for work in the short term	At any time	Voluntary
6 Employment Support Allowance claimants expected to be fit for work within three to six months	From the date of their work capability assessment	Mandatory
7 Employment Support Allowance claimants who have recently moved from Incapacity Benefits	At any time when claimants are expected to be fit for work within three or six months	Mandatory or voluntary depending on circumstance
8 Incapacity Benefit and Income Support (in England only)	At any time	Voluntary
9 Prison leavers who claim Jobseeker's Allowance (referrals from March 2012)	Immediately when they make a claim within three months of their release from prison	Mandatory

NOTE

1 Group eight was added after the Department had issued the invitation to tender and before contractors had submitted bids. Group nine was added after prime contractors had been appointed, but the likelihood of changes was included in the invitation to tender.

Source: Department for Work and Pensions

Figure 4
Claimant group payment structures



NOTES

1 Group eight handles Incapacity Benefit and Incapacity Support claimants.

2 The Department has agreed the payment structure for group nine (it has not yet been made public).

Source: Department for Work and Pensions

Addressing previous schemes' weaknesses

1.9 The Committee of Public Accounts has published reports on previous welfare to work schemes, most recently on Pathways to Work.[5] The Department, in developing the Programme, has taken steps to address the Committee's key conclusions and recommendations (**Figure 5** on pages 18 and 19). The Programme now includes a number of innovative features.

The Programme's business case

1.10 The Department finalised the Programme's business case after it had taken important decisions about the Programme. The first version was produced on 19 November 2010. This was after the first stage of the procurement process had commenced (see Part Two) and only 11 days before the Department announced which prime contractors had secured a place on the framework (paragraph 2.1). The third and final version was approved on 11 April 2011, a week after the Programme's successful bidders were announced.

1.11 The agreed business case set out the Department's ambition and rationale for introducing the Programme but there were a number of omissions. The Department did not:

- consider alternative approaches to the Programme;
- assess the cost of implementing Universal Credit which will replace existing benefits that the Programme covers;
- include a costed contingency for replacing failed prime contractors; and
- estimate the cost of terminating the Programme.

1.12 The business case estimates the annual cost of the Programme based on a typical year of volumes will be £651 million. The financial case for introducing the Programme relies on societal benefits generated by getting claimants into sustainable employment. The level of benefits generated varies with provider performance. The Department has calculated in the business case that for the Department's central performance assumption – 36 per cent job outcomes – that the Programme will generate £1.95 of social benefits for every £1.00 spent. Social benefits represent an estimate of how much society is better off in monetary terms owing to, for example, reduced crime, increased employment, improved health of participants, and income distributional effects.

1.13 At the Department's central performance assumption, the total change in the Exchequer's budget from claimants moving into employment is £0.95 for every £1.00 spent. This is comprised of £0.70 of benefit savings including unemployment, housing and council tax benefit, and £0.25 in the form of increased tax revenues.

5 Committee of Public Accounts, *Support to incapacity benefits claimants through Pathways to Work* (First report of Session 2010-11).

Funding the Programme

1.14 The Department funded previous welfare to work schemes from its core departmental funding. The Department established with the Treasury a unique funding mechanism for the Programme that supplements core departmental funding with additional Treasury funding released as claimants stop claiming unemployment benefit as they gain employment. These two components are:

- **Departmental Expenditure Limit.** A budget which covers planned and managed spending over three years.
- **Annually Managed Expenditure.** A theoretically uncapped budget that funds variable spending such as benefit payments, and which the Department manages annually.

1.15 The Department has estimated that the Programme will cost between £3 billion and £5 billion over five years. The Programme will be primarily funded through the fixed Departmental Expenditure Limit up to £2 billion for the period 2011-12 to 2014-15.[6] This comprises a fixed component and a 'dual-key' component. In its Spending Review 2010 settlement, the Department agreed with Treasury a level of dual-key funding to accommodate the cost of all levels of claimant numbers anticipated at the time the Programme was being developed in 2011. For claimant numbers above these expectations, the Department must draw on additional funding from the Treasury.

The Programme's underlying assumptions and uncertainties

1.16 In designing the programme the Department had to estimate:

- the Programme's likely performance;
- the likely cost to prime contractors; and
- the likely number of referrals to the Programme.

1.17 The reasonableness of these estimates is important because they feed into the prices set out by the Department (although contractors could offer discounts on some of the prices) and they form part of minimum performance standards. Because the Programme has so many new features, the data supporting each of the estimates, while the best available, was incomplete and assumptions were made.

6 The period covered by the Spending Review 2010.

Figure 5
Features of the Programme that seek to address criticism of previous schemes

Criticism	Programme feature to address criticism	Examples	Implications
Private providers seriously underperformed against contractual targets	Payment-by-results regime rewards providers for achieving sustainable outcomes. Pricing structure incentivises higher performance over the contract lifetime.	Payment-by-results has been used in Australia, the Netherlands, the United States, and the United Kingdom, but nowhere has the proportion based on outcomes been as large as the Programme which initially could reach 80 per cent (depending on performance), rising to 100 per cent in year four.	Requires better financed prime contractors than previous schemes to manage the delay until payment.
	Minimum performance standards.	New to the Programme.	Only covers 70 per cent of the Programme's claimants.
	Incentive payments for higher performance.	Incentive payments have been used in, for example, the United States for achieving specified performance measures.	Only covers 70 per cent of the Programme's claimants.
	Provider performance is uncapped and funded through innovative funding arrangements.	New to the Programme (paragraphs 1.14-1.15).	Commercial incentive for providers to continually improve their performance.
	Market share shift amongst two to three providers within a contract package area	New to the Programme	Helps preserve competitive tension throughout the Programme's duration
	Framework of pre-approved providers available to replace failed providers.	The Netherlands introduced a purchase framework in April 2008 for which providers had to meet specified process and performance requirements.	Important to keep framework providers not currently delivering the Programme engaged and ready to replace failed providers if required.
	Providers can work with claimants for up to two years – longer than previous schemes.	Providers under previous schemes only had up to a year to work with claimants.	Providers are able to develop relationships with claimants, particularly the more disadvantaged.
	Providers are paid for sustaining claimants in employment over a longer period (up to two years).	Previous schemes' providers were only paid for up to six months of sustained employment.	Longer sustainment period has potential to incentivise providers to offer greater in-work support and reduce claimants becoming unemployed again only to return to unemployment benefit.

