House of Commons
Work and Pensions Committee

Work Programme: providers and contracting arrangements

Fourth Report of Session 2010–12

Volume I: Report, together with formal minutes, oral and written evidence

Additional written evidence is contained in Volume II, available on the Committee website at www.parliament.uk/workpencom

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The Work and Pensions Committee

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Additional written evidence may be published on the internet only.

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Summary

In May 2010, the Coalition Government announced that it would establish a single welfare-to-work scheme, the Work Programme, to replace the range of contracted employment services for unemployed people.

Although the Work Programme is of a larger scale, it maintains the same direction of travel as the Flexible New Deal, but the Coalition Government has dramatically accelerated the pace of change. The Department for Work and Pensions (DWP) will implement the programme nationwide in June 2011. A key innovation is that the Work Programme will be funded through savings in future benefits payments as people move into work. Other design principles include delivery through large prime contractors, the overwhelming majority of whom will come from the private sector, using a payment-by-results model. Prime contractors are expected to subcontract service provision to specialist local organisations, including voluntary sector providers.

Another important change is that a significant proportion of the funding will be paid to prime contractors as they achieve sustainable employment for participants over a two-year period. The contracts themselves last for up to seven years. The success of the programme will therefore be subject to the state of the labour market and sufficient vacancies becoming available that are suitable for Work Programme participants.

Prime contractors will need to invest significantly in the programme and will be responsible for ensuring that the supply chain is sustainable under the outcome-based payment model. Evidence showed that providers will need to meet very demanding performance levels to make the programme financially viable for them. Under current economic conditions, if providers are very successful financially, we accept that this means that they will have delivered exceptional outcomes for jobseekers and significant savings in social security payments for the Government.

The financial stakes are very high for all parties: for prime contractors, there is a risk that they will terminate their involvement in the programme if they cannot make a profit; smaller subcontractors are concerned that they may not receive sufficient upfront funding to operate; and the Government could incur significant costs if it needs to intervene should Work Programme provision collapse in a particular region, although having at least two prime contractors in each region and a pre-approval process as part of the framework should mitigate this risk.

Previous contracted employment programmes have experienced “creaming and parking”, whereby providers focus their attention on the participants who are most likely to gain sustainable employment, at the expense of those who face greater challenges to finding work. The Work Programme attempts to incentivise prime contractors to provide support for all participants through the differential payments model, an approach recommended by our predecessor Committee. It is based on eight customer groups. Prime contractors will receive higher payments for participants in the customer groups assessed as more difficult to help, for example, former Incapacity Benefit claimants. However, there is a risk that creaming and parking may still take place under this model, since it remains open to
providers to continue to focus on the easier to help participants within each customer group. The Government must monitor this closely and may need to change the payment model to address failure to provide support for all clients, where necessary.

The design of the differential payments model does not attempt to reflect regional and local variations arising from local labour market conditions and the different needs of local populations, relying instead on prime contractors reflecting this in their tender bids. There may therefore be insufficient incentives to ensure that prime contractors provide a consistent quality of support for all participants in their contract area. This may lead to disparities between the level of support in areas of entrenched unemployment and remote rural areas compared to areas where the labour market is buoyant. Again, the Government must monitor this and intervene to adapt contracts if it is found that participants in some areas are being neglected.

The Programme will face a significant new challenge in providing services for potentially large numbers of former Incapacity Benefit claimants, some of whom may face significant barriers to finding work and require a level of support that has not been delivered under previous programmes. Initial findings from trials in Aberdeen and Burnley indicated that as many as a third of current Incapacity Benefit claimants might be found fit for work and another third might be able to work within a reasonable period if the right support was provided. The total number of participants joining the programme may also vary considerably depending on unemployment rates.

The principles behind the Work Programme build on previous experience and are to be welcomed. There is, however, uncertainty, particularly around payment levels and numbers of participants. The Government needs to ensure that it retains sufficient flexibility to respond to these challenges and must be prepared to intervene quickly if the programme is not meeting its objectives.
1 Introduction

Announcement of the Work Programme

1. Employment programmes to help long-term unemployed and certain other economically inactive people to find jobs and to come off benefits (“welfare to work”) have been delivered through government contracts with the private, public and voluntary sectors since the 1990s.¹ The Coalition Government announced its plans to “end all existing welfare to work programmes and create a single welfare to work programme to help all unemployed people get back into work” as part of its Programme for Government in May 2010.²

2. The scheme will be called the Work Programme and will replace existing contracted employment programmes for a range of unemployed and certain other economically inactive people, including those with health conditions and some disabled unemployed people. The programme will not, however, replace Work Choice.³ Contracts to deliver most existing programmes (Flexible New Deal, New Deal for Young People, New Deal 25+, New Deal for Disabled People, New Deal for Lone Parents, Pathways to Work, Progress2work and Employment Zones) will end during spring/summer 2011. The Work Programme will be rolled out nationally in June 2011.⁴ We discuss the transition from existing contracts to Work Programme contracts in chapter 9.

3. The Work Programme will be available to people claiming income-related Jobseeker’s Allowance (JSA) and Employment and Support Allowance (ESA) (both income and contribution-based). The programme categorises customers into eight groups, based on the benefit which they are claiming at the time they are put on the Work Programme. For some customer groups, individuals will need to have been receiving benefits for a specific period before becoming eligible for the programme.

4. The eight groups will form the basis for differential payments, which are designed to incentivise prime contractors to support the hardest to help by offering these organisations larger payments for finding jobs for those furthest from the labour market. The intention is to ensure that prime contractors do not focus simply on working with people for whom it may be easier to find jobs. We discuss the differential payments model in chapter 4.

5. Some key features of the Work Programme are as follows:

- Providers will be required to help benefit claimants into sustained employment of up to two years rather than the previous requirement of only six months

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¹ See, for example, David Freud, Reducing dependency, increasing opportunity: options for the future of welfare to work: An independent report to the Department for Work and Pensions, March 2007.
³ Work Choice, a separate programme to help disabled people with severe disability-related barriers to work, was launched by DWP in October 2010. Work Choice replaced the existing WORKSTEP and Work Preparation programmes and the Job Introduction Scheme.
⁴ HC Deb, 10 June 2010, cols 37-8.
• It will allow early access to employment support for those facing the severest barriers to work; for example, those under 25 will be able to access the programme earlier than in previous programmes

• Payment to contracted providers will be largely results-based and the additional challenge faced by providers in finding employment for people who face the greatest barriers to work will be recognised in a differential payments system

• The Programme will be funded from the money saved in future benefit expenditure as people are moved into work

• The Department for Work and Pensions (DWP) will not prescribe the type of support which providers will be required to provide. Providers will be free to determine the type of intervention which a client requires depending on their specific needs (the “black box” approach).  

**Background to this inquiry**

6. We were keen to examine the contracting arrangements for the Work Programme, including requirements to be placed on providers, and report on our findings before the programme is rolled out nationally. Our inquiry therefore focused on the following issues:

• The steps DWP needs to take to ensure that a procurement programme of this size and complexity is managed effectively and delivers high quality outcomes

• The extent to which the Work Programme will differ from existing contracted employment programmes

• The relationship between prime contractors and subcontractors and DWP’s role in overseeing this relationship

• The role of Jobcentre Plus in delivering the Work Programme

• The implications for providers of the increase in volume and the change in profile of Jobseeker’s Allowance claimants arising from the migration from Incapacity Benefit to Employment and Support Allowance

• The implications for providers of “payments by results” arrangements, with particular reference to the voluntary and social enterprise sector

• The likely effectiveness of a differential payment scheme in encouraging providers to support harder to help groups

• The implications of regional variations in the labour market.

7. We received 37 submissions from a range of organisations and individuals. We took oral evidence from academics and experts; prime contractors, subcontractors and the industry body, the Employment Related Services Association; and the DWP Minister, Rt Hon Chris

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Grayling MP, and DWP officials. A full list of witnesses is set out at the end of the report. We also visited the United States to talk to organisations and individuals involved in the delivery of welfare to work services in the State of Wisconsin and New York City and academics in the field. We are very grateful to all those we met in the US and to everyone who contributed to the inquiry.

8. We would also like to thank our Specialist Adviser for this inquiry: Ian Mulheirn, Director of the Social Market Foundation.\(^6\) We very much appreciate the contribution he made to our work.

9. We intend to look at the operation of the Work Programme in more detail, focusing more specifically on its effectiveness in supporting different customer groups, later in this Parliament.

\(^6\) Relevant interests of the specialist adviser were made available to the Committee before the decision to appoint him on 17 November 2010. The Committee formally noted that Ian Mulheirn declared an interest as Director of the Social Market Foundation, in that some of the Foundation’s work has been sponsored by private and third sector employment service providers.
2 Design of the Work Programme

Contracted employment programmes

10. Our predecessor Committee reported on the management and administration of contracted employment programmes towards the end of the last Parliament. The report highlighted the problem of “creaming and parking”, which is often encountered in such programmes, particularly when providers are paid mostly by results (i.e. for placing people in jobs). “Creaming” describes service providers concentrating their efforts on those who are closest to the labour market and easiest to place in a job, and “parking” describes where participants judged furthest from the labour market and most difficult to place in a job receive only minimal services.  

11. Our predecessors also reported on the DWP’s Commissioning Strategy in relation to the Flexible New Deal, which had several similarities to the Coalition Government’s new Work Programme including: large contracts with prime contractors; individualised support delivered through local subcontractors; and largely results-based payments to providers. The Committee concluded that the design of the first phase of Flexible New Deal would not prevent creaming and parking and recommended that DWP introduce differential payments to financially incentivise providers to work with all types of customer, including the hardest to place in jobs.  

12. The previous Government had planned to pilot Personalised Employment Programmes (PEPs) in the Thames Valley and the London Boroughs of Barnet, Enfield and Haringey from March 2011. The aim of the planned PEP pilots was to offer support to unemployed customers receiving Jobseeker’s Allowance (JSA) and customers with health conditions receiving Employment and Support Allowance (ESA) to find sustainable employment “within a single, integrated, flexible employment programme”. DWP had planned to experiment with an escalator model of payments to providers, whereby providers would receive increasingly large payments per customer as they moved more people into jobs. The idea behind this payment model was to incentivise providers financially to work through their cohort of customers to help those hardest to place in jobs. The Coalition Government has since cancelled the PEP pilots and decided to introduce the Work Programme.

Bringing together support into a single programme

13. The Work Programme will bring together a range of employment support previously provided to unemployed people under several different contracted employment programmes. There was consensus among our expert witnesses that this was the correct
way forward. Dave Simmonds of the Centre for Economic and Social Inclusion (Inclusion) agreed that it was the right step to take and pointed out that there was a certain amount of continuity with the policy of the last Government: “I think we have to be clear that this was the direction of travel over a number of years, and we have to remember that the Work Programme, in terms of its design, does draw very heavily upon the Flexible New Deal.”

