



National Audit Office

Department for Work and Pensions

The introduction of the Work Programme

Detailed Methodology

JANUARY 2012

Detailed Methodology

Introduction

1 This document accompanies the Comptroller and Auditor General's report *The Department for Work and Pensions: The introduction of the Work Programme*, published in January 2012. It adds further detail to the description of the methodology in Appendix One of the main report.

Scope

2 The report assesses the value for money secured by the Department for Work and Pensions in introducing the Work Programme. It examines the design and development of the Work Programme, the transition from previous welfare to work programmes, and its early implementation.

Methodology

3 Our methodology consisted of six main elements.

- Review of documents held by the Department for Work and Pensions.
- Interviews with officials at the Department for Work and Pensions.
- Analysis of the Department for Work and Pension's financial models for the Work Programme.
- Interviews with bidders for Work Programme contracts.
- Consultation with stakeholders.
- A review of welfare-to-work schemes overseas.

4 The methods summarised above allowed us to identify whether the Department had

In designing and developing the Work Programme:

- learnt lessons from weaknesses identified in previous welfare-to-work schemes;
- developed a complete business case for the introduction of the Work Programme; and
- developed a financial model for the Work Programme based on sound assumptions and subjected that model to adequate testing.

In moving from pre-existing welfare-to-work schemes:

- minimised gaps in provision as part of the transition from pre-existing welfare-to-work schemes to the Work Programme;
- looked to minimise costs of terminating contracts for pre-existing welfare-to-work schemes; and
- appointed contractors to the Work Programme in line with good procurement practice.

In implementing the Work Programme:

- access to adequate management information on performance;
- introduced appropriate information technology support; and
- introduced appropriate contract and performance management arrangements.

5 The main element of the fieldwork took place between June and September 2011.

Review of departmental documents

6 We reviewed a range of documents held by the Department for Work and Pensions to develop an understanding of the Work Programme, the Department's rationale for its introduction, its design, the procurement of prime contractors, the transition from previous welfare-to-work programmes, and the Department's approach to the management of the Work Programme when it went live.

7 Key documents reviewed included:

- the business case for the introduction of the Work Programme;
- the Department's framework agreement for employment related services;
- the invitation to tender for the Work Programme;
- the Department's Commissioning Strategy (2008);
- the Department's assessment of bids;
- the Department's contracts with prime contractors;
- relevant board (and similar) minutes, together with supporting papers and agendas;
- internal and external reviews of the planning for and introduction of the Work Programme;
- the Department's plans for the oversight of prime contractors and of sub-contractors;
- material relevant to the Department's information technology support; and
- material relevant to the Department's financial model.

Interviews with the Department

8 We conducted a range of semi-structured interviews with the officials at the Department for Work and Pensions and Jobcentre Plus, including officials responsible for the design of the Work Programme, the financial model for the Work Programme, the procurement of prime contractors, the management of the transition from previous welfare-to-work schemes, and the management of prime contractors. We also met with the senior responsible officer for the Work Programme.

9 We also visited:

- the procurement team to ‘walk through’ the Department’s approach to the procurement of prime contractors; and
- the team responsible for the financial model to ‘walk through’ its design and application.

Interviews with bidders

10 We completed semi-structured interviews with 15 companies, listed in the table below, which bid for Work Programme contracts, 10 of which were successful.

Ingeus UK Ltd	Maximus
A4E Ltd	Rehab Jobfit
Avanta	Atos Origin
G4S	BTCV
Seetec	Groundwork
Working Links	BBWR
Newcastle College Group	Wise Group
Serco	

NOTE

1 We also met with PWC which had decided not to bid for the Work Programme.

11 We used the following characteristics to select bidders for interviews:

- number of contracts awarded;
- market share of provision;
- type of delivery - private, voluntary and public;
- previous involvement in the delivery of employment programmes; and
- employment characteristics of areas in which the contractor would be working.

12 The interviews were based around the following issues:

- the Work Programme's commercial basis;
- the Department's approach to procurement and contracting;
- the Department's commercial skill and capacity;
- the Department's approach to contractor management – to include the Merlin standard, supply chain management and IT provision; and
- the future risks to the success of the Work Programme and contractor performance.