Figure 5 *continued*

Features of the Programme that seek to address criticism of previous schemes

Criticism	Programme feature to address criticism	Examples	Implications
	Providers have greater freedom to design the most effective way to secure successful job outcomes.	New to the Programme.	Greater freedoms may help address some inefficiencies and duplication; however, this will require careful performance management.
Disadvantaged claimants were overlooked by providers in favour of those easier-to-help	Differential pricing seeks to reflect the varying level of support people with different needs require.	Between 1987 and 2001, Training and Enterprise Councils and Local Enterprise Companies were funded through differential payments.	Claimant groups are large and so issue could persist.
	Minimum performance standards for three claimant groups designed to ensure disadvantaged groups are not overlooked.	New to the Programme.	Only covers 70 per cent of the Programme's claimants.
	Strengthened complaints process for claimants to seek redress for poor quality provider service.	Australia and the United States use surveys to gather information on experiences.	Department has no direct oversight of complaints to providers.
Poor oversight of subcontractors and understanding of how risk and reward was shared throughout supply chains	The Department has introduced a standard that seeks to manage the relationship between prime providers and their subcontractors.	The standard was implemented by the Department for Flexible New Deal.	The standard under Flexible New Deal was widely considered by prime and subcontractors to lack punitive powers to prevent poor treatment of subcontractors by prime contractors.

Source: National Audit Office

Performance estimates

1.18 Performance is expressed as the percentage of people referred to the Programme that are helped into work. There are two main elements that add together to form the Department's estimate (set out in more detail in **Figure 6**):

- **Non-intervention** – the proportion of claimants who would have got work without help from the Programme.
- **Additionality** – the percentage of people referred who get into work due to the Programme (itself calculated in two parts).

Estimating the non-intervention level

1.19 The estimate of non-intervention underpins key elements of the design of the Programme (**Figure 7**).

Figure 6
The Department's rationale for the Programme delivering higher performance

Department's performance assumptions | **Department's rationale for improved performance**

Additionality

36 per cent – Additionality owing to the Programme's contractual freedoms and incentives

33 per cent – Additionality of previous schemes uplifted to account for the Programme's design features

An uplift of three percentage points owing to the added impact of the Programme's new contractual and payment design features, for example:

1 two or three contractors in competition per contract area.

2 provider freedom to design provision.

3 longer, larger contracts.

Non-intervention

28 per cent – Non-intervention

Accounts for:

1 payment-by-results regime.

2 minimum performance standards.

An uplift of five percentage points owing to the impact of:

1 expected addtionality of previous schemes.

2 claimants spending 24 months on a programme instead of 12.

3 recording claimants' cumulative rather than continuous period in employment.

4 the Department's assumptions for the number of referrals to the Programme and provider performance profiles over the whole contract.

Source: Department for Work and Pensions

Figure 7
The importance of non-intervention assumptions to the Programme

Feature	Relevance of non-intervention
Performance targets	Minimum performance targets are set at non-intervention plus 10 per cent for three claimant groups.[1]
Payment mechanism	Incentive payments are pegged to non-intervention plus 30 per cent for three claimant groups.[1]
Prices and prime contractor profit	Base prices are set so prime contractors cannot make a profit at performance below non-intervention.

NOTE
1 Groups one, two and six in Figure 3.

Source: Department for Work and Pensions' documents

1.20 Non-intervention is inherently complex to calculate and varies over time and by region. The Department calculated non-intervention for each claimant group using data from previous schemes. It took an estimate of non-intervention for each group and uplifted the level to adjust for the different circumstances of the Work Programme.[7] The quality of the data and the reliability of the assumptions made are highly variable across different groups. Very little data was available to support assumptions made about non-intervention for Employment Support Allowance claimants – who make up 30 per cent of the Programme. The Department set non-intervention at a fixed national level for the duration of the Programme. This means that providers in areas of high unemployment will find it more difficult to achieve nationally set targets.

Additionality

1.21 The Department estimated the Programme's additionality by adding the impact of previous schemes, based on initial expectations rather than actual performance, to the extra additionality expected from the Programme's design. The Department expects the Programme to get more people into work than previous schemes because of two sets of factors (described in more detail in Figure 6):

- **The Programme's new features** – such as providers having longer to work with participants, which improves participants' chance of gaining employment and a payment regime that encourages in-work support for claimants by rewarding sustained employment; and

- **Contractual incentives** – such as the payment-by-results mechanism and minimum performance levels, which encourage providers to get people into work more than previous schemes. The Department made a judgement as to how much this would increase performance.

7 For example, claimants can stay on the Programme for up to 24 months instead of 12, minimum performance standards have been introduced, and incentive payments for performance beyond a certain level exist.

1.22 The Department calculated the expected performance for the Programme by adding its estimates of non-intervention and additionality.

Comparison of the Department's and the NAO's estimates of performance

1.23 The National Audit Office and the Department have different views about the estimate of the Programme's most likely performance. The Department's estimates are based on calculating non-intervention for the period 2001-08 using the same claimant criteria as the Programme. The Department then applied estimates for the additional performance achieved by the New Deal for Young People and the additional performance the Programme's new features should deliver. The advantages of this approach are that the data for non-intervention covers a seven-year period and is based on employment records with definitions that match the Programme's. The main disadvantage is that non-intervention is derived from a time when economic conditions were more favourable and the methodology relies more on estimates and assumptions.