14. Professor Dan Finn of the University of Portsmouth told us that one obvious benefit of bringing support together into one programme was that it would save money on transaction costs by having a single tendering process. Potential prime contractors were also supportive of the idea, as was the Employment Related Services Association (ERSA, the trade association for the providers of employment related services), while noting the challenge involved in the scale and ambition of the programme.

15. There was slightly more qualified support for the consolidation of support into one programme from potential subcontractors. St. Loye’s Foundation agreed that some rationalisation was required but had some doubt about whether consolidation into a single programme would be the optimal design:

   It was a little confusing previously, as there were a large number of programmes. People in Jobcentre Plus were possibly themselves confused about in which direction to post customers, so some rationalisation was required. Whether to go down to one programme [...] was the optimum, I am not sure.

Jonny Boux of Community Links expressed a similar view:

   At Community Links one thing we welcome with the Work Programme is the simplicity of one programme [...] . We are a current New Deal prime contractor, but we recognised the complexity of the number of various programmes that were involved across the board. I am still unsure [...] that one programme is the sensible way forward.

**Funding employment services from future benefit savings**

16. One of the key features of the Work Programme is that it will be funded from the money saved from future benefit expenditure as people move into work. Historically, contracted employment programmes have been funded from the DWP’s Departmental Expenditure Limit (DEL), which is a three-year departmental spending limit set by HM Treasury in Spending Reviews. Benefit payments are paid from a separate, larger budget called Annually Managed Expenditure (AME), which is managed centrally by HM Treasury. Until recently internal government accounting rules did not allow the mixing of DEL and AME spending.

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11 Q2
12 Q2
13 Q105
14 Q 60
15 Q 60
17. In his independent report to the Department of Work and Pensions in March 2007, David Freud (now Lord Freud, the Minister for Welfare Reform) outlined the fiscal benefits to the state of moving people from benefits into sustained employment. He estimated, for example, that the gross savings to the state of moving an average recipient of Incapacity Benefit into work for a year was £5,900, with additional gains from direct and indirect taxes (offset against tax credits) raising the figure to £9,000. The report stated that once a person has been on Incapacity Benefit for a year they remain, on average, on benefit for eight years meaning that “a genuine transformation into long term work for such an individual is worth a net present value of around £62,000 per person to the State”.17

18. Extending employment support to people on Incapacity Benefits and paying providers from future benefit savings (the larger AME budget) had been under consideration by the previous Government since the Freud report. The process became known as the “AME/DEL switch”. In the July 2008 Green Paper, No One Written Off, DWP announced trials in Greater Manchester, Norfolk, and the London Boroughs of Lambeth, Southwark and Wandsworth, starting in financial year 2010-11.18 Professor Dan Finn told us that the AME/DEL switch was therefore another acceleration of the direction of travel of the previous Government’s policies:

> It accelerates what the previous Government were going to experiment with: whether you can fund current expenditure, in terms of investing in upfront employment services, and pay for them from the future benefit savings that come out of that. Now, that’s a fundamental principle that underpins the Work Programme, which the previous Government were much more cautious about and were in the process of testing through some kind of pilots, but this Government have obviously made the decision, “This is what we’re going to accelerate.”19

19. Other witnesses were supportive of the AME/DEL switch as a way of funding the Work Programme. G4S argued that the AME/DEL switch could ensure that the necessary funding was in place, even within current fiscal restraints, to offer support to the hardest to help.20

20. The Work Programme will be funded from projected future benefit savings, the scale of which is as yet unknown. This means that, instead of funding the programme from the Departmental Expenditure Limit (DEL) in the usual way, the source will be Annually Managed Expenditure (AME) from which benefits are paid (the so-called AME/DEL switch). It is a bold decision by the Government to press ahead with this untried method of funding. We welcome the extra resources that the Government has released by using the AME/DEL switch mechanism to help people find jobs in a time of constrained public finances. However, there is a risk that the expected savings will not be realised if too few people gain full time work or if the number falling out of work rises. We recommend that the Government publishes at regular intervals the cost of the

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18 DWP, No one written off: reforming welfare to reward responsibility, July 2008, pages 74-75.
19 Q 3
20 Ev 63
Work Programme and an estimate of the benefit savings accrued from it. We also recommend that the Government commission an independent external organisation to conduct a full evaluation of the programme, including an assessment of its cost-effectiveness in relation to previous employment programmes.

Personalised support for Work Programme customers

21. Work Programme prime contractors will be given considerable freedom to provide personalised support to individual customers—the so-called “black box” approach:

Specialist delivery partners from the public, private and voluntary sectors are best placed to identify the best ways of getting people back to work, and will be allowed the freedom to do so without detailed prescription from central government.21

22. Most witnesses supported the black box approach and were keen for DWP not to interfere in the personalised interventions offered by prime contractors.22 Dave Simmonds told us that black box provision was essential because customers will have different needs and therefore require different interventions.23 Stephen Evans of the London Development Agency agreed but also believed that there should be sufficient transparency within the black box and that prime contractors should be held accountable for delivering what they promise:

[...] people don’t fit neatly into boxes, so their provision is not going to fit neatly into boxes. The challenge is that you’ve got to couple that with some minimum expectations of what people can expect when they are on this programme—because it is a public programme that you have to be on to get your benefits—and also transparency and accountability in terms of that performance data.24

23. The alternative to the black box model would be a model in which the Government prescribed in greater detail the services that a prime contractor and its subcontractors must deliver. The Wisconsin Works (W-2) employment support programme that we saw during our visit to the United States was more prescriptive than the Work Programme model and the requirements placed on providers had increased over time as the State sought to make the programme more accessible to participants. All participants were required to meet with an adviser to agree a personalised plan to help them find employment, but this plan was based on the “W-2 employment ladder”, which stipulated training and support options in order of preference: unsubsidised employment, trial jobs (subsidised employment), community service jobs and transitional work (employment-related activities such as education and training) support programme for parents.25 The Wisconsin Policy Research Institute argued in 2005 that some of the most commonly used options from the W-2 employment ladder, such as community service jobs and basic adult education, were

21 DWP, The Work Programme Invitation to Tender: Specification and Supporting Information, December 2010, para 2.03.
22 See, for example, Remploy Ev w2 [Note: References to Ev wXX refer to written evidence published in the volume of additional written evidence on the Committee’s website]
23 Q 5
24 Q 5
25 http://dcf.wisconsin.gov/w2/wisworks.htm
ineffective. The Institute also found that employers were reluctant to hire W-2 participants into subsidised trial jobs.\textsuperscript{26} If the Government had prescribed in detail the service that Work Programme providers must deliver, this might have led to providers being forced to deliver ineffective support. It could also have deflected providers from a focus on outcomes and reduced their flexibility and scope to innovate.

\textbf{24. We support the principle of black box provision of employment support, where prime contractors will be allowed considerable freedom to personalise interventions to match the needs of jobseekers, as long as there is transparency about what prime contractors undertake to provide within the black box. DWP should not interfere with this approach without exceptional reason. However, DWP must ensure that prime contractors are held to account for what they promise to deliver within the black box and that protections for the customer are included within contracts. We request that the Government clarifies how this will be achieved, in response to this report.}

\textit{Use of intermediate labour markets within the black box}

25. In our report on Youth Unemployment and the Future Jobs Fund we found that government-subsidised jobs (sometimes called intermediate labour markets) could be a cost-effective option for young unemployed people who are furthest from the labour market and who therefore might not benefit from less intensive approaches.\textsuperscript{27}

26. EU state aid rules stipulate that subsidised jobs created under employment schemes must be “additional” posts, i.e. ones that would not otherwise have been created without the employment programme. Our report found that private sector employers had perceived EU state aid rules as a barrier to participation in employment programmes that involved creating subsidised jobs.\textsuperscript{28}

27. We asked DWP officials about the legitimacy of Work Programme prime contractors creating subsidised jobs within the black box. Mark Fisher told us:

\begin{quote}
If somebody genuinely gives somebody a cleaning job for two or three years, then there could be a form of subsidy going towards that. It is quite legitimate under the black box if they can make money with that [...] There is a degree of employment subsidy.
\end{quote}

The Minister told us that he was “completely relaxed” about Work Programme prime contractors using a proportion of their fees to subsidise jobs for their Work Programme clients and that it would be for the prime contractors to interpret the EU state aid rules.\textsuperscript{29}

\textbf{28. We welcome that Work Programme prime contractors may choose—within the black box—to use a proportion of their fees to subsidise jobs for their Work}

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\textsuperscript{26} Wisconsin Policy Research Institute, \textit{Road To Nowhere: Education and training under Wisconsin Works}, April 2005.
\textsuperscript{28} Ibid, paras 72-77.
\textsuperscript{29} Q 172
\textsuperscript{30} Q 172 and Q 177
\end{flushright}
Programme participants. However, there has previously been a perception that EU state aid rules could be a barrier to private sector employment of this kind. Whilst it will be for prime contractors to establish the legality of such interventions under state aid rules, we recommend that the Government produce straightforward guidance on how intermediate labour markets may be used within the Work Programme in a way which is compliant with state aid rules.
3 The tendering process

29. In June 2010, DWP advertised the Work Programme and invited organisations to bid to be part of a framework (the Framework for the Provision of Employment Related Support Services (ERSS)) of prime contractors across 11 regions (called lots). The ERSS is designed to be an umbrella agreement between DWP and service providers who will in effect be pre-approved to bid for Work Programme and other welfare to work contracts in the future. Bidders for prime contracts were encouraged to include private, public and voluntary sector organisations as sub-contractors for the delivery of employment services locally.

30. On 25 November 2010, DWP announced the organisations that had successfully bid to join the ERSS framework. The framework included 35 prime contractors across the 11 regional lots, and between nine and 17 prime contractors were chosen for each regional lot.

The prime contractor model

31. Prime contractors chosen for the ERSS needed “to have the financial capacity to deliver large scale contracts which require a significant amount of cash-flow due to outcome funding” and an annual turnover of at least £20 million per annum. The rationale for having large prime contractors is that they would be able to bear the financial risk of operating on a largely results-based payment model. The financial model assumes that risk will not be passed down from prime contractors to smaller, often voluntary sector, subcontractors. We discuss the nature of Work Programme supply chains in more detail in chapter 6.

