



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Work & Pensions

The Work Programme

Key facts

£2.8bn

Department's forecast – total payments to prime contractors, June 2011 to March 2020

2.1m

Department's forecast – referrals to the Work Programme, June 2011 to March 2016

£450m

Department's forecast – total savings to benefit spending from the Work Programme compared to the baseline agreed with HM Treasury

296,000

people secured job outcomes up to March 2014

£41 million

saving on the amount the Department would have spent between June 2011 and March 2020 for similar levels of performance on previous welfare-to-work programmes

212

minimum service standards that prime contractors proposed in their bids

£11 million

estimated cost of sustainment payments up to March 2014 where the Department cannot confirm employment

£21 million

saved by the Department by extrapolating invalid job outcome payments and reducing payments to prime contractors accordingly

£31 million

likely total cost in 2014-15 of incentive payments to prime contractors to reward high performance

Summary

1 The Department for Work & Pensions (the Department) is responsible for the Work Programme, the government's scheme to help long-term unemployed people to find and keep jobs. The Department expects to refer 2.1 million people to the Work Programme between June 2011 and March 2016, at a total cost of £2.8 billion.

2 The Work Programme aims to increase employment, and reduce the time that people spend on benefits. In particular it aims to improve support for those who are harder-to-help. The Department expected to achieve these aims for a lower cost per referral than previous welfare-to-work initiatives.

3 The Department refers people to the Work Programme, usually after they have been unemployed for between 9 and 12 months. The Department assigns people to different payment groups depending on factors such as age or benefit type. In this report we distinguish between easier-to-help groups such as Jobseeker's Allowance claimants and harder-to-help groups such as people who claim Employment and Support Allowance.¹

4 The Department pays prime contractors to provide support using a payment-by-results approach. The amount each prime contractor receives depends largely on its success in getting people into sustained work. The Department pays a different amount depending on the participant's payment group.

5 Contractors can be private, public or third sector organisations. Prime contractors choose how to support people, such as subcontracting some or all of the support. The Department maintains 40 contracts in 18 different geographic areas across England, Wales, and Scotland. Each area has at least two prime contractors and the Department refers people randomly between contractors in their local area. Currently there are 18 different prime contractors and around 700 subcontractors.

6 The Department will stop referring people to the Work Programme after March 2016. Payments under current contracts will continue for a further four years. The Department is looking at a range of options for its welfare-to-work provision from April 2016.

¹ Our distinction is a relative one as most people referred to the Work Programme have been out of work for a long period and could be seen as hard-to-help. We also recognise that payment groups do not match directly to how hard individual people are to help, particularly for smaller payment groups such as Employment and Support Allowance volunteers. For the purposes of this report we refer primarily to Jobseeker's Allowance 18 to 24 (payment group 1) and Jobseeker's Allowance 25 and over (payment group 2) as examples of easier-to-help groups, and new Employment and Support Allowance claimants (payment group 6) as harder-to-help.

Scope of this report

7 This is our third report on the Work Programme. In January 2012, we reported on the Work Programme's design and introduction. In December 2012 we summarised the Department's first set of published performance data. The Committee of Public Accounts has published two reports on the Work Programme after taking evidence from the Department.

8 In this report we consider the value for money of the Work Programme. We review performance up to March 2014 and consider the Department's:

- aims for the Work Programme (Part One);
- performance for easier-to-help groups (Part Two);
- performance for harder-to-help groups (Part Three); and
- control of the Work Programme's costs (Part Four).

9 The Department designed the Work Programme to improve on previous welfare-to-work programmes. We therefore compare performance to previous programmes as a first test of value for money. The Department also had expectations about how the Work Programme would work and how much it would improve performance; we also compare performance against this more challenging benchmark. Figure 21 in Appendix One summarises this approach.

10 Performance comparisons are inherently difficult without a clear control group. The effectiveness of welfare-to-work support is determined by its additional impact on employment compared to what would have happened without support. But baseline performance is uncertain and could change over time. Comparisons with other programmes are also affected by differences in scheme design, performance measurement and economic conditions. We make judgements based on the available evidence, and we discuss limitations in Appendix Three.

Key findings

Performance for easier-to-help payment groups

11 **The Work Programme has helped people claiming Jobseeker's Allowance who have completed two years get into and stay in work at about the same rate as previous welfare-to-work schemes.** Performance in getting people into work has improved since the first published data. Of those people claiming Jobseeker's Allowance aged 25 and over, 27 per cent have moved into employment lasting six months or longer. This is similar to previous comparable programmes. People are also sustaining employment at about the same level as in previous programmes, with younger claimants sustaining work more than expected (paragraphs 2.3 to 2.5; 2.10 and 2.11).