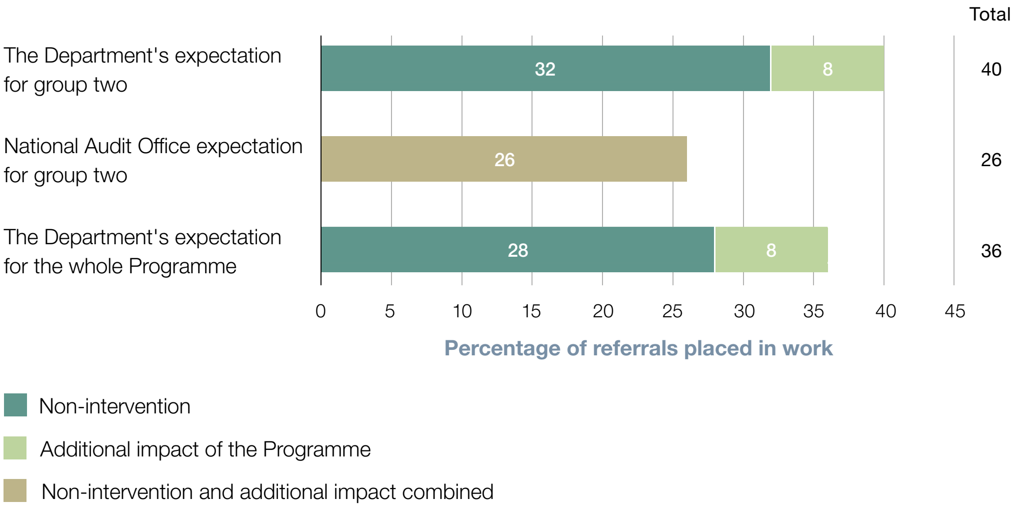
1.24 We based our estimate on actual performance data from the Flexible New Deal programme[8] and compared the result with the Department's estimates for the equivalent group – Job Seeker's Allowance claimants over 25 years of age – that makes up 40 per cent of the Programme. We applied the same weighting as the Department for the additional performance that the Programme's new features should deliver. The advantage of this approach is that it uses actual outcomes from the scheme most similar to the Programme, in terms of contractual arrangements and payment regime, with many of the same contractors, which operated under difficult economic conditions. The Department is concerned that performance of the Flexible New Deal may have been adversely impacted by its early termination which may have dis-incentivised providers towards the end of the scheme's life. Actual performance data, however, suggests that this was not a significant factor. Furthermore, providers were subject to a similar payments by results regime as used by the Programme, which should have incentivised them to deliver as many outcomes as possible.

The reasonableness of the Department's assumptions

1.25 Figure 8 shows that the Department's estimate for non-intervention over the lifetime of the Programme is 28 per cent. It estimated 'additionality' to add a further eight percentage points so that the Programme is expected to place 36 per cent of people referred to it in employment and meet the criteria for a payment to providers. This figure is much higher than the performance of the two main previous schemes, Pathways to Work and the Flexible New Deal.

8 The full data set was not available to the Department at the time of developing the Programme.

Figure 8
The Department's performance assumptions for Jobseeker's Allowance claimants over the age of 25 (group two) compared with National Audit Office analysis



NOTE
1 We have no comparable non-intervention calculation for National Audit Office expectation for group two.

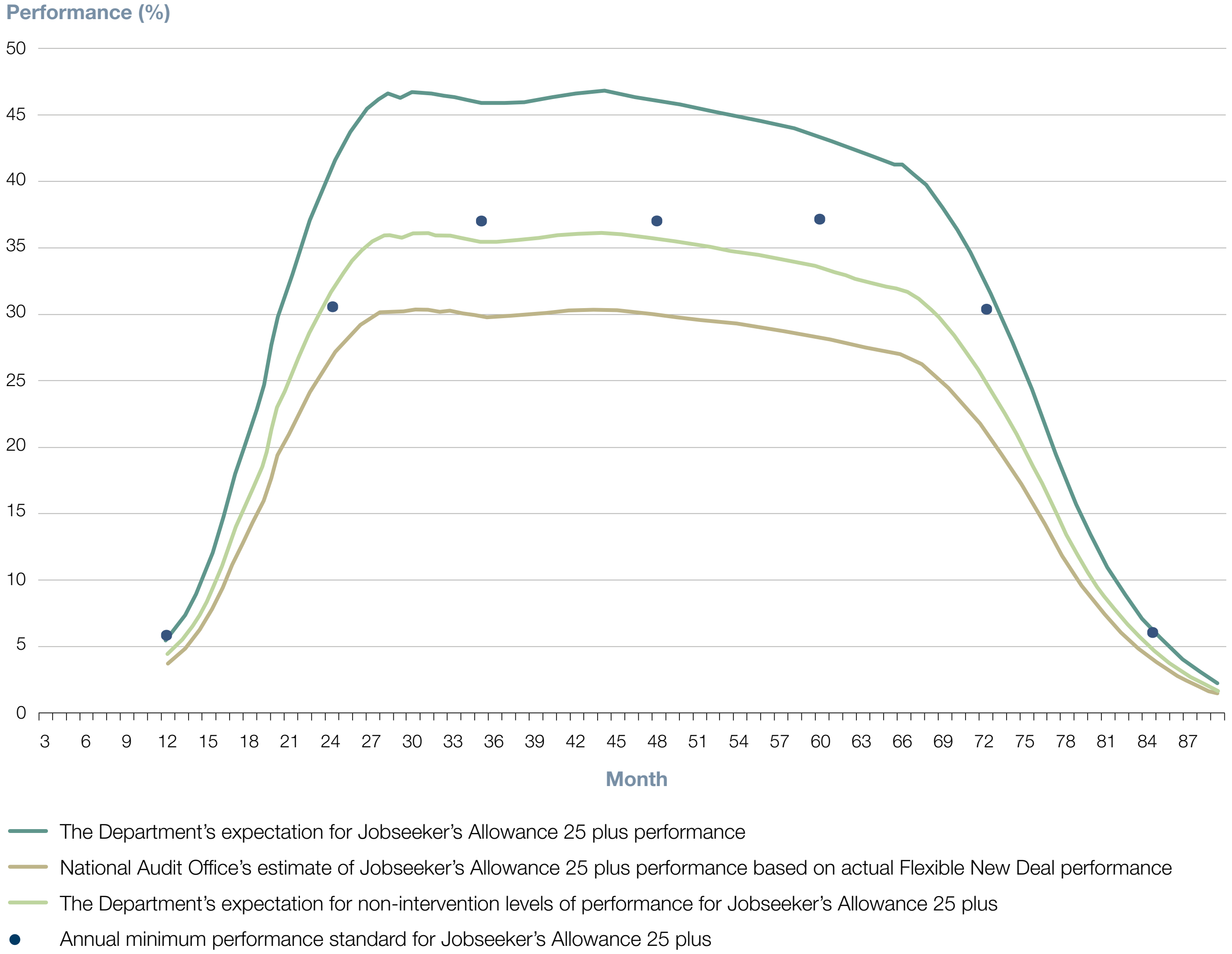
Source: Department for Work and Pensions and National Audit Office

1.26 We tested the reasonableness of the Department's estimates by taking the actual performance of Flexible New Deal, uprating the estimate for the Programme's new features and applying the Department's assumptions of the Programme's additional impact. We then compared the result with the Department's performance estimates for the equivalent group in the Programme – which makes up to 40 per cent of all referrals and should be one of the easiest groups to place into work.