32. Some witnesses were concerned that the financial model for the Work Programme would exclude many voluntary sector organisations from the ERSS. We were interested in exploring this issue, since voluntary sector organisations have the potential to bring significant experience, expertise and innovation to employment programmes. Barnardo’s argued that many such organisations would be unable to manage such large and complex contracts. Community Links felt that the size of the contracts had effectively eliminated organisations such as theirs from a prime contracting role which they had shown themselves capable of fulfilling under the New Deal. The Scottish Association for Mental Health shared a similar view:

31 HC Deb, 29 June 2010, cols 39-42WS
32 www.dwp.gov.uk
33 HC Deb 10 June 2010, cols 37-38WS
34 HC Deb, 25 November 2010, cols 54-56WS
35 www.dwp.gov.uk/docs/work-programme-qanda.pdf
36 http://www.dwp.gov.uk/docs/erss_qa.pdf
37 Ev w58
38 Ev 73
Many organisations with crucial expertise and experience will be too small to tender as prime contractors, creating a risk that they will be effectively ‘frozen out’ of the Work Programme by larger organisations or collaborations. This loss of expertise would not be in the interests of service users and would greatly hinder the success of the Work Programme.\textsuperscript{39}

33. The Prince’s Trust was more positive about the prime contractor model, highlighting its potential positive effects for a voluntary organisation such as theirs:

For us it potentially offers real security. The alternative for us is bidding for smaller contracts, which have more of a tendency to finish and to turn over. With this we are seeing quite long contract value, potentially of quite significant sizes and, for us, that could offer real security, so we welcome it.\textsuperscript{40}

34. Professor Dan Finn and Dave Simmonds of Inclusion agreed that it would be difficult for small voluntary sector organisations to secure the necessary finance to operate as prime contractors on a largely outcome-based model.\textsuperscript{41} It was, however, possible for some voluntary sector organisations to gain a place on the ERSS:

[...] being a prime is loaded against many non-profits, but we should remember that there are some non-profit organisations as primes, so it is possible and feasible to do it. Those organisations have a long track record, and have built up high levels of delivery and volume in different parts of the country [...]\textsuperscript{42}

Dave Simmonds observed that it had been assumed from the outset that smaller, specialist organisations would have an important role to play as subcontractors delivering services locally.\textsuperscript{43}

35. DWP told us that:

Positive steps were taken to encourage organisations of all sizes from the public, private and voluntary sectors to consider getting involved and to encourage voluntary sector organisations and potential prime contractors to work together.\textsuperscript{44}

The Minister confirmed that it had not been the Government’s intention to exclude voluntary sector organisations from the ERSS, and indicated that consortia had been encouraged to include a mix of private and voluntary sector involvement:

We were always aware that there was a legal difficulty for some voluntary sector organisations to raise capital for commercial purposes to take a risk. One of the things that we sought to do very early on was to encourage investors to form...
partnerships with voluntary sector organisations so that they could combine financial and delivery skills together in the same group.\(^{45}\)

He told us that the bids for the ERSS reflected a good mix of participation and 12 of the 35 consortia that were chosen included voluntary sector organisations.\(^{46}\)

**The announcement of preferred bidders**

36. On 1 April 2011, DWP announced the 18 organisations who are the preferred bidders for each contract.\(^{47}\) Overall, 40 contracts will be awarded, with at least two in each region. The preferred bidders include 15 private sector organisations, two voluntary sector organisations and one public sector organisation. Out of the 40 regional contracts, the overwhelming majority—35 contracts (88%)—were awarded to private sector organisations. Three contracts (8%) were awarded to voluntary sector organisations and two contracts (5%) were awarded to Newcastle College Group, a public sector organisation.\(^{48}\)

37. Inclusion noted that 24% of the preferred bidders were new entrants to the employment services market, having not previously been a provider of the Flexible New Deal or Pathways to Work.\(^{49}\)

38. A DWP news release accompanying the announcement of the preferred bidders highlighted the role of voluntary sector organisations in the delivery of the Work Programme, quoting the Minister as saying “For the first time those charities and voluntary sector organisations across the country with the know-how to help people with real difficulties in their communities get back to work are being given the chance to do just that.”\(^{50}\) It is worth placing this comment in context. Voluntary and community sector organisations were already closely involved in the delivery of previous employment programmes, including the Flexible New Deal, other New Deals, the Future Jobs Fund and a range of other employment related services. Their involvement as subcontractors in the Work Programme builds on previous programmes and does not represent a significant departure from them.

39. The announcement of the preferred bidders also states that “Voluntary sector organisations make up a substantial proportion of prime contractors’ supply chains, in some cases over 50%, representing an investment of £95 million in the voluntary and community sector”.\(^{51}\) The DWP news release indicated that, over the course of the seven-

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45 Q 156
46 Q 156
48 DWP press release, 1 April 2011, “Massive boost for the Big Society as almost 300 voluntary sector organisations named as part of the Work Programme”.
50 DWP press release, 1 April 2011, “Massive boost for the Big Society as almost 300 voluntary sector organisations named as part of the Work Programme”.
51 HC Deb, 1 April 2011, col 44WS.
year contracts, the total value is likely to be between £3 and £5 billion.\textsuperscript{52} As the contracts were let after we had finished taking evidence, we have not been able to assess the voluntary sector’s share of the overall Work Programme contracts.

**Prime contractors’ relationship with voluntary organisations**

40. Witnesses were concerned that voluntary sector organisations could be used to “window dress” bids to make them appeal to DWP at the tendering stage but would then be used sparingly, if at all, in the actual contract delivery.\textsuperscript{53} Caroline Taunt of The Prince’s Trust told us that the term “bid candy” was being used to describe this inappropriate use of voluntary sector organisations to make bids from prime contractors more attractive in the contract process.\textsuperscript{54}

41. We asked the Minister whether a prime contractor that was found to have used a voluntary organisation as part of their bid in the tendering process but then failed to use that organisation in actual delivery would be in breach of contract. He was unequivocal in his reply: “if it was a blatant example like that, we would just remove the prime contractor from their contract. I am not having that.”\textsuperscript{55}

42. We welcome the establishment of the Framework for the Provision of Employment Related Services (ERSS) and the intention to create a mix of private and voluntary sector involvement in ERSS consortia. Without the involvement of voluntary sector organisations the programme would risk losing a wealth of innovation and specialist knowledge.

43. It is important that the voluntary sector’s involvement in the Work Programme is meaningful and that organisations are not simply used to make prime contractors’ bids more attractive. We welcome the Minister’s assurance that any prime contractor which included a voluntary sector organisation in their bid at the tendering stage but was subsequently found not to be using that voluntary sector organisation in service delivery will have their contract cancelled. DWP must monitor this and act accordingly once the programme is underway.

44. There may be subcontractors who have formed bids with framework providers who have been unsuccessful in gaining preferred bidder status. These organisations may hold significant expertise and could face a lack of involvement in the Work Programme through no deficiency of their own. We expect the procurement process to be sufficiently flexible to enable Work Programme prime contractors to engage these organisations where appropriate.

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\textsuperscript{52} DWP press release, 1 April 2011, “Massive boost for the Big Society as almost 300 voluntary sector organisations named as part of the Work Programme”.

\textsuperscript{53} Ev 58 St. Loye’s Foundation and Ev w39 Public and Commercial Services Union

\textsuperscript{54} Q 67

\textsuperscript{55} Q 174
Effectiveness of the procurement process

45. The full Invitation to Tender for specific Work Programme contract package areas was issued on 22 December 2010. Prime contractors chosen for the ERSS were invited to bid for specific contracts in 18 contract package areas (Wales and Scotland each count as one contract package area, and the other nine regional lots are divided into either two or three contract package areas). Thirty of the 35 prime contractors named on the ERSS tendered bids for Work Programme contracts, and the remaining five decided not to submit a bid.\(^{56}\)

46. The tenders were assessed by DWP in terms of both their quality and price. The quality element included supply chain management, service delivery, resources, stakeholder engagement, and implementation. This formed the basis for the minimum service standard against which prime contractors would be measured during the programme delivery. The price element allowed prime contractors to bid to supply services for less than the maximum outcome fee or to allow that fee to be reduced more quickly (for a description of the fees available to prime contractors, see chapter 4).\(^{57}\) The scores from these two assessments were brought together into one overall score out of 120: up to 60 marks for quality and up to 60 for value for money.\(^{58}\)

Concerns highlighted by previous tendering processes: Pathways to Work

47. Pathways to Work, an employment programme for claimants of Incapacity Benefits (including Employment and Support Allowance, from October 2008), was first piloted in 2003-04 and was the previous Government’s attempt to reduce the number of people claiming incapacity benefits by one million by 2015.

48. The National Audit Office criticised the procurement process for Pathways to Work in its 2010 report. Tenders submitted by contractors and agreed by the Department were found to be unrealistic in terms of forecast performance:

   Contractors have consistently underperformed on their employment targets, even allowing for the recession, raising concerns about the level of critical review of Pathways bids by the Department, particularly given the extent to which these exceeded performance benchmarks in tender documentation.\(^{59}\)

49. Given the criticism of the Pathways to Work tendering process, we asked witnesses if they thought that DWP had learned lessons from the experience and would now be able to evaluate bids for the Work Programme effectively. Witnesses broadly agreed that DWP appeared to be adopting the right approach. Dave Simmonds told us that the information requested from bidders appeared to have the right balance and was a lot more detailed than in previous programmes but he still had some doubts about DWP’s ability to evaluate bids.\(^{60}\)

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\(^{56}\) HC Deb, 25 November 2010, cols 54-56WS.


\(^{58}\) Ibid., para. 1.09.

\(^{59}\) National Audit Office, Support to incapacity benefits claimants through Pathways to Work, HC 21, 28 May 2010

\(^{60}\) Q 9
50. Professor Finn argued that DWP could call on up to 15 years’ experience of contracting out welfare to work services and that they were subjecting bidders to “some pretty rigorous tests around their financial viability and in the mini-competition about what they actually propose to deliver”. Dr Maria Hudson of the Policy Studies Institute at the University of Westminster pointed out that evaluation of bids would be difficult due to uncertainty about the costs involved in providing for the “new and sizable tranche of customers” which former Incapacity Benefit claimants would represent.

51. The Minister told us that the Department had worked hard to get the process right this time and had called on the expertise of private sector organisations such as KPMG, Powergen and UBS to test the model both in terms of its financial viability for prime contractors and its cost-effectiveness for the Government:

We went through this all very systematically and came up with a model. [...] All the external advice we had suggested we got it about right. The fact we had five organisations drop out because they said it was too tough, but 30 who bid and have submitted 180 bids across the whole of the country, suggests to me—touch wood—we got it about right.

The prime contractors’ view of the tendering process

52. ERSA expressed their broad satisfaction with the tendering process, particularly the clarity of the requirements and the relatively few changes to scope and technical details during the process, but they noted that the timescales were very challenging. They also highlighted the fact that an eighth customer group (Incapacity Benefit claimants in England yet to have undergone the Work Capability Assessment) had been added very late in the process, which gave bidders little time to adjust their bids:

The Invitation to Tender came out prior to Christmas, and the Government is moving very, very rapidly in relation to this. There has been some movement, most of it in a positive direction, reflecting what they are hearing from the primes, the subcontractors and the representative body. However, the eighth customer group is something quite new, and has come a bit out of the blue [...].

In terms of the criteria for evaluation of bids, potential prime contractors felt DWP’s approach was correct. Sean Williams from G4S Welfare To Work told us that DWP’s evaluation criteria were “enormously sensible”.

