



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1701
SESSION 2010–2012**

24 JANUARY 2012

Department for Work and Pensions

The introduction of the
Work Programme

Key facts

£3–5bn

Programme's contract value over five years

3.3m

Claimants that might pass through the Programme over five years

£1.95

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

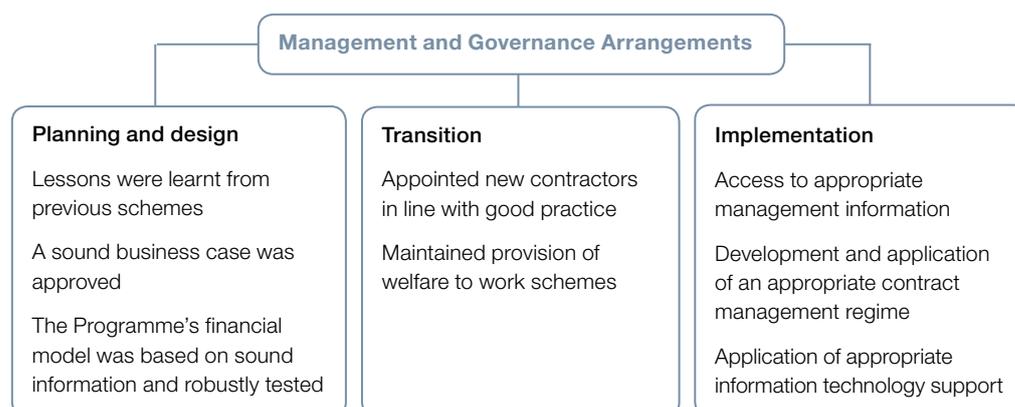
1 In 2011, the Work Programme replaced virtually all welfare to work programmes run by the Department for Work and Pensions (the Department) in England, Scotland and Wales. It offers support to unemployed people who have been claiming Jobseeker's Allowance or Employment Support Allowance to help them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