1.27 Our analysis indicates that around 26 per cent of people from this group will find work compared with the Department's estimate of 40 per cent, a difference of 14 percentage points. Our performance estimate is two percentage points lower than the Department's estimate of non-intervention for the Programme (which includes harder-to-help groups with a lower non-intervention rate), which suggests that providers will not break even. **Figure 9** overleaf shows our projection of the Programme's performance based on Flexible New Deal actual performance is lower than the Department's minimum performance targets.

Figure 9

Gap between the Department's performance expectations for group two and projections based on Flexible New Deal actual performance



NOTES

1 We have taken the minimum performance standards as published in the Invitation to Tender and presented them here in a way that is consistent with the Department's method for calculating performance.

2 There may be further slight disparities between figures in the Invitation to Tender and the Department's performance illustrated here owing to the Department's rounding conventions and the Department's use of more recently revised figures for the number of claimants in its modelling.

Source: National Audit Office analysis of Department for Work and Pensions' documents

Provider costs

1.28 The Department does not clearly understand provider costs which carry considerable uncertainties, particularly for Employment Support Allowance claimants. The Department's own modelling showed providers' costs would not be covered by the benefit savings generated from claimants entering employment. The Department commissioned KPMG to estimate a range of provider cost scenarios and selected, as its central assumption, a scenario in which providers were able to reduce their costs by targeting easier-to-help groups. Concerned that harder-to-help groups such as Employment Support Allowance claimants may be overlooked by providers, the Department increased the prices paid to providers working with these claimants. The implications of provider costs on the Programme's commercial viability are discussed at paragraphs 1.36 and 1.37.

Attachments

1.29 There is considerable uncertainty in the Department's estimates – and variations in the actual number – of claimants referred to the Programme and their mix across claimant groups. The Department uses Office for Budget Responsibility projections to model the number of attachments. **Figure 10** sets out how estimates have changed relative to the Department's initial estimate published in the invitation to tender. The implications of changes in the number of attachments is discussed in paragraph 1.35.

Figure 10
Changes in projections for attachments

	Number of attachments (year one only)	Deviation from invitation to tender (%)
December 2010 – Invitation to Tender estimate	605,000	–
Department's central model assumption	616,000	+2
April 2011 – Programme business case	620,000	+2
June 2011 – projections based on actuals	628,000	+4
September 2011 – projection based on actuals	586,000	-3
December 2011 – projection based on actuals	661,000	+9

Source: Department for Work and Pensions

Prices

1.30 The Department set prices by balancing the benefit savings of placing a claimant in employment with their estimates of the cost to the provider of delivering an outcome. These prices varied between claimant groups – with lower prices for Job Seeker Allowance groups and higher rewards for harder-to-help groups into work (Figure 4) – to incentivise providers to work with claimants further from the labour market.

Reducing uncertainty

1.31 The Department could have strengthened assurance about its data and calculations on non-intervention by sharing them with potential providers. In coming to its performance estimates and prices, the Department used the information available to it at the time and the funding model and underlying commercial assumptions were subject to scrutiny and challenge from the Treasury, KPMG and the Major Project Review Group.

1.32 However, providers were not clear about how the Department calculated non-intervention on which minimum performance levels and prices are based. The Department could have shared this information to strengthen the supporting evidence and improve understanding of weaker aspects.

1.33 Previously the Department has piloted schemes before implementing them. In this case the Department could not have piloted the Programme and met the timetable set by ministers.

The Programme's affordability to the Department

1.34 The Programme's affordability for the Department – the Department's capacity to fund the Programme through its current funding settlement with Treasury which includes benefits savings released by placing claimants into employment (paragraphs 1.14–1.15) – depends on two factors.

- **The number of claimants referred to the Programme.** The Programme's costs increase as the number of claimants referred to it rises. In years one to three of the Programme, the Department will pay providers a fixed amount for every claimant starting the Programme (paragraph 1.8) met by the Department's core funding budget which is fixed (paragraph 1.15).
- **The number of claimants who move into employment (provider performance).** The Programme's costs increase with additional performance. However, as more claimants find work, greater amounts of benefits savings are released from the Treasury (paragraph 1.15). This increases the Department's capacity to fund the Programme, making it increasingly affordable.

1.35 The Programme is affordable at all levels of provider performance when the number of referrals remains below or in line with the Department's estimates when the invitation to tender (2,406,000) was approved. If the number of referrals rises significantly above those estimates and performance does not meet the Department's expectations, it will have to seek additional funding from Treasury. For example, the costs of the Programme cannot be met by its current settlement with Treasury with a 16 per cent increase in referrals above the level set out in the invitation to tender if performance only matches non-intervention.