53. However, some witnesses highlighted the administrative burdens placed on subcontractors by prime contractors when establishing their supply chains through Expression of Interest (EOI) and Pre-Qualification Questionnaire (PQQ) forms. St. Loye’s Foundation told us that prime contractors had adopted a “hugely complicated” selection process which they felt was unnecessary: “There is great scepticism within the sub-
contractor community that prime contractors do, in fact, read and carry out an objective selection based on evidence presented [...] This being so, the formal EOI/PQQ stage should be much less onerous”.66 ERSA also noted the burdens placed on subcontractors, in particular that some small voluntary organisations had been asked to prepare over 50 separate expressions of interest for a large range of different prime contractors.67

54. DWP seem to have learned lessons from previous procurement exercises in setting the bid evaluation criteria for the Work Programme. Its approach to the tendering process appears to have run relatively smoothly despite the very ambitious timescales set for it, and the Department deserves credit for this.

55. It is important that prime contractors do not place an unnecessarily onerous administrative burden on subcontractors when establishing their supply chains. The Department has a role to play in this and should work with prime contractors and representative bodies within the industry to promote the use of a single simplified Expression of Interest form for subcontractors.

**Competition within contract package areas**

56. DWP has stated that it will encourage competition between prime contractors in each contract package area (CPA) “by shifting market share to those who perform most strongly and shifting from those who perform the least well to maximise job outcomes”. The benchmark for a shift of market share will be a 3% or greater difference in performance between prime contractors within the specific customer groups. The first point at which the shift in market share will apply will be at 31 March 2013. It will be applied at 12 month intervals thereafter.68

57. The Invitation to Tender set out further terms and parameters under which a shift of market share will occur, including:

- only new customers will be referred to the higher performing provider. Existing customers will remain with their original provider;
- the relatively poorly performing provider will lose 5% of their market share for that customer group in new referral levels at each review point;
- if there are three prime contractors in a CPA, the shift will be from the lowest to the highest performing provider; and
- at regular points, prime contractors will be made aware of how they are performing against their competitor.69

66 Ev 60
67 Ev 78
69 Ibid., para 3.21
The Minister told us that the shift in market share will operate alongside and in addition to the minimum performance standards which prime contractors will also be bound by (discussed in chapter 5):

If we are dissatisfied by the performance of a provider, we can shift market share away from them. If they have performed very badly, they will be in breach of contract. Within the mix, we have set minimum performance standards, so that effectively they cannot just sink down and cruise along at a very low level. They will be in breach of contract then and we will remove them.70

58. From this it seems that DWP will have some discretion in applying the market share switch if it is “dissatisfied” with a provider’s performance. However, it appears from the full Invitation to Tender document that the shift in market share will occur whenever there is a 3% difference in performance between prime contractors in any customer group; the Invitation to Tender does not suggest that there will be any discretion applied by DWP.71

59. Alan Cave explained DWP’s thinking behind having more than one prime contractor operating in each contract package area:

[...] we just believe that the potential value-for-money loss of having duplicate infrastructure will be more than outweighed by the competitive tension involved in having primes always competing for business, always needing to do better than the organisation alongside them.72

Some witnesses were unsure how effectively having two, or in some cases three, prime contractors in each CPA would drive up performance through competition. Laurie Russell from the Wise Group argued that in some cases a single provider in a CPA would be better. He referred to his experience in Scotland:

I do not think it creates competition. I do not think it is the way to improve quality. I think there are other ways that you can improve the quality of prime contractors. I do not think there is any evidence from Flexible New Deal, certainly in the region that we work in, which is south Scotland, that having two providers creates a competition to improve quality.73

60. Richard Johnson of Serco also felt that a single prime contractor per CPA had the potential to be more effective and that the number of prime contractors operating in a CPA was less important than the number of different subcontractors delivering services locally. He gave the example of Serco operating the Flexible New Deal in Manchester as a single prime contractor coordinating local provision through a network of 40 different subcontractors: “I think the simplicity and the strength of that single contractor, as long as you have some distance between that contractor and the provision, and a diversity of provision,
Another issue arises in isolated rural areas where there may only be one subcontractor who will have to deal with two or more prime contractors.

61. Sean Williams of G4S took a different view of competition: it could work to drive up standards as long as there was transparent performance information. Dave Simmonds suggested that “only time will tell” but that a comparative evaluation of the performance levels between CPAs with two and three prime contractors might be possible. During our visit to the USA, we met Professor Michael Wiseman, who commented favourably on the approach of including competition between providers in the design as this would be likely to encourage enhanced performance. He also supported the maintenance and publication of comparative performance data.

62. The ability of DWP to shift market share could theoretically lead to one provider becoming dominant in a particular region. The Association of Learning Providers was concerned about the implications of the prime provider and competition model for consumer choice, and warned against:

[...] the dangers of a drift into monopoly situations, whereby “mega-providers” monopolise welfare-to-work supply in any given contractual area. We believe this may lead to the limitation of choice by the customer and indeed DWP itself as it seeks to provide innovative and (primarily) effective provision across the piece.

63. The competition mechanisms in the Work Programme may have unintended consequences. For example, it is possible that a provider could be performing at a high level by national comparison, and yet automatically lose 5% of their market share of new referrals in a particular customer group if their competitor is performing at a level just 3% higher. The intention is that this threat of losing market share will incentivise prime contractors to outperform each other, therefore improving the experience for clients. However, the performance challenge for prime contractors is very demanding (see chapter 5), and the loss of market share could have implications for the financial viability of a prime and its subcontractors.

64. Stephen Evans of the London Development Agency emphasised that the market share shift will require careful management by DWP as part of its wider contract-management role:

You need to be able to manage a market and understand what competition in the market looks like, how you shift that market share around, and how subcontractors and their chains are being managed as well. So I think you need more active contract management, but a different type of management from the one you needed under previous programmes.
65. Ultimately, the implications of the model remain unclear in terms of competition between prime contractors, and the financial stakes are very high. DWP will want to make sure that the model is sufficiently flexible to deal with any unintended consequences.

66. We request that, in response to this report, the Government clarifies the extent to which discretion or flexibility may be applied when shifting market share from one prime contractor to another. We are concerned that prime contractors who are performing well relative to those in other contract package areas should not be penalised arbitrarily. The Government should also explain the rationale for setting the criterion for market share shift at 3% difference in performance level.

67. We recommend that, within 18 months of the application of the first shift of market share between prime contractors, DWP undertake and publish a review of the impact on clients and prime contractors of the operation of this mechanism.

68. In order to ensure that competition between prime contractors in contract package areas is effective in driving up performance, the Government must ensure that transparent performance data is publicly available. We recommend that the Government carry out and publish a comparative evaluation of the levels of performance between contract package areas with two and three prime contractors after the first year of operation of the Work Programme, and then at regular intervals.
4 Differential payments

The outcome-based payment model

69. The majority of the funding available to Work Programme prime contractors will only be paid to them as they achieve sustainable job outcomes for clients. DWP’s Invitation to Tender document describes the three payments which will be made to prime contractors:

- **The attachment fee** is an upfront payment to assist prime contractors with the initial costs of setting up their provision and providing initial support to clients. This fee will be phased out over the first three years of the five year contracts.

- **The job outcome fee** is paid once a provider has secured employment for a client. As described later in this chapter, the fee will vary, depending on the client’s customer group. DWP will set a maximum fee for each group, and from year three of the contract the job outcome fee for each client group will fall.

- **The sustainment fee** is paid for keeping a customer in employment. Again, the fee level will vary according to the client’s customer group. These fees will be fixed for the duration of the contracts. 79

70. Prime contractors will also receive an incentive bonus, which is payable if they deliver outcomes for participants that are 30% higher than DWP’s non-intervention performance level. This is DWP’s estimate of the percentage of clients within a specific cohort who would be expected to find sustainable employment without support from the Work Programme. 80

71. The payment structure described above will apply to all customers. However, the level of payments made will vary between customer groups, based on the benefit they are receiving when they enter the programme, which is deemed to reflect the barriers they face to work.

72. The aim of differentiating payments by customer group is to compensate and incentivise prime contractors for the increased difficulty of placing some groups in employment. The maximum differential payments for each customer group were set out in the Invitation to Tender document, with job outcome fees varying from £1,200 for customers claiming JSA to £3,500 for those coming off Incapacity Benefits (IB). 81 Once attachment fees and sustainment fees are taken into account the maximum fee a provider can attract for an individual client ranges from £4,050 for a JSA claimant aged 18-24 to £13,120 for an ex-Incapacity Benefit claimant in the Work Related Activity Group. 82

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80 Ibid.
81 The Department for Work and Pensions, The Work Programme Invitation to Tender: Specification and Supporting Information, December 2010
different client groups will be eligible to join the Work Programme after different periods on benefit, as set out in the following table:

<table>
<thead>
<tr>
<th>Customer group</th>
<th>Time of referral</th>
<th>Basis for referral</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSA customers aged 18 to 24</td>
<td>From nine months</td>
<td>Mandatory</td>
</tr>
<tr>
<td>JSA customers aged 25 and over</td>
<td>From 12 months</td>
<td>Mandatory</td>
</tr>
<tr>
<td>JSA – Early Access customers facing significant disadvantage (e.g. young people with significant barriers, NEETs*, ex-offenders)</td>
<td>From three months</td>
<td>Mandatory or voluntary depending on circumstance</td>
</tr>
<tr>
<td>JSA customers who have recently moved from Incapacity Benefit</td>
<td>From three months</td>
<td>Mandatory</td>
</tr>
<tr>
<td>All ESA customers including contribution based, Work Related Activity Group customers unlikely to be fit for work in the short term and Support Group customers</td>
<td>At any time</td>
<td>Voluntary</td>
</tr>
<tr>
<td>Employment Support Allowance flow (income related) customers who are placed in the Work Related Activity Group and Support Group</td>
<td>At any time</td>
<td>Mandatory or voluntary depending on circumstance</td>
</tr>
<tr>
<td>Ex-Incapacity Benefit ESA (income related) customers who are placed in the Work Related Activity Group and Support Group (who have recently moved from Incapacity Benefit)</td>
<td>At any time</td>
<td>Mandatory or voluntary depending on circumstance</td>
</tr>
<tr>
<td>Incapacity Benefit customers (England only) yet to have a Work Capability Assessment</td>
<td>At any time</td>
<td>Voluntary</td>
</tr>
</tbody>
</table>

*Not in employment, education or training

**Definition of job outcomes under the Universal Credit**

73. We asked the Minister what criteria would be used to define a job outcome under the Work Programme once the Universal Credit system is introduced. Under the existing system, individuals cannot claim Income Support or income–based JSA work if they work 16 or more hours a week. However, this rule would no longer apply following the introduction of Universal Credit. Mark Fisher, Jobseekers and Skills Director, DWP, told us that the Department was still working through how Universal Credit will affect the Work Programme model, and that the existing rule that jobs over 16 hours a week qualify as a job outcome “may or may not have to be changed”.  