13 We visited an office of one of the prime contractors – Maximus – to understand the approach taken and support provided to a person looking for employment.

Stakeholder consultation

14 We undertook a consultation exercise with the following stakeholders:

- the Confederation of British Industry;
- the National Council for Voluntary Organisations;
- the Association of Chief Executives of Voluntary Organisations; and
- the Employment Related Services Association.

15 The consultees were invited to respond to the following questions:

- To what extent does the Work Programme build on the experiences of and lessons learnt from previous welfare-to-work schemes?
- What are the advantages and disadvantages of the payment-by-results mechanism developed by the Department?
- With regard to the transition from previous welfare-to-work schemes, what did the Department do well and what aspects could it have done better?
- With regard to the procurement exercise, what did the Department do well and what aspects could it have done better?
- Has the Department established appropriate arrangements to manage the supply chain, including civil society organisations?
- What are the major risks to the successful delivery of the Work Programme and what action should the Department take to manage these?
- Does the Department have the right skills and capacity to manage the Work Programme?

Analysis of the financial models

16 The Department's financial models were examined to ensure they supported the Department's conclusion that the Work Programme was affordable to the Department and sustainable for providers. There were three specific aspects to our work:

- assurance over the design and development of the models. We reviewed the Department's approach to data handling, model construction and review against best practice to identify the risk of error;
- assurance over the assumptions and data underpinning the models. We assessed the reliability and applicability of data sources used by the Department and the level of regional deviation from the national mean modelled by the Department; and
- assessing the flexibility of the affordability conclusions under different scenarios. We adjusted the volumes of claimants and provider costs for each of the Department's scenarios to establish the extent to which the Work Programme is affordable for the Department and for providers.

A review of welfare-to-work schemes overseas

17 We commissioned Professor Dan Finn, Professor of Social Inclusion at the University of Portsmouth to report on the following:

- How do the Work Programme's objectives compare and contrast to welfare-to-work programmes overseas?
- Which aspects of the Work Programme are similar to overseas' welfare-to-work programmes, and which are innovations?
- Which features of the Work Programme have been used elsewhere (i) successfully and (ii) unsuccessfully?
- What are the risks common to previous overseas and United Kingdom welfare-to-work programmes that the Department should be aware of and be looking to manage through the lifetime of the contract?

18 Professor Finn's report is available on the website of the National Audit Office.

Appendix

Methodology for estimating the performance of the Work Programme

1 This paper sets out the different methodologies used by the Department for Work and Pensions and the National Audit Office to estimate the likely performance of the Work Programme.

2 The paper examines the performance of the largest Work Programme groups, those participants who are aged 25 and over claiming Job Seekers' Allowance as this is the group for which the best data exist. It is also one of the groups that is likely to be easiest to help into work.

The Department's approach to the methodology for estimating performance

3 The Department considered three alternative approaches to estimating the performance of the Work Programme:

- estimating the non-intervention rate (the proportion of people in the group who would find work without the help of a welfare-to-work programme) and adding the estimated additional impact of the New Deal for Young People. To this is then added an estimate of the additional impact of the Work Programme (this approach was the one eventually adopted by the Department as their chosen method);
- extrapolating from the actual performance of the Flexible New Deal programme (by adding an estimate of the additional performance that would be derived from the new features of the Work Programme) (the approach used by the NAO); and
- an approach based on extrapolating from Employment Zone performance.

Non-intervention plus New Deal performance

Calculating Non-Intervention

4 The calculation of the non-intervention component was based on the Department's administrative datasets of time-in-employment and time-off-benefit from 2001-2008. It used HMRC P45 data rather than any specific programme evaluation.

5 The Department calculated the non-intervention rate by tracking a cohort of Jobseekers' Allowance claimants who had been claiming for at least 12 months. These claimants were tracked for 2 years plus payment tail and their outcomes recorded. The Department then noted which claimants in the cohort had been on a welfare-to-work programme during the period and adjusted their outcomes to remove the impact of these programmes. This gave the non-intervention rate, time-in-employment and job outcome rate. The non-intervention rate was calculated to be 31 per cent.

Additionality

6 To account for the impact of the Work Programme, the Department added the extra outcomes seen under New Deal for Young People (an extra six percentage points). It then added an uplift to allow for the additional impact expected from the Work Programme (three percentage points).