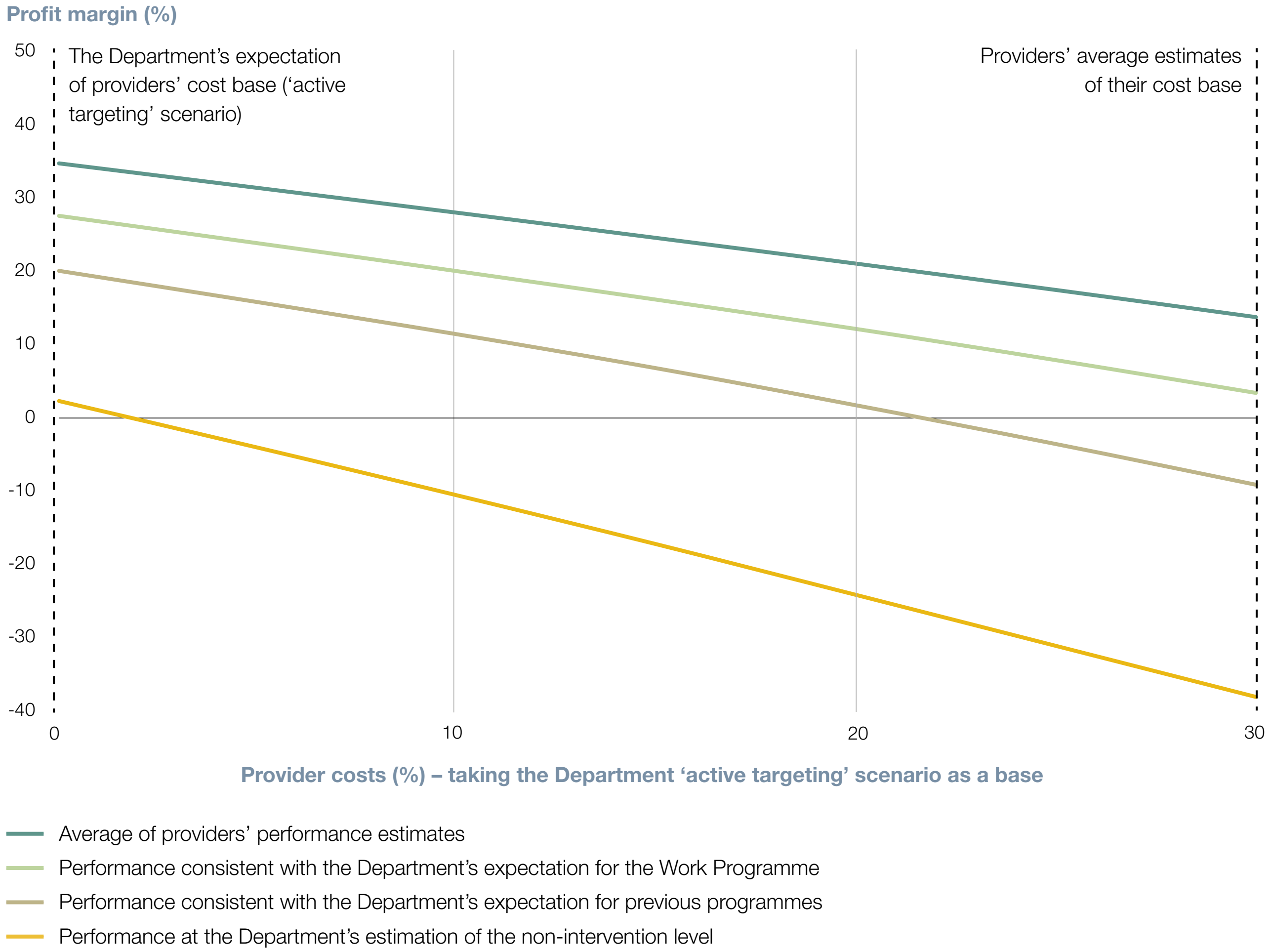
The Programme's commercial viability

1.36 The Programme's overall commercial viability – the point at which a prime contractor breaks even – is determined by provider costs and performance. Providers cannot make a profit for performance below what would have been achieved if the Programme was not operating. Prime contractors' estimates of costs were 30 per cent higher than the Department's estimates. Based on their own bids, providers will need to deliver performance levels far higher than the Department's estimates for previous schemes' performance, which were, themselves, never reached. If providers fail to do so, there is a risk that they will face pressure on costs and reduce the quality of their provision.

1.37 Prime contractors delivering low performance have a low tolerance to increases in their costs before returning a loss. **Figure 11** overleaf shows the impact changes in costs have on profit margins for four different levels of performance:

- A prime contractor with performance consistent with the average of prime contractors' estimates, at the Department's lowest provider cost estimate, can accommodate an increase of 50 per cent in costs before returning a loss.
- A prime contractor with performance consistent with the Department's expectations for previous schemes, using the Department's lowest provider cost estimate, can sustain a 20 per cent cost increase before the provider makes a loss.
- A prime contractor with performance consistent with non-intervention levels at the Department's lowest provider cost estimate can only sustain an increase of less than 5 per cent before returning a loss.
- Applying prime contractors' average estimate of costs shows that providers run the risk of making a loss at performance levels below the Department's central performance assumption of 36 per cent.

Figure 11
How provider profit changes with cost under four performance scenarios



NOTE

1 These graphs all show profit assuming that no discount on the Job outcomes fee has been applied. The average discount would lower the margin by five percentage points.

Source: National Audit Office analysis of the Department for Work and Pensions' documents

Part Two

Procurement of Work Programme providers

The procurement process

2.1 The procurement exercise to appoint prime contractors was in two parts: a framework for employment-related support services and then procuring for the Programme. The framework, divided into 11 geographical areas ('lots'), sets out the terms and conditions for subsequent call-off contracts for providing all employment-related support services. The Department appointed 35 providers to the framework in November 2010.

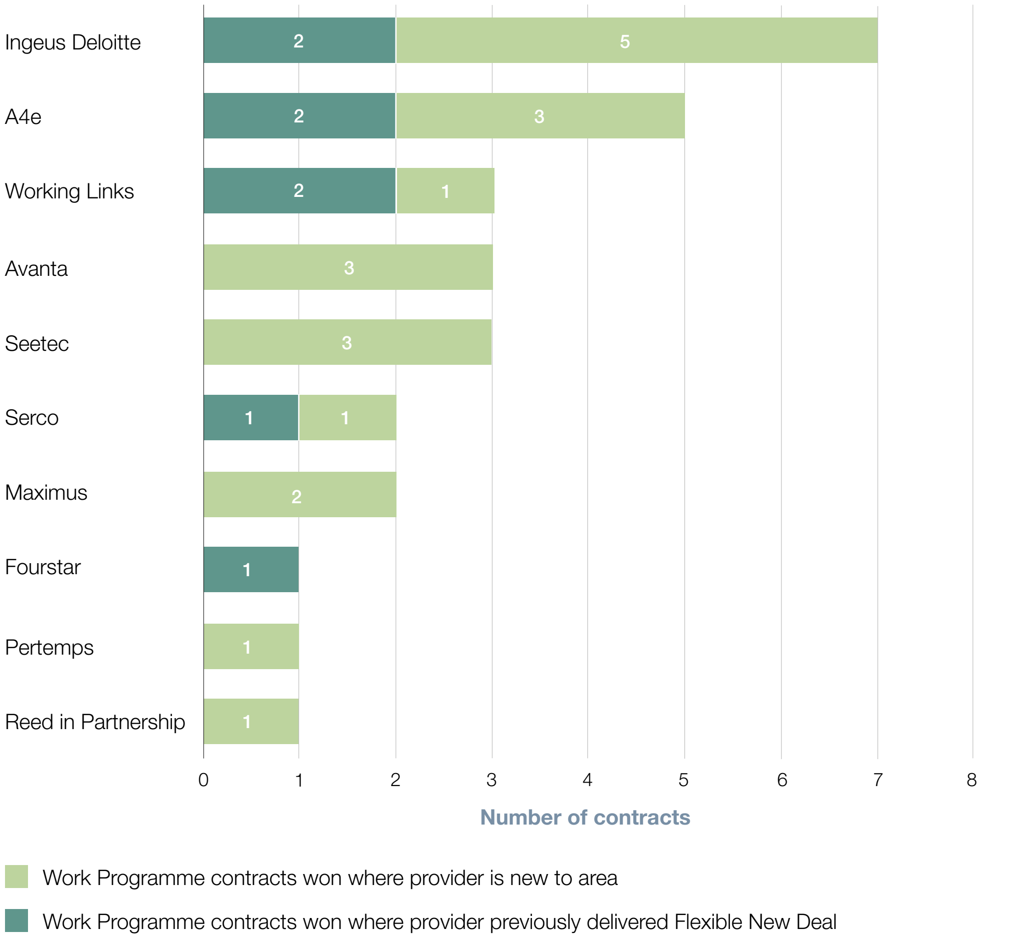
2.2 The Programme was the first competition the Department ran using the framework. The initial invitation-to-tender was published in December 2010 and the Programme went live on 1 June 2011, less than six months later. By comparison the Department took 15 months to deliver the procurement of phase one of the Flexible New Deal.