83 Department for Work and Pensions, *The Work Programme Invitation to Tender: Specification and Supporting Information*, November 2010, para. 2.05

84 Q 226
basic JSA provision”. However, he also stated that “we do not envisage a four- or five-hour-week job being a satisfactory job outcome”.85

74. We welcome the Government’s emphasis on payment by results and particularly the introduction of a sustainment fee. Universal Credit is to be introduced commencing in 2013 and the Department was not yet able to define what would constitute a job outcome under the new benefit system. We recommend that the Government indicate as soon as possible how a job outcome under the Work Programme will be defined once Universal Credit is introduced. This information will be fundamental to prime contractors who are in the process of planning their delivery of the programme.

Incentives to support all customer groups

75. Our predecessors’ 2010 report on contracted employment programmes highlighted the risk that, under a payment by results model, prime contractors might focus their provision on clients who are considered easier to place in work, at the expense of clients who face greater barriers to work. This is known as “creaming and parking”. The Committee warned that prime contractors might seek to maximise their profit by focusing on customers who would earn them outcome payments, while spending as little as possible on customers who would not. The report recommended that DWP find ways to incentivise contractors to work with all clients.86 We welcome the fact that the Government has responded to this with significant incentivisation payments in the Work Programme.

76. We were very keen to explore the extent to which the Work Programme model was likely to address the risk of creaming and parking. It is firstly worth noting that, while the differences in outcome and sustainment payments for the harder-to-reach groups appear significant (£13,120 compared to £4,050), this must be considered against the strong likelihood that prime contractors will achieve low outcome rates for the more difficult groups. It is also important to consider the average amounts that may be available to support each participant in a client group, bearing in mind that many will not be successful in finding work and will not therefore attract any outcome payments. Richard Johnson from Serco Welfare To Work, believed that the funding per individual participant would actually be lower for the harder to help client groups:

In effect what is being paid [...] for each individual on Jobseeker’s Allowance, is around £1,200. For each individual coming from IB on to JSA it is a little bit less than that, because the total amount that is payable—three times the amount—is only paid for the outcomes and you are going to achieve a much lower level of outcome rate for that client group.87

77. Prime contractors who gave oral evidence all broadly agreed that it was not yet possible to say whether the price differentials accurately reflected the difficulties and costs of finding work for different client groups. They argued that the Government would need to monitor

85  Q 226
87  Q 138
the programme and adjust the differential payments as the Programme progressed.\textsuperscript{88} Sean Williams from G4S Welfare to Work told us:

In the absence of having really worked with these customer groups before, it is very difficult to say whether it is the right price or not. At the moment it looks like a good starting price, but we have to look at this again through open accounting and dialogue going forward. If we have got that too high or too low, you will need to readjust it.\textsuperscript{89}

78. Subcontractors believed that the differential payments did not sufficiently reflect the needs of the different client groups. Caroline Taunt from the Prince’s Trust argued that the financial incentives were not sufficient to support harder-to-reach groups:

It is even more expensive, obviously, to be engaging those who are coming off IB or the group that has now been included [...]—those who are still on IB. My feeling would be that there is not enough differential taken into account but that there is some through the programme. I think very few organisations will be confident of supporting those most-hard-to-reach groups.\textsuperscript{90}

Witnesses also drew attention to the variations in the needs of different claimants within each client group. Christopher Knee from St Loye’s Foundation argued that this might result in some parking of participants:

Within each of these [client] cohorts or within each of these groups there will be people, no matter what benefit they come from, who are very difficult to support. A payment by results in that environment does encourage a concentration on those who will move into work more quickly, will trigger a payment, to the disadvantage of those who are the harder-to-help. That is one of the big downsides of the payment-by-results model.\textsuperscript{91}

79. Jonny Boux from Community Links believed that the differential payments model did not sufficiently reflect the range of needs of individuals within each of the eight categories, particularly in relation to young people on JSA:

We have a very strong view that differential payment should be based on need, and not just benefits. [...] We deal with large numbers of people who are homeless or at risk of homelessness, and they have multiple barriers that prevent them from gaining employment. The pricing structure at the moment does not reflect the differing need of the huge range of people you find on JSA.\textsuperscript{92}

80. We sought evidence on whether alternative models might have offered a more effective solution to the risk of creaming and parking. Professor Finn described the categorisation of clients groups under the Work Programme model as “rough and ready” and said that “one
of the difficulties with the benefit eligibility being the starting point for your assessment of what a person needs to get back into work is: what happens when somebody’s circumstances change”. He pointed to the Australian model, the Job Seeker Classification Instrument, “which tries to take into account a wider range of factors in identifying the nature of the barriers that people have”. Reed in Partnership endorsed this system, whereby appropriate payments were calculated using a statistical system and based on clients’ answers to 20 questions.

81. In chapter 2 of this report we noted that the Coalition Government cancelled the previous Government’s plans to pilot Personalised Employment Programmes (PEPs), which would have used an escalator model of payments to providers. This model would have sought to incentivise prime contractors by paying them increasingly large payments for each participant that they successfully placed in work. The PEP pilots may have provided a useful indication of the effectiveness of the escalator model.

82. The Minister defended the choice of the differential payment model, stating DWP “needed to find something that was simple to administer that was likely to be reasonably reflective”. He explained that DWP had undertaken modelling with KPMG, and that the differential payments were based on the likely success rates for each group. He believed that the differential levels of payments would provide incentives for prime contractors to work with each group. The Minister also acknowledged the concern that there would be variations within each client group:

It was out of a desire to create something that was simple, easy to understand, where there was no scope for debate and discussion. [...] There will be variations within each group. That is inevitable but, we think, as a broad average it gives the providers a sensible basis to work with.

83. The differential payments model under the Work Programme has been designed to incentivise prime contractors to support all client groups, including those facing the greatest barriers to work. We welcome this and believe that it represents an improvement on previous employment programmes. We acknowledge that lessons have been learned and a determined effort has been made to reduce creaming and parking. However, the risk remains that providers will focus on the clients they assess as being easier to help within each of the different customer groups and that creaming and parking of participants who face significant barriers to work could still occur. This payment model is not the only incentivisation scheme available and its effectiveness in addressing creaming and parking will only become clear once the programme has been running for some time. We recommend that the Government keep the payment model under review and assess the outcomes for participants within and between each client group.

84. To inform the Government’s assessment of the effectiveness of the Work Programme for all client groups, we reiterate our recommendation that it commission

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93 Q 55
94 Ev w12
95 Q 193
a full evaluation of the programme, to be conducted by an independent external organisation and carried out on a regular basis.

**Sustainment fees and wage progression for participants**

85. The experience of Wisconsin Works (W-2), which we heard about during our visit to the United States, highlights the importance of retaining a focus on participants once they have gained a job through an employment programme. The Institute for Research on Poverty at the University of Wisconsin published research into the experiences of participants during the six-year period after they completed the W-2 employment programme. It found that, during this period, only 2% of W-2 participants went on to receive continuous substantial earnings through employment; 9% experienced increasing earnings; and a further 11% had a mixed but ultimately positive outcome. This meant that only around 20% of participants on the programme had a positive experience. The remaining 80% had a negative outcome, such as continuous low earnings, or unstable earnings, although it was suggested to us that the population on the programme had no prospects prior to being on the programme and hence 20% with a positive outcome could be seen as success.

86. The Work Programme’s sustainment fee has been designed to incentivise prime contractors to help participants remain in sustainable employment for a period of between 19 and 28 months, depending on their customer group.

87. **We welcome the Work Programme’s focus on longer-term sustained employment, which represents an improvement on previous contracted employment programmes. However, it is important that the support participants receive to sustain employment while they are on the Work Programme equips them to remain in work and increase their earnings once they are no longer part of the programme. The Government should ensure that transparent mechanisms exist to track long-term outcomes from the Work Programme in relation to sustained employment and wage levels of participants.**

**Regional variation**

88. A number of witnesses argued that the differential payment model should reflect the needs of participants in different regions and the variations in the labour market within and between different areas. Witnesses also emphasised that the model does not reflect the different needs of participants in urban and rural areas.

89. Stephen Houghton, Leader of Barnsley Metropolitan Borough Council, called for the differential payments model to reflect regional variations:

> We could get huge disparities in that you may well have some success in Leeds, for example, because there are employment opportunities and we are getting

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97 For example, Ev w4 Remploy, Ev w11 Dorset County Council, Ev w13 Reed in Partnership, Ev w34 CBI, Ev w48 A4e, Ev w57 Working Links and Ev 77 Wise Group.
unemployed people back to work there, but other parts of the region, where there aren’t the jobs, will get ignored. [...] We need to have a payment structure place by place and give some incentives to work in those harder, workless areas.\textsuperscript{98}

90. Dorset County Council and Reed in Partnership both called for a rural premium on payments. Eighty per cent of respondents to a poll of Employment Related Services Association (ERSA) members also favoured differential pricing with a local labour market element.\textsuperscript{99} RNID emphasised that, if the Work Programme was to make a difference in the parts of the country where the decline of traditional industry has resulted in high rates of Incapacity Benefit claimants, “local labour market conditions must form a part of the calculation of differential payments”.\textsuperscript{100}

91. The Minister explained that DWP had not sought to introduce a regional element to the differential payments because of the complexity this would create: “If we had sought to create a differential payment structure region by region, it would have created a system that was so complicated it would have been very difficult to manage.”\textsuperscript{101} Alan Cave, Delivery Director at DWP, also argued that the model reflected regional differences by enabling price competition between prime contractors bidding on the job outcome fees in each region. Prime contractors can bid to provide job outcomes at a cheaper rate than the payment levels indicated by DWP, meaning that they would bid at a lower price for regions where they felt it would be easier to place people in jobs.\textsuperscript{102} DWP therefore believes that the extent to which prime contractors discount their bids will reflect regional needs.

92. However, this mechanism does not help to prevent the possibility that clients may be neglected by prime contractors on an intra-regional level. For example, within a contract package area, there is a risk that a provider might offer a comprehensive service in an urban area but that clients in a remote rural area might experience a poorer level of provision. Alternatively, providers may concentrate on the part of the region where the labour market is more buoyant, rather than an area still suffering the effects of de-industrialisation. Prime contractors will also need to ensure that the training and support they deliver complements the specific labour market in a local area, and that they are able to consider a range of interventions that are designed to reflect regional differences. Prime contractors may find that offering this range of personalised support is easier in some parts of a region than in others.

93. The Minister told us that a prime contractor would use its network of subcontractors to ensure that participants in all parts of a region would all receive adequate provision through the Work Programme. He also gave an assurance that DWP would not award contracts to prime contractors that neglected parts of their region.

In the supply chains of organisations we are looking to assemble, what I want to see is a mix of the specialist organisations—those who specialise in the blind, those
people with mental health problems or whatever—combined with those people who offer a geographic spread. [...] We are not going to be giving contracts to people who just do Birmingham and ignore the rest of the West Midlands. ¹⁰³

94. The Government should monitor the comprehensiveness of a prime contractor’s service in all localities within their contract package area and explain how it plans to assess whether the quality of provision is consistent across all local areas.