7 Total performance was made up of 31 per cent (non-intervention); 6 per cent (additionality of New Deal Young People); and 3 per cent (additionality owing to the new features of the Work Programme) totalling 40 per cent.

Advantages and disadvantages of this approach

Advantages

- This approach had the benefit of the non-intervention rate being based on employment records, and could be linked directly to the Work Programme payment model.
- This approach measured performance under the conditions of the Work Programme payment model rather than having to make adjustments for different definitions of outcomes and length of service delivery.
- The data for non-intervention covers a seven year period and is based on employment records with definitions that match the Work Programme's.
- At the time the Department estimated performance for the Work Programme, there was only nine months' worth of Flexible New Deal data available.

Disadvantages

- P45 data does not capture all employment records, and so could be a slight underestimate of performance introducing an affordability risk. However, the Department assumed that the P45 under reporting is commensurate with the provider under reporting as providers are not able to evidence every employment outcome they achieve.

- The expected level is based on P45 records during the pre-recession period and so it is possible that the Department has overestimated actual performance for 2011-12. However, the performance levels are set for the life of the contract and the Department was expecting the economy to return to growth relatively quickly.
- The method does not take fully into account the actual profile of work programmes. The New Deal achieved much lower performance in its early years.
- The data is drawn from older periods and does not reflect any structural changes there have been in labour markets.
- Data is drawn from a period of higher economic activity and therefore the non-intervention rate is less likely to still be applicable to a Work Programme operating, at least in its initial years, under more challenging economic conditions.

Extrapolating from Flexible New Deal performance

8 Extrapolating from Flexible New Deal performance uses actual data from the first 20 months of these contracts to derive a performance level for the Work Programme. To this is added an adjustment to take account of the new features of the Work Programme.

Advantages

- This approach is based on actual employment programme data from Flexible New Deal as opposed to expectations of how Flexible New Deal would perform.
- It includes data from a recession period, which may be considered more accurate for some more recent labour market conditions (although not necessarily the life of the contracts).
- The Flexible New Deal programme uses the most recent data available and therefore best embodies any structural changes in the labour market.
- The Flexible New Deal programme had many of the design characteristics of the Work Programme. It was delivered by many of the same contractors and was a payments-by-results scheme.
- Flexible New Deal operated in a contiguous period to that of the Work Programme, improving the likelihood that the two programmes' levels of non-intervention are comparable.

Disadvantages

- It is not possible to track cohorts over time, rather a final performance rate is projected forward, which depends heavily on the profile assumed. The Flexible New Deal got off to a slow start in the first two months of the Programme (as is common for many programmes) – We have used the same profile that the Department uses for its assumptions for the Work Programme which closely matches Flexible New Deal performance once the initial slow start is account for.

- Flexible New Deal has different outcome definitions to the Work Programme (for example, cumulative versus continuous) and therefore requires adjustment.
- Providers were under a termination notice for the last part of the contract, which may have affected their behaviour. Although this may have occurred, it is not evident in the performance data. A mitigating factor to any reduced performance may have been the incentives provided by the payments-by-results mechanism, which would have encouraged providers to continue to get as many people into work as possible.

Approach extrapolating from Employment Zone performance

9 The third approach considered by the Department was the one they used to estimate Flexible New Deal performance when that programme was designed. It was based on past performance of Employment Zones, which were at steady state at the time, and where cohorts could be tracked.

10 The resulting estimate was a six month job outcome rate of around 46 per cent based on the best Employment Zone performers, or 40 per cent based on the average Employment Zone performance. Further adjustments would then be required to control for the differences between the design of Employment Zones and the Work Programme, notably, the job outcome definitions and the programme length. These adjustments would increase the estimate further to a level above the Department's assumption of 40 per cent for the Work Programme.

Advantages

- The benefit of this approach is that it uses actual provider performance on a cohort basis whilst the programme is in steady state, and therefore gives a good view over the contract life.

Disadvantages

- The data is again taken from an historic, pre-recession period and from a few years ago, which means structural changes to the labour market since then will not be reflected.
- The approach was not a very good predictor of actual performance. Actual performance of Flexible New Deal was in the low 20 per cent region rather than the 40 to 46 per cent estimated at the outset by this method.