2.3 The Department divided the 11 lots into 18 sub-areas ('contract package areas'). Within each of these, two or three providers would operate – in total, 40 separate contracts were available. The competition attracted 177 bids, with between 9 and 17 bids in each sub-area. Thirty of the 35 framework providers bid, 11 of which were originally successful. The Department was concerned that the potential impact of supplier failure was too great with such a concentration. The Department therefore decided to mitigate the risk by limiting bidders to one contract per lot, after securing the agreement of those bidders affected. As a result of the change, 18 prime contractors were appointed. Appendix Three lists the successful bidders and shows the estimated value of the contract. Fifteen of the 18 providers are from the private sector, one from the public sector, and two from the civil society sector.

2.4 Successful prime contractors did not always have experience of operating welfare to work schemes in the geographical area in which they were successful. Ten of the prime contractors had contracts with the Department for pre-existing welfare to work schemes. Of these, nine won at least one contract in a geographical area where they had not delivered a previous scheme. Five of the ten did not win any contracts for the Programme in areas where they had previously operated (**Figure 12** overleaf). Only eight of the 40 contracts were awarded to prime contractors with experience of delivering welfare to work schemes in a particular area.

Figure 12

Providers who held Flexible New Deal contracts and won Programme contracts



Source: National Audit Office analysis of the Department for Work and Pensions' documents

2.5 We asked 15 companies that had bid for the Programme for their views on how the Department ran the procurement exercise. Overall, the feedback was positive. The Department:

- kept to its timetable;
- managed the procurement and contracting processes well, giving sufficient guidance during the tendering process; and
- gave detailed feedback about the bid assessment.

2.6 Bidders would have found it helpful to have had more information on the Department's estimates of volumes and its calculation of performance expectations – particularly the non-intervention level – to help inform their bids.

Assessing bids

2.7 The Department assessed bids in terms of cost and quality, based on a scoring system that gave equal weight to both:

- **Quality** – How the provider planned to assist a claimant; its approach to supply chain management; the resources it would apply; and an implementation plan. Of the available points, none was awarded on the basis of performance levels offered, and only 10 per cent were attributable to the bidder's information about how these levels would be achieved. The Department did not consider a bidder's past performance for welfare to work provision.

- **Cost** – Determined by the amount of discount a bidder offered on the maximum price for the job outcome fee offered by the Department. One point was available for every percentage point discount offered up to 20 per cent, and then one point for every two percentage points of discount offered.

2.8 A comparison of the bid scores for successful and unsuccessful bids in each contract package areas shows that neither quality nor price predominantly determined the outcome.

2.9 The Department considers that performance and the level of discount offered are linked since a provider will have to secure high levels of performance in order to justify a high level of discount. Successful bidders offered performance levels greater than those achieved under previous welfare to work schemes as well as those assumed by the Department in developing the Programme. Based on the discounts offered by the successful prime contractors the Department estimates that prime contractors offered discounts of £250 million if they secure the performance promised in their bids.

2.10 The Department's cost and quality assessment was supplemented by its assessment of the level and impact of risk to delivery in each bid. Based on its assessment it could reduce the total score attributed to a bid. Of the 176 bids assessed, the Department reduced the total score of 20. None of these providers was eventually successful. The Department's risk assessment did not have an effect on the outcome of the procurement exercise.

2.11 The Department analysed each bid to test whether it was economically sustainable – that the bidder would not go out of business – against different scenarios, such as bidders' promised performance levels and those assumed by the Department. The Department concluded that all winning bids were sustainable, including those offering the highest levels of discount and, by implication, the highest levels of performance. If the Department's assumptions and analyses are not correct, there is a risk that the provider's cost base is undermined, and they will seek to renegotiate the contract.

Terminating existing contracts

2.12 The Programme replaced all welfare to work programmes, with 230 existing contracts either terminated or not renewed. At the same time, Ministers were committed to ensuring that there was no gap in provision between the Programme going live on 1 June 2011 and the end of contracts for existing schemes. The Department extended mainstream programmes from 1 June 2011 for three months to 1 September 2011.

2.13 The cost to the Department of terminating Flexible New Deal contracts includes the compensation to providers for lost income offset by recovering payments to providers that it brought forward to assist with providers' cash flow issues. It has reached agreement with 12 of the 14 providers at a total net cost to the Department of £63 million (unaudited). The Department expects to resolve the final two cases by spring 2012.

Part Three

Delivering the Work Programme

Performance to date

3.1 The Programme has been operating for eight months. A realistic assessment of its success is unlikely until spring 2012 because of the focus on securing sustainable jobs and the availability of valid data.

3.2 The Department collects information on the number of attachments. Between 1 June 2011 and 30 November 2011 the number of claimants joining the Programme was slightly higher than the Department's forecast. The Department has prioritised referrals of claimants on Jobseeker's Allowance, who make up 65 per cent of referrals. Referrals for Employment Support Allowance claimants are below the Department's projections, partly because more people are being assessed as fit for work and it is taking longer to complete assessments and consider appeals. Subcontractors have indicated dissatisfaction with this level of referrals and with other aspects of how the Programme is operating.[9] The Department has introduced guidance on when different claimants should be referred. The Department has revised its projections for referrals of Employment and Support Allowance claimants for 2011-12 downwards by 60 per cent.

3.3 In addition to measuring the number of job outcomes delivered by the Programme, the Department needs to return to its calculation of the overall savings it anticipates the Programme will deliver (paragraph 1.15). Measuring some aspects of these – such as societal benefits – will present the Department with challenges.