95. We are concerned that the needs of many Work Programme participants should not be neglected because prime contractors are not providing the same level of service across their contract package areas and that the payment model and performance management mechanisms should be sufficient to ensure consistency of provision. We are particularly concerned that participants in rural or remote areas and areas where job opportunities are few should not be neglected. We recommend that the Government monitors closely the regional and intra-regional delivery of the programme, and acts to ensure that any disparities in service delivery are resolved through its contract management mechanisms. If the reality of the programme exposes significant regional and intra-regional differences in provision, the Government should consider how the differential payments model might evolve in order to address this problem.
5 Managing performance of prime contractors

Minimum performance levels

96. Through the black box model, described in chapter 2, the Work Programme transfers a significant degree of flexibility to prime contractors in terms of how they deliver support to participants. The programme also aims to use financial incentives to ensure that prime contractors focus on clients that face the greatest barriers to work. In this context, we were keen to explore whether the Government had struck the right balance between the creation of incentives and flexibility for prime contractors and the need for robust performance management.

97. According to DWP’s Invitation to Tender, prime contractors will be required to meet minimum performance standards for three of the eight client groups:

- JSA customers aged 18-24
- JSA customers aged 25 and over
- ESA (income related) customers in the Work Related Activity Group (those fit for work within three months).

98. Prime contractors must achieve job entry rates higher than 10% above the non-intervention performance level—ie, the Government’s estimate of how the client group would have been expected to fare without support from the Work Programme. The Invitation to Tender states that these levels have been established based on analysis of historical job entry rates, although the details of this analysis have not been published.

The non-intervention performance profiles outlined in the Invitation to Tender are:

<table>
<thead>
<tr>
<th>Jobs / Referrals</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
</tr>
</thead>
<tbody>
<tr>
<td>JSA 18 to 24</td>
<td>5%</td>
<td>30%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>JSA 25 and over</td>
<td>5%</td>
<td>25%</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>ESA Flow</td>
<td>5%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
</tr>
</tbody>
</table>

99. There was consensus among witnesses that the minimum performance levels were very demanding. Rob Murdoch from ERSA said that the organisation’s members would agree that the levels were “very, very challenging” and called for transparency about how these levels had been decided by DWP.

100. Dave Simmonds of the Centre for Economic and Social Inclusion (Inclusion) also believed that DWP was expecting exceptionally high levels of performance from prime contractors:

105 ibid.
Basically, the minimum performance standard that is being expected is set at a level that is essentially the highest level of performance that the New Deal for Young People and the New Deal for those who are 25-plus ever reached, even at the height of the boom earlier in the 2000s. As such, the performance challenge is very severe indeed.\textsuperscript{106}

Inclusion’s financial modelling on the operation of the Work Programme concluded that prime contractors would not be profitable if they operated at or below the minimum performance levels.\textsuperscript{107} They compared the Work Programme expectations with New Deal outcomes, and reported that:

- Job entry rates for the New Deal for Young People (NDYP, for 18 to 24-year-olds) were consistently below the minimum expectation for the Work Programme from 2004 to 2009. From 1999 to 2004, NDYP job entry rates were above the minimum expectation for the Work Programme.

- The New Deal for 25+ achieved job entry rates consistent with the Work Programme minimum expectation between 2003 and 2006, but not between 2006 and 2009.\textsuperscript{108}

101. However, it should be noted that New Deal outcome measures cannot be directly compared with those expected under the Work Programme. Firstly, the New Deal measured job starts whereas Work Programme outcomes will be based on clients completing six months of employment. Secondly, clients will engage with the Work Programme for two years, as opposed to one year on the Flexible New Deal.

102. In addition to setting high minimum performance levels, the Invitation to Tender indicates that the attachment fees paid to prime contractors will reduce over the first three years of the contract and will not be paid from April 2014. Also, from the third year of the contracts, job outcome fees will reduce for customers in three of the payment groups.\textsuperscript{109} This arguably creates a further challenge for prime contractors, who will need to increase their outcome rates to achieve the same payment levels they received in previous years, and will also become increasingly dependent on the longer-term outcome payments (although this will help to improve the long term prospects for claimants).

103. The Association of Learning Providers pointed out that “it is acknowledged that the financial risks of the Work Programme are already inherently much greater than any such programme that has gone before”.\textsuperscript{110} Lifelong Learning UK believed that a likely outcome of the payment by results model would be that some organisations, including prime contractors, might leave the programme, either voluntarily or because of an inability to stay financially viable.\textsuperscript{111} In Wisconsin and New York we were told that there were questions around whether sufficient organisations were interested in becoming prime contractors.

\textsuperscript{106} Q31
\textsuperscript{108} ibid.
\textsuperscript{109} DWP, The Work Programme Invitation to Tender: Specification and Supporting Information, November 2010.
\textsuperscript{110} Ev w62
\textsuperscript{111} Ev w31
contractors for employment programmes, and whether more could be done to attract new providers. If the Work Programme minimum standards prove to be as demanding as witnesses told us, it might be difficult to find new prime contractors in the future.

104. The performance standards set for the Work Programme are very ambitious and create a significant financial and operational challenge for prime contractors. We are concerned that the high level at which minimum performance levels have been set should not put the financial viability of prime contractors at risk. This in turn might lead to some clients receiving lower quality support and to significant costs to the Government in responding to service failures.

105. The Government needs to clarify how the non-intervention performance levels have been calculated. It should also explain whether it is prepared to amend them in response to significant changes in unemployment rates or labour market conditions. We request that it does so in response to this report.

106. We recommend that the Government monitor closely the performance and financial stability of prime contractors and put contingency arrangements in place to ensure the continuity of high-quality provision for clients. In particular, we request that the Government sets out, in response to this report, the arrangements for replacing a prime contractor which withdraws from the Work Programme during the contract period with another framework provider.

Key performance indicators

107. In addition to minimum performance levels for the three specified client groups, prime contractors will be required to provide a summary of the minimum service they will offer to Work Programme participants in all eight of the client groups.

108. The minimum service levels will be translated into a small number of key performance indicators within each contract and will be explained to customers at the point they start the programme. These indicators will be made public so that customers and their representatives will be able to judge whether prime contractors are delivering what they have promised. DWP may treat it as a breach of contract if prime contractors fail to deliver these minimum service levels.\textsuperscript{112}

109. The Minister explained that the Government had not set minimum performance levels for the other five categories because these client groups represented “unknown territory” for the programme.\textsuperscript{113} However, DWP would publish details of the key performance indicators.\textsuperscript{114}

110. The key performance indicators are an important mechanism for ensuring that participants in the Work Programme understand the level of service to which they are entitled and that prime contractors do not neglect any groups of clients. We welcome the Minister’s commitment to publish the details of the key performance indicators for

\textsuperscript{112} DWP, \textit{The Work Programme Invitation to Tender: Specification and Supporting Information}, November 2010.
\textsuperscript{113} Q 181
\textsuperscript{114} Q 184
each client group. It will be just as important for the Government to hold prime contractors robustly to account against these measures as the minimum standard levels.

**Financial returns for prime contractors**

111. The demanding minimum standards of the programme need to be considered against the potential for prime contractors to profit from delivering successful outcomes for participants. The Minister explained that the differential payments model was designed to incentivise prime contractors to focus on clients who face greater barriers to work, such as former Incapacity Benefit claimants. He told us: “What we have tried to do is create a situation where our interests and the interests of providers are really aligned. They can make shed-loads of money by doing the things we would absolutely love them to do.”

112. Some witnesses expressed concerns that Work Programme prime contractors may profit excessively from the services they provide. The RNIB suggested that the programme should be reviewed after a year in order to ensure that prime contractors were not making excessive profits or taking risks that imperilled the whole programme. The Public and Commercial Service Union said it did not believe there was “any room for profit-making by the private sector in providing essential services to the most vulnerable in our society”.

113. The Confederation of British Industry (CBI) called for a “learning phase” at the start of the programme, with DWP and prime contractors agreeing that savings delivered would then be adjusted so that prime contractors did not make excessive profits. The CBI has also proposed profit caps to underpin this approach.

114. Dave Simmonds believed that it was unlikely that a provider would be able to profit excessively from the programme, but that DWP should act to prevent excessive profit where it arises:

> From our reading and the modelling of the payment structure, a provider would have to have a level of performance that far outstrips any expectations that anybody has got at the moment, to make excessive profits. They would have to be doing something and achieving a level of performance that is unheard of. However, let’s hope that actually happens, in which case obviously there should be a mechanism, in our view, to make sure that DWP is regulating sufficiently to stop excessive profits being taken.

The Minister also argued that the performance levels have been set at a level that guarded against prime contractors profiting excessively, and noted that payments would be funded through benefit savings:

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115 Q 183
116 Ev w7
117 Ev w40
118 Ev w34
119 Q 49
By setting a minimum performance standard, which is 33% for the conventional adult jobseeker, the provider has to achieve above that level, which is higher than the performance of previous programmes, before they are even not in breach of contract. [...] the only way you can make very substantial profits is to do really well at getting people into work and keeping them there. Clearly if that happens, it is generating more and more savings. 120

115. Prime contractors will only be able to achieve high levels of profit if they deliver exceptionally high performance, which in turn will result in significant savings in social security payments. The only scenario in which prime contractors could make significant profits through a lower level of performance would be if macro-economic conditions proved to be much better than expected, with low levels of unemployment and a healthy labour market, where it was easier for prime contractors to place clients in work. It is therefore important for DWP to consider carefully our recommendation around how non-intervention performance levels will adapt to reflect changing unemployment rates and labour market conditions.

116. Given the demanding minimum standards set by DWP, we believe that it is unlikely that a provider will profit excessively from the Work Programme in the current labour market and economic conditions. Since the programme transfers very significant financial and delivery risks to prime contractors, it is acceptable to allow them to make a profit where they have delivered exceptional outcomes for jobseekers and significant savings in social security payments for the Government. We do not believe that payments to providers should be capped in the current economic conditions but they should be kept under review to ensure that prime contractors do not make excessive profits from the Work Programme if circumstances change.

Contract monitoring and variation

117. As we have mentioned throughout this report, the success of the Work Programme will depend in large part on how effectively DWP monitors and adjusts the delivery of the programme in response to the realities of implementation. Given the risks and uncertainty involved in implementing a programme of this scale, the Department and Work Programme prime contractors will need effective and timely data in order to plan ahead and adapt the programme to reflect the reality of its delivery.

118. During our visit to the United States, we discussed the issue of contract monitoring with prime contractors, subcontractors and government officials in Wisconsin and New York. These conversations highlighted the fundamental importance of collecting and sharing immediate data on customer flows and outcomes for participants. In New York contracts were based on a payment-by-results model that is closer to the Work Programme than the system in Wisconsin. The New York City monitoring and accountability system used a tool called Vendorstat, which collected and collated data on a range of performance measures. Prime contractors were called to regular meetings to account for their performance against the data collated via this tool.
119. The Work Programme Invitation to Tender explained that contracts would need to be sufficiently flexible to respond to changes that might occur during their lifetime as a result of variations in funding performance trends, or policy. Potential changes fell into two broad categories:

- those necessitated by economic change or by change in anticipated volumes; and
- those arising from known or likely policy change.