12 This performance has not so far achieved the Department's higher expectations, but it expects recent improvements to continue. The most recent monthly cohort to have completed the programme achieved job outcomes for 32 per cent of participants. This is below the Department's original forecast (39 per cent) and bidders' original expectations (42 per cent), but approaching minimum performance levels (33 per cent). The Department expects that performance will continue to improve for remaining cohorts based on the early performance of more recent cohorts still in the programme. The Department expects a significant improvement with Jobseeker's Allowance claimants aged 25 and over achieving job outcomes in 38 per cent of referrals. If sustained this would be a material improvement on preceding programmes.

13 Recent analysis by the Department suggests that many job outcomes are not claimed by contractors. The Department has used HM Revenue & Customs' data to estimate that contractors have not claimed job outcomes for around 26,000 people who did get into work for the required length of time. Up to March 2014 there were 296,000 outcomes across all payment groups and cohorts so the Department's estimate would increase measured performance by around 9 per cent. We have not validated the data supporting the Department's estimate and it is not clear how much previous programmes were also affected by under-reporting (paragraphs 2.12 to 2.14).

14 Jobseeker's Allowance claimants are spending less time on benefits than the Department expected. While employment outcomes are similar, the Department expects the Work Programme to reduce peoples' average time on benefit compared with previous welfare-to-work schemes. The Department does not know why participants are spending less time on benefit, although this is consistent with contractors under-claiming outcomes. The Department expects to save £450 million in total across all payment groups between June 2011 and March 2020 compared to the baseline agreed with HM Treasury (paragraphs 2.15 and 2.16).

Performance for harder to help payment groups

15 The Department set initial performance expectations too high. The initial performance expectation and minimum performance level for Employment and Support Allowance claimants was that 22 per cent of people would achieve a job outcome. The Department accepts this level was set too high. Since November 2012 the Department has also referred Employment and Support Allowance claimants with a 12 month prognosis before being ready for work. These people are less likely to find work and performance is pulled down by the change in the mix of referrals. The Department has revised its expectations of performance downwards (paragraphs 3.3 and 3.4).

16 Performance for harder-to-help groups is still below expectations and about the same as previous programmes, but the Department expects further improvements. The Department designed the Work Programme to help participants who face significant barriers to employment. Performance for Employment and Support Allowance claimants who have completed the programme (11 per cent) is still below expectations (22 per cent) and previous programmes (12 per cent). But performance has improved from the very low levels at the start of the programme and early performance of more recent cohorts is showing signs of further improvement (paragraph 3.5).

17 On average, prime contractors have reduced what they plan to spend on the hardest-to-help. The support for the Work Programme's harder-to-help participants is lower than for those with better employment prospects. Providers' own estimates show that they plan to spend 54 per cent less on each participant in harder-to-help groups than when they bid. Several contractors told us that they do not use payment groups to help target support, and that funding for harder-to-help groups is lower than expected (paragraphs 3.7 and 3.9).

18 The Department has had to change its approach to maintaining minimum levels of service. The Department intended that minimum service standards would help to guarantee the quality of service received by all participants regardless of their barriers to employment. The Department originally allowed contractors to set their own minimum service standards. Contractors set 212 standards and the Department could not monitor these effectively. In July 2013, the Department introduced a new monitoring regime but the Department has limited ability to identify issues such as parking of harder-to-help participants (paragraphs 3.10 to 3.14).

Controlling costs

19 The Work Programme has reduced risks to the Department of paying for low performance. It expected to pay contractors £1.7 billion between June 2011 and March 2014. Because performance was lower than it expected in the first year of the Work Programme the Department actually paid £1.4 billion. It is difficult to make direct comparisons with previous programmes but for roughly similar levels of performance the Department is paying around £41 million (2 per cent) less for the Work Programme than it would have done for previous schemes (paragraphs 4.2 and 4.3).

20 Contractors expect lower profits as a result of lower performance and referrals. Overall contractors still expect to make a profit on the Work Programme although the amount they most recently forecast is 57 per cent lower than when they bid. The contractor market appears to be sustainable. No prime contractor has left the Work Programme since the Department introduced it in June 2011, although there have been a number of takeovers and mergers. Contractors have raised concerns about the Work Programme's viability and in some cases were seeking out other sources of work to supplement the Work Programme. The Department has not monitored contractors' profits under previous welfare-to-work programmes (paragraphs 4.4 to 4.8).

21 The Department has improved its validation of job outcome payments. The Department checks job outcome claims and extrapolates rates of invalid claims to reduce payments to contractors. The Department estimates that its approach has saved it £21 million up to March 2014. The validation regime may also have deterred contractors from claiming some outcomes. It continues to improve its approach. For example, it has removed requirements to get permission before contacting employers and has learnt how to elicit more accurate information about employment (paragraph 4.10 to 4.12).

22 The Department is still paying prime contractors for potentially invalid sustainment payments. Although the overall cost of the Work Programme is lower than previous programmes, the Department may be paying contractors for performance they are not actually achieving. The Department estimates how many claims for sustainment payments might be invalid, but it does not extrapolate its estimate and claw back a proportion of payments. As a result, the Department estimates that it has incurred losses of £11 million to March 2014. The Department is taking steps to improve validation. Without changing its approach the Department might otherwise pay a further £25 million over the remaining programme for potentially invalid claims (paragraphs 4.13 to 4.18).