The state of the economy

3.4 The state of the economy amplifies the risks inherent to the Programme's affordability:

- **Referrals to the Programme.** The Department's estimates of claimants joining the Programme are based on Office of Budget Responsibility unemployment projections. These projections have been consistently above actual levels of unemployment until the third quarter of 2011, when actual levels of unemployment rose by 0.1 per cent above projections to 8.1 per cent.

9 Survey of Work Programme subcontractors (Association of Chief Executives of Voluntary Organisations, October 2011).

- **Provider performance.** The economic recovery is slower than projections made when the Programme was being designed and when providers bid for contracts. Economic conditions could reduce the pool of jobs available to providers, affecting their ability to secure sustainable job outcomes for claimants and therefore the payment from the Department. The impact of the wider economy on provider performance will vary across the country owing to differences in regional labour markets (paragraph 1.23).

3.5 If referrals increase and fewer than expected successful job outcomes are secured, providers could face an increase in cost at the same time as income declines. This could lead to an increased focus on easier-to-help claimants at the expense of the harder-to-help.

IT support

3.6 The Department uses several different IT systems to support the Programme. At the time the Programme went live across the United Kingdom these had not been upgraded to incorporate the Programme's requirements. For Flexible New Deal, the Department used IT to refer claimants, make payments to providers, and collect management information. In November 2010, the Department decided to upgrade its existing system to operate the Programme rather than introduce a new system because it concluded that this approach would be comparatively cheaper and quicker to introduce.

3.7 The Department originally intended to start work to specify the requirements for the IT system in December 2010, to complete by January 2012. However, it did not issue instructions to suppliers to start work until April 2011, four months after originally planned, as the Department was still deciding on the precise work specification. Delivery of the complete system was pushed to autumn 2012. By July 2011, when the Programme became effective nationally, the Department's IT could refer claimants to providers and could pay providers the attachment fee – the only functionality that was required immediately. However, it could not complete an automatic check against other records that somebody was in work and off benefits, and could not make a payment for a successful job or sustainment outcome (required from September 2011 at the earliest); nor could it generate complete management information.

3.8 In August 2011, the Department decided to divide the project to deliver IT support for payments to providers into two parts. This split was so that job outcome and sustainment payments could be checked at the earliest opportunity (by March 2012), before the system could produce management information (by July 2012, for publication in autumn 2012). The Department will then convert its manual record of job outcome and sustainment payments to providers and link them to the referrals that are recorded on the system. The Department will complete a check that each individual is 'off benefit'. The Department agreed an approach to conversion in December 2012.

3.9 The pace at which the Department introduced IT for the Programme was out of step with the introduction of the rest of the Programme. The Department decided not to have all of the IT in place for the Programme's start because it considered that waiting would have negated the benefits of the Programme's early adoption.

The risk of fraud and error

3.10 The Department could be exposed to fraud and error, as the IT support was not ready in time. The Department will make manual payments to providers for a successful and a sustained job outcome, based on monthly submissions from providers. While the Department will complete limited checks on these figures it will not reconcile them to prime contractors' records. The Department will not therefore complete a systematic check that providers have placed the number of people that they claim into work, for whom they have claimed a payment. The Department estimates that it could make payments to prime contractors up to a value of £60 million[10] until March 2012, the earliest date that the Department anticipates its systems will have this ability. The Department also estimates that 10 per cent of these payments could fail the check to prove that employment has started. The Department plans to complete retrospective checks on all job outcome and sustainment payments, and to adjust subsequent payments to prime contractors.

Management information

3.11 The Department needs management information on the Programme to assess its performance and that of individual providers. Such information will also help the Department address the gaps in its knowledge when it was designing the Programme. The Department is developing management information for different claimant groups and for each geographical area.

3.12 The Department originally planned to collect management information using the IT support (paragraphs 3.5 and 3.6). However, until the relevant system is fully functional, the Department will monitor performance using the information it collects from providers. The Department's budget for introducing the management information system was £4.6 million. However, it underestimated the complexity of the project, and the budget now stands at £8.6 million.

10 Excluding Value Added Tax.

3.13 The Department intends to publish information on the Programme on a quarterly basis, analysed by a number of demographic groups and locations. Any release of information depends on the Department introducing an appropriate IT system and completing a successful data conversion by May 2012. The Department's timetable for release is:

- referrals and attachments – from February 2012; and
- job outcomes – from autumn 2012.

Performance targets

3.14 The Department has set targets for three of the nine claimant groups in the Programme. Each prime contractor is contractually bound to meet performance targets. The Department's contract with each prime contractor allows the Department to amend the minimum level of performance. The Department has not set minimum performance targets for the remaining six groups, because of the lack of information on which to base targets. Instead, it is relying on the competitive and pricing incentives as well as each provider maintaining their individual published service delivery standards. For all groups, providers have offered minimum performance standards.

3.15 The Department introduced competition within each of the 18 geographical areas by appointing two or three prime contractors. It intends to move 5 percentage points of new referrals between prime contractors in any particular area if the variation in job entry rates between prime contractors is 3 percentage points or more. The Department will make its first assessment of performance in June 2013. Its ability to do so depends on whether quality information is available. A similar assessment will be made every 12 months.

Contract and performance management

3.16 The Department has established arrangements to manage its contracts with prime contractors and to manage under performance:

- **Accounts management team** – the main contact with prime contractors and resolves issues relating to, amongst other things, provider performance.
- **Performance management team** – follows up on the Department's reviews of provider performance.
- **Provider assurance team** – examines risks in prime contractors' systems and controls.

3.17 The Department will discuss achievement or otherwise of the minimum service levels with prime contractors monthly and areas for improvement will be added to a performance improvement plan. Currently 16 of the 40 contracts are subject to a performance improvement plan.

3.18 The Department's contracts with prime contractors include change management controls so that the contracts can be amended if circumstances change. For example, unexpected changes in the economy, numbers of claimants joining the Programme or changes in funding or policy. However, the Department is currently unclear about how it will apply these controls to address regional performance issues. The contract also includes provisions for open book accounting which the Department plans on using to examine prime contractors' costs.

3.19 Under Pathways to Work, prime contractors passed a disproportionate amount of risk to subcontractors. Prime contractors sometimes withheld payments from subcontractors and referred to them harder-to-help claimants. The Department now has a code of conduct (the Merlin Standard) intended to regulate their relationship, including whether the relationship is equitable. It plans to assess prime contractors against the standard.