120. Reed in Partnership supported the need for a mechanism to alter contracts in relation to payment levels:

> By setting the price for two years, the Department will be able to gather evidence on the true cost. A provision should then be included in contracts that providers agree to vary the price of outcomes after this time if the initial assumptions are shown to be too high or low.\(^\text{121}\)

121. The Minister set out the circumstances in which DWP might operate a contract variation:

> If there was a very substantial change in the labour market, one way or the other, frankly, that is the kind of circumstance in which we might need to revisit some of the assumptions. Clearly we are working to the OBR [Office for Budget Responsibility] recommendations and forecasts for the next four years. Those have been available to providers to make their assessments. If there was some massive economic hiccup, inevitably that is the kind of circumstance in which one might reopen discussion, but it is not something we would do lightly.\(^\text{122}\)

The precise mechanism for determining a change to the terms in contracts is unclear from the Invitation to Tender. However, it implies that any contract variations would be decided upon by DWP.

122. The Work Programme needs to be sufficiently flexible to adapt to the realities of delivery and the economic climate and the Government will need to use its contract variation powers carefully to ensure that the Work Programme caters for all client groups. However, it must engage with prime contractors responsibly. Decisions about when to exercise its power to vary contracts should be based on robust and transparent data. We request that, in response to this report, the Government provides us with more information on the mechanisms it will use to collect and collate performance data.

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\(^{121}\) Ev w12

\(^{122}\) Q 178
6 Managing the supply chain

The flow of funds to subcontractors

123. A number of witnesses highlighted the need to ensure that upfront payments are passed on from prime contractors to their supply chain partners, particularly since the latter are likely to be smaller organisations working with customers with significant barriers to work and for whom outcome payments may only be realised after a long and costly period of investment.

124. St Loye’s Foundation commented that the outcome-based payment model would increase the risk and cash flow pressures on prime contractors. They argued that they might shift this risk down the supply chain to subcontractors or penalise subcontractors for the cost of providing cash up front or insurance against risk through the terms they offer.123 These smaller subcontractors will also face a risk that their prime contractor’s business model will fail, which Dorset County Council noted “is likely to result in financial failure of supply chain organisations”.124

125. RNID described the implications of the payment model for smaller, specialist organisations, and called on prime contractors to support subcontractors:

Many specialist organisations cannot afford the levels of financial risk associated with payments that may not be secured for up to two years after engaging with a client, with many organisations needing to balance the books on a monthly basis. In these situations, we would expect the prime providers to facilitate the work of smaller subcontractors through the use of start-up funding or in a system of payments that ensure the continued viability of subcontractors’ work.125

The Royal British Legion agreed, arguing that “For many niche market, specialist support providers the ability to wait for payment, however enhanced this may be, for services which could be intense and require long delivery periods is not an option.”126

126. Community Links believed that prime contractors should pay their subcontractors a large percentage, if not the entire amount, of the upfront attachment fees they receive from DWP for Work Programme participants, so that these smaller voluntary organisations could deliver support immediately and effectively.127

127. Several witnesses estimated the extent to which upfront attachment fees from DWP would be passed down the supply chain. St Loye’s Foundation expected subcontractors to have to accept a charge from prime contractors of around 50% of the gross payment made by DWP to the prime contractor. The Association of Colleges similarly commented on a

123 Ev 59
124 Ev w10
125 Ev w19
126 Ev w28
127 Ev 74
“managing agent top-slice of 30% not being unusual”\textsuperscript{128} and Jonny Boux from Community Links estimated 20\% to 25\% of upfront fees would be retained by the prime contractors.\textsuperscript{129}

128. Sean Williams from the prime contractor G4S Welfare to Work, said that the amount of attachment fee passed on to subcontractors would depend on the size of the subcontractor and the service they deliver. He said that his organisation passed through 100\% of the attachment fee for smaller charities.\textsuperscript{130}

129. We welcome in principle the increased emphasis that the Work Programme model places on outcome-based payments. However, we acknowledge witnesses’ concerns about the risk to the financial viability of smaller, specialist subcontractors if prime contractors do not pass on sufficient upfront funding. DWP should be proactive in reminding prime contractors that a key aspect of their role in the Work Programme is to bear financial risk, rather than passing it on to subcontractors unfairly or disproportionately. The structure of prime contractors’ payments to subcontractors should reflect this and, in managing its contracts with prime contractors, DWP must act to ensure that this is the case.

**Managing relationships between prime contractors and subcontractors**

130. The Work Programme will be dependent on a network of specialist and local community organisations to deliver services across each of the programme’s regions. The relationships between prime contractors and their subcontractors will therefore be critical in the delivery of consistent and high-quality services for clients. Prime contractors will need contractual levers to ensure that their subcontractors are performing adequately, and subcontractors will need protection to ensure that they are being treated fairly and that prime contractors are acting within the terms of their contractual agreements.

131. The relationship between a prime contractor and its supply chain partners will be governed by the DWP Merlin Standard, which is a set of principles outlining how relationships between members of the supply chain should function in the provision of welfare to work services. A two-year pilot of Merlin began at the end of 2009.

132. The Department has restated its commitment to the Merlin Standard, and has undertaken to ensure that all prime contractors complete the independent Merlin Accreditation process and that smaller organisations are treated fairly. Prime contractors will have to name all their key subcontractors and partners at the tendering stage, and a letter of intent from them explaining the terms of their agreement will form part of the contract.\textsuperscript{131}

133. Some witnesses were broadly supportive of the potential effectiveness of Merlin. Working Links felt it should be sufficient “to ensure that the relationship between prime contractors and subcontractors is a strong one.”\textsuperscript{133}
contractors and subcontractors is fair”. The CBI believed that the standard was “an adequate safeguard to ensure partnerships are conducted in the right spirit and are long lasting”. 133

134. However, other witnesses were concerned about the strength of Merlin and the extent of DWP’s active oversight of supplier relationships. Christopher Knee from St Loye’s Foundation did not believe that the Merlin Standard was specific enough, describing it as “a statement of good intentions” and “motherhood and apple pie”. 134 Other subcontractors said that, while they welcomed the standard, it was too early to say whether it would be effective. 135 Sean Williams from the prime contractor G4S Welfare to Work said it was “no replacement for a proper contractual relationship between organisations”. 136

135. The RNIB, a member of the Merlin Advisory Group, expressed concerns that “the language used in Merlin is very subjective; there has been an avoidance of floor standards” and that “whilst sanctions are there for primes who transgress the standard, uncertainty remains over the ability of a sub-contractor to obtain adequate redress”. 137 ERSA and the Association of Chief Executives of Voluntary Organisations both believed that the Merlin Standard still needed to develop sufficient “teeth”. 138

136. The Minister disagreed that it was necessary to strengthen the standard: “As a bottom line, the Merlin Standard enables us to terminate the contract with the prime contractor. I am not quite sure how many more teeth than that you can have”. 139

137. DWP plans to establish a mediation service by June 2011 for instances where supply chain partners believe that prime contractors have not acted properly and where such a dispute cannot be resolved through direct dialogue. The Merlin Standard website states that prime contractors holding the Merlin Standard have agreed to accept any directive made by the Mediation Service, and that failure to do so may result in their Merlin status being revoked. 140 It is not yet clear, however, whether the Merlin Standard allows DWP to terminate a contract with a prime contractor.

138. Some witnesses called for an independent body to arbitrate disputes between prime contractors and subcontractors. The RNIB suggested that the operation of the Merlin standard might be independently monitored by a group that includes customer representation and which could comment on the Department’s role in commissioning. 141 Barnardo’s also recommended independent oversight of supply chain management to
ensure that all subcontractors are fairly treated according to their agreements with prime contractors.\textsuperscript{142}

139. We welcome the creation of the Merlin Standard as a significant step in helping to promote fairness in the supply chain. However, we share the concerns of some witnesses that it still lacks sufficient “teeth”. We recommend that DWP establishes robust sanctioning arrangements and takes steps to make the Merlin compliance measures more precise and objective. DWP must also demonstrate how the arbitration process will be truly independent and impartial.

140. We explored the extent to which prime contractors would be able to deal with poor performance among their subcontractors. This issue was raised during our visit to New York and Wisconsin, where we were told about the importance of prime contractors being able to manage the performance of their supply chain effectively, and, where necessary, remove subcontractors that were not delivering an adequate service. The Minister summarised the Government’s intentions in this respect:

There is no way we would stop a prime contractor sacking a subcontractor if there was a clear performance issue. There have been tales in the past of bids coming in with nice supply chains attached to them, and the next day the whole supply chain gets sacked. That is clearly not acceptable; that would be a breach of contract, and the prime contractor that did that would be out on their ear. Equally, if we discovered that a prime contractor was just not paying a subcontractor, for example, again we would seek to intervene, but, if somebody is not performing, then somebody is not performing.\textsuperscript{143}

141. The success of the Work Programme will depend on effective relationships between prime contractors and their networks of subcontractors. Contracting arrangements will need to be framed so as to ensure not only that subcontractors are fairly managed, but also that prime contractors are able to hold subcontractors accountable for poor performance and, where necessary, terminate agreements with subcontractors who are not performing to agreed standards. We request further details from the Government, in response to this report, on how contracts will support prime contractors in managing poor performance among subcontractors.

\textsuperscript{142} Ev w59
\textsuperscript{143} Q 165
7 Client flows

Eligibility for the Work Programme

142. As outlined in chapter 1, the Work Programme will be mandatory for income-related Jobseeker’s Allowance (JSA) and Employment and Support Allowance (ESA) claimants (both income and contribution-based). Customers will be divided into eight groups according to their benefit type and other factors such as age and barriers to work (for JSA customers) and assessed fitness for work (for ESA customers).

143. ESA replaced Incapacity Benefits (IB) for new claimants following the Welfare Reform Act 2007. A new medical assessment, the Work Capability Assessment (WCA), was introduced for new ESA claimants. The outcome of the WCA categorises claimants into three groups: those unable to work due to ill-health, who then go into the ESA Support Group; those who, with help, could work in the future, who go into the ESA Work Related Activity Group (WRAG); and those capable of work now who are moved on to Jobseeker’s Allowance and then become eligible for the Work Programme.

144. From April 2011, all existing IB claimants will undergo this assessment as part of the next stage of the ESA migration, which is to be completed by 2014. The Work Programme will therefore provide employment support to a large number of ex-IB claimants, many of whom will have been on IB for some time and may never have received help to find work before. We discuss some of the potential implications of this later in this chapter.

145. There is also likely to be a large influx of lone parents joining the Work Programme, partly due to changes in eligibility for Income Support. From October 2011, subject to the passage of the Welfare Reform Bill, lone parents with a youngest child aged over five will no longer be eligible for Income Support. These individuals will be required to move onto Jobseeker’s Allowance and seek employment if they are capable of work. This is a significant reduction in eligibility for Income Support: since October 2010, lone parents with a youngest child aged seven or under have been able to claim Income Support, and prior to that, lone parents with a youngest child aged 10 or under were eligible. Lone parents will be referred to the Work Programme at an appropriate point once they start to receive Jobseeker’s Allowance. It is possible that these individuals may face significant barriers to work and require intensive support, especially if they have not been in employment for some time and if they face challenging personal circumstances.