23 Flawed contractual performance measures mean the Department will have to make incentive payments to even the worst performing contractors. The Department established incentive payments to reward high performance. But it uses a measure of performance that is highly sensitive to changes in referral volumes over time. In 2014-15 all 40 contracts are likely to be entitled to £31 million in incentive payments. The Department estimates that only £6 million would be paid using an accurate measure of performance (paragraph 4.21).

24 Contractual performance measures have also made it more expensive to terminate contracts of poor performing contractors. Following a review of contracts, the Department has issued a notice of termination to one contract held by the Newcastle College Group. Because the contractor had not technically breached the performance measures in the contract, the Department issued the notice under a voluntary break clause and not for any breach of contract. The Department is negotiating termination costs with the contractor (paragraphs 4.23 to 4.24).

25 The Department has changed contracts several times to address limitations in the original contracts. The Department introduced the Work Programme quickly in 2011, when payment-by-results was a new approach. The Department recognised the need to adapt contracts and introduced over 30 contract variations with contractors. It estimates that changes have avoided increased costs of around £40 million over the life of the programme (paragraphs 4.25 and 4.26).

Conclusion on value for money

26 After a poor start, the performance of the Work Programme is at similar levels to previous programmes. Current published data may understate actual job outcomes and the Department is also forecasting further improvements over the rest of the programme. At the same time the Department has reduced costs and reduced the risks of paying for poor performance. There are positive signs that the Work Programme has improved on previous welfare-to-work programmes and has the potential to offer value for money, particularly if the Department can achieve the much higher rates of performance that it now expects for the remainder of the programme.

27 It is not yet clear that the Work Programme has substantially improved on past performance or met its other aims for helping people into work. In particular the Department has struggled to improve outcomes for harder-to-help groups. Contrary to the intentions of the Work Programme, contractors are spending less on people in these groups and there are signs that some people receive very little support. The Work Programme is also not working as the Department intended in the way it rewards contractors for performance. Flaws in contracts and performance measures have led to unnecessary and avoidable costs.

28 To demonstrate that the Work Programme offers value for money, the Department will need to show that it can build on recent improvements and deliver actual results to match the significant and sustained increases in performance it now expects. The Department has recognised it also needs to make changes to contracts and performance measures and reduce unnecessary payments.

29 The Department has not cleared the findings in this report on the grounds that they do not reflect the Department's view of the relevant facts.

Recommendations

30 The Department recognises the need to improve performance and address issues we have raised. In developing the Work Programme and future contracted out welfare-to-work schemes it should:

a Ensure sufficient time to develop a robust performance framework

- The Department should avoid rolling out future programmes before it has had time to develop contracts and the performance framework.
- It should assume that, like the Flexible New Deal and the Work Programme, future programmes may have slow starts and uncertain volumes and factor this into decisions about timing, roll-out and design.
- The Department should identify ways to assess contractors' additional impact on participants' employment outcomes using control groups.

b Improve the setting and monitoring of minimum service standards

- The Department should review any findings from post-Work Programme evaluation and views on how the Work Programme has affected the prospects for people who complete two years on the programme without finding a job.
- The Department should review whether payment groups require different minimum service standards, for example, where particular barriers to work exist.
- Even where minimum standards are common across payment groups, the Department should monitor minimum service standards by payment group, rather than just overall, to ensure that contractors are not 'parking' people.
- The Department should gather other standard measures of services (beyond minimum service levels) in order to identify good practice or potential 'parking'.

c Eliminate spending on invalid sustainment payments

- The Department is negotiating with contractors over a new approach to sustainment payments and will need to show it has eliminated invalid payments to contractors.
- It should set out: how much contractors have returned from past payments; the new arrangements for sustainment payments; and the costs the Department has incurred to agree new contracts, for example by increasing payment levels.
- In future programmes the Department should review contracts to identify whether similar problems might arise.

d Improve performance management measures

- Providers should not receive incentive payments based on flawed measures of performance. The Department recognises that minimum performance levels have not worked well in managing contracts and has developed a new cohort-based measure of performance.
- Future programmes should use cohort-based measures for determining whether an incentive payment is merited, introduce relative as well as absolute thresholds, or remove these payments altogether.
- The Department should extend its use of the HM Revenue & Customs' real-time information to help prime contractors to identify people that are no longer in employment to support them back into work.

e Develop a clear approach to making any future termination decisions

- After it has agreed termination costs, the Department should evaluate the impact of terminating a contract.
- It should set out clear principles for making future termination decisions using break clauses in the current contracts.
- In future contracts it should include relative as well as better absolute measures of performance in setting the conditions under which it could terminate contracts at no cost.