Dealing with provider failure

3.20 The Department's payment-by-results mechanism combined with its performance management approach is intended to discourage, for example, providers ignoring hard-to-help groups. Whilst it is too early in the Programme's life to judge the effectiveness of the approach, the Department's ability to reflect these issues in its performance management regime will ultimately depend on the availability of good quality management information.

3.21 The Department has indicated that it is prepared for provider failure. It has considered the steps it would take should this occur. In the first instance, it would move referrals to the other prime contractor in the area until it had re-tendered that contract from the framework. In deciding which provider to choose from the framework the Department will consider, among other things, whether the potential provider has experience of the Programme. The rates offered to the new provider will be subject to renegotiation. Ultimately, the Department could bring the provision in-house. It has not estimated how many prime contractors it anticipates will fail, nor has it estimated the cost of such failures. The Department has indicated that it has an appetite for risk in this regard. While it has plans for dealing with a single prime contractor failing, it has not developed plans for dealing with multiple providers failing within and across geographical areas.

Introducing Universal Credit

3.22 Universal Credit aims to simplify the benefit system by bringing together into one payment a range of working-age benefits and tax credits with a current value in 2010-11 of £57 billion. The Department is reviewing the impact Universal Credit may have on the Programme, including changes to claimant groups and their characteristics, numbers joining the Programme, and changes to the definitions of outcomes that form the basis of payments to prime contractors. Currently, the Department does not anticipate the need to make significant changes to the Programme and will make any changes necessary over the next 12 to 18 months in time for the implementation of Universal Credit.

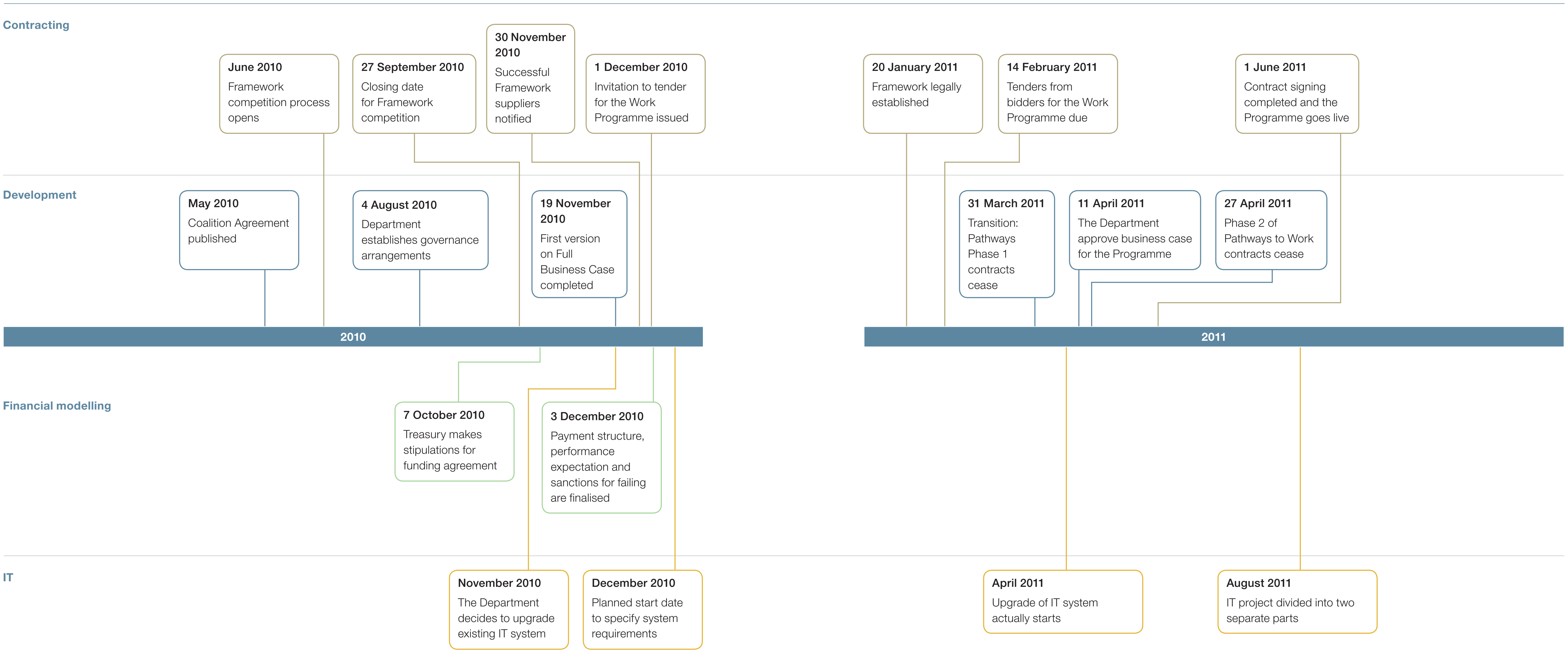
Appendix One

Methodology

Method	Purpose
Document review and interviews with the Department.	To understand the steps taken to plan the Programme, to run the procurement exercise and manage the transition from previous programmes, and to manage the Programme's future risks.
Interviews with 15 bidders for the Work Programme.	To identify bidders' perspectives on the Programme's introduction – such as its commercial basis and the Department's approach to provider procurement.
Analysis of the Department's financial model for the Programme.	To understand the underlying design and assumptions of the financial model for the Programme – including an assessment of the Programme's affordability to the Department and viability for providers.
Interviews with stakeholders.	To identify stakeholders' perspectives on, for example, the extent to which the Programme builds on experiences from previous schemes and the future risks to the Programme's successful delivery.
Commissioned research.	To inform our understanding of the use of welfare to work programmes overseas.

Appendix Two

Timeline for the Work Programme



Appendix Three

Successful bidders

Prime contractor (number of contracts won)	Estimated total contract value (£m)
Ingeus UK Ltd (seven)	727
A4e Ltd (five)	438
Working Links (three)	308
Avanta Enterprise (three)	267
Seetec (three)	221
Maximus Employment (two)	176
G4S (three)	184
Rehab Jobfit (two)	156
Serco Ltd (two)	115
Newcastle College Group (two)	101
Careers Development Group (one)	97
Pertemps People Development Group (one)	90
EOS	90
ESG (one)	70
Reed in Partnership (one)	69
BEST Ltd (one)	65
JHP Group Ltd (one)	44
Prospects Services Ltd (one)	50

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