146. Despite the Minister’s assurance that the Work Programme will be open to anyone who meets the time on benefit threshold, there will be people of working age who are out of work who may not be referred to the Work Programme. As the Work Programme is being funded from future benefits savings, those not in receipt of benefits, because their contributory benefit (either JSA or ESA) has run out and whose household income puts

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144 HC Deb, 25 January 2011, cols 5-6WS
145 DWP, Removing Income Support eligibility for lone parents with a youngest child aged five or over, Equality Impact Assessment, March 2011, para 10
146 Q 201
them above Income Support levels, will receive no help or support in finding and retaining a job. As a result, large numbers of economically inactive people could be left outside the Work Programme. The implications for the role of Jobcentre Plus in supporting these individuals are discussed in chapter 8.

147. We believe that the Government should quantify and publish on an annual basis the numbers of working age people who will not qualify for help under the Work Programme because they are not in receipt of a qualifying benefit.

Provision for former Incapacity Benefit claimants

148. All ESA customers will have the option of accessing the Work Programme at any point after their WCA. ESA customers in the Work Related Activity Group (WRAG) who are assessed as being ready for work within three months will be mandated to attend the Work Programme.

149. Some clients in the WRAG will be assessed as not likely to be fit for work within the next three to six months. These clients may join the Work Programme, but on a voluntary rather than mandatory basis. The Minister explained that he did not consider it appropriate to ask prime contractors to take on individuals who had been assessed as not yet ready for work.147 However, it is not yet clear how frequently individuals in the WRAG will be reassessed if they are not considered fit for work within six months.

150. From 2012-13, individuals in the contributory ESA WRAG will receive this payment for only one year. Before the November 2010 Spending Review these claimants would have continued to receive the contributory ESA rate until they found employment. Under the new arrangements, an individual who is still seeking employment after 12 months in receipt of the benefit will receive non-contributory ESA income-related payments, provided they meet the entitlement criteria. Individuals will therefore have to claim other benefits or move off benefits, and their overall benefits are likely to reduce. In addition to the impact on clients themselves, some witnesses have commented that this risks prime contractors losing clients after investing in them for a year or more as they will no longer be eligible for Work Programme support.148

151. Several witnesses raised the question of whether Work Programme prime contractors would be able to have their customers reassessed if they felt that there was a barrier to employment which had not been identified in the WCA. This would avoid a situation where customers were in the wrong category and, without reassessment, might be parked and not receive any support because they were more difficult to help that others in the same category.149 Customers would be able to make a new application for ESA if they were seeking to join the Support Group, but it is not clear if there are any constraints on how soon after a previous WCA this could be done. It is also not clear if a provider will be able to trigger either a reassessment of how long it will be before a person is fit for work or a new WCA, in the light of their experience of helping the customer.

147 Q 207
148 Ev w18 RNID and Ev w8 RNIB
149 Ev w13 Reed in Partnership and Ev 80 ERSA
152. We are concerned about the prospects for former Incapacity Benefit claimants in the Employment and Support Allowance (ESA) Work Related Activity Group (WRAG) who are assessed as not yet ready to work and who will no longer receive contributory ESA payments after one year. We recommend that the Government clarify the arrangements for the reassessment of individuals in the ESA WRAG who have been assessed as not fit for work within three to six months. The Government should set out how frequently these individuals will be reassessed and what the arrangements are for reassessment.

153. We have noted the concerns of a significant number of witnesses in relation to the effectiveness of the Work Capability Assessment and the process for migration to ESA more generally. We will consider these issues in detail in our forthcoming inquiry into the ESA migration.

154. Many former Incapacity Benefit claimants will face a mandatory programme for the first time. The experience of Pathways to Work suggested that contractors found it easier to achieve successful outcomes for those who participated voluntarily, compared to those who were mandated to attend and faced sanctions and loss of benefit if they did not participate. The National Audit Office assessment of Pathways to Work found that contractors were less effective than Jobcentre Plus in supporting claimants who were mandated to participate in the programme. The report also suggested that voluntary participants might be easier to place in work because they were more motivated to take steps towards securing a job.\(^{150}\)

**Volumes of former Incapacity Benefit claimants**

155. As we have indicated, prime contractors will be required to provide employment services for a significant volume of former Incapacity Benefit claimants, many of whom may face significant barriers to work and may not have had any recent work experience. Many witnesses highlighted the potential difficulties in securing employment for former Incapacity Benefit claimants and the fact that they will require specialist and intensive interventions because of the particular barriers they face to work and the long period of time they have been out of the labour market.\(^{151}\) RNID argued that the two years of support available under the Work Programme would not be long enough for some people and that the length of time support is available should vary according to the individual’s need.\(^{152}\)

156. Dave Simmonds told us that extending support and applying a degree of conditionality to those people who have been on Incapacity Benefit for a long time, and who had not received any support to date, would be a substantial change for providers.\(^{153}\) Stephen Evans indicated that the skill set needed by staff to support these participants would be quite different to the service providers have previously delivered, especially since

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150 National Audit Office, *Support to incapacity benefits claimants through Pathways To Work*, HC 21, Session 2010-11.

151 For example, Ev w4 Remploy, Ev 61 St Loye’s Foundation and Ev w18 RNID

152 Ev w18

153 Q 33
they would be supporting clients to sustain a job over two years, as well as helping them look for work.154

157. Work Programme prime contractors and their supply chain partners will need to build networks of specialist and highly-trained staff to deal with the large volumes of former Incapacity Benefit clients, many of whom may face significant barriers to work. We sought reassurances on this point from representatives of the prime contractors. Kirsty McHugh from ERSA told us that the industry was acting to increase the professional skills of staff in employment-related services, from front-line advisers to those in managerial roles.155 Sean Williams from the prime contractor G4S also assured us that they would require their subcontractors to demonstrate that they had robust training in place for staff.156

158. The role of personal advisers in provider organisations will be crucial in the effective delivery of the Work Programme. DWP must ensure as part of the performance monitoring process that prime contractors have a sufficient number of staff trained to meet the varying needs of the different client groups, including the large numbers of former Incapacity Benefit claimants who will join the programme.

Overall Work Programme client flows

159. We examined how the estimated number of Work Programme participants compared with previous employment programmes, particularly given the fact that a large volume of former Incapacity Benefit claimants are likely to join the programme. The estimated number of participants has clear implications not only for jobseekers themselves, but also for the prime contractors, who are expected to deliver a comprehensive service to a large number of people with varying needs and who will also depend on receiving sufficient flows of participants to ensure their financial viability.

160. DWP’s Invitation to Tender document estimated that 605,000 people would go through the Work Programme in 2011-12, and 565,000 in 2012-13.157 We asked the Minister how these estimates compared with previous years. He gave us two sets of figures. Firstly, he told us that around 550,000 people received contracted employment services from external providers in 2009-10. Secondly, he told us that, under the last Government, there were around 400,000 people receiving support through New Deal programmes and another 400,000 receiving support through Pathways to Work each year, which the Minister argued was a lower level of support.158 Some Pathways to Work clients received support through Jobcentre Plus rather than external contracted providers. This could explain why the Minister’s first figure is 550,000 and the second figures add up to 800,000.

161. However, the Minister explained that everyone who meets the time on benefits threshold for receiving JSA and everyone on ESA will be given access to the Work

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154 Q 32
155 Q 144
156 Q 143
158 Q 215
Programme, regardless of the overall numbers. He said: “There are no limits, no restriction. Nobody is denied access to the Work Programme.”

The number of Work Programme participants will therefore depend on how many people are out of work and eligible for JSA or ESA, and there is a degree of uncertainty as far as the total numbers are concerned.

162. The Minister also said that DWP had been careful not to overestimate the number of Work Programme participants:

We have been quite conservative in the numbers we have put into the tendering document, because one of the past criticisms of the Department has been it had overestimated numbers. This time we have tried to be quite conservative so that the providers can plan accordingly.

The volume of eligible Work Programme participants could vary considerably depending on the state of the labour market and the numbers of former Incapacity Benefit recipients joining the programme. In the trials of the Incapacity Benefit reassessment in Burnley and Aberdeen, 32% of claimants were found fit for work and a further 38% were placed in the Work Related Activity Group, meaning that they were assessed as being able to work within a reasonable period if the right support was provided. Significant variations in the estimated numbers could have a profound impact on providers and jobseekers. Given the demanding nature of the payment model, prime contractors may face financial difficulties if the number of participants is below the Government’s estimates. Equally, prime contractors may face difficulties in providing a consistently high-quality service, if numbers are significantly higher than forecast.

163. We recommend that DWP develop accurate and transparent tools to estimate the anticipated numbers of Work Programme participants, and provide quarterly assessments of caseload and regional flows to inform prime contractors and the supply chain. We also recommend that DWP clarifies how unemployment forecasts from the Office for Budget Responsibility will inform the estimates of caseload flows.

Job availability

164. The effectiveness of the Work Programme in finding sustainable employment for participants will depend to a significant extent on the availability of suitable vacancies in the labour market.

165. There was a concern amongst some witnesses about how the jobs would be found to ensure that Work Programme clients had positions to move into. RNIB told us that the Work Programme raised huge challenges including “what the job outcomes are likely to be when there are over five million people in receipt of benefits but only some 470,000 vacancies in the economy”. The Public and Commercial Services Union (PCS) stated, “There are simply not the jobs in the economy to enable a project like the Work

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159 Q215
160 Q 201
161 DWP, *Interim results of Work Capability Assessments for IB reassessment trial areas, 1 April 2011*
162 Ev w6
Programme to be successful.” This was echoed by Nick Pearce, Director of the Institute for Public Policy Research, who argued “It was hard enough to get the long-term unemployed into work during the boom years, now because of the downturn there are far fewer vacancies so it’s going to be harder still.”

166. The Office for National Statistics estimated that there was an average of 482,000 job vacancies in the three months to March 2011, which represented an increase of 1,000 on the previous quarter and an increase of 16,000 on the previous year.

167. As we discussed in chapter 4, the labour market is not uniform across the UK. The Local Government Association commented on the regional variation in jobs available: “In some places, 27 JSA claimants are seeking 1 registered Job Centre Plus vacancy, in other places the ratios are as low as 2 to 1”. Witnesses also indicated that there was a potential conflict between finding large numbers of jobs suitable for people who have been out of the labour force for some time and the “upskilling” of the workforce required for the UK to remain competitive and to drive the economic recovery.

168. Much has been made of getting benefit claimants ready for work. However, even when there are jobs available, and despite non-discrimination legislation, many employers remain reluctant to take on people with a declared mental health condition or other disability. The Work Programme payment structure should encourage prime contractors to be more willing to engage with employers in overcoming some of the prejudices which still exist in the labour market.

169. While the Government has a role, we believe that prime contractors should play a more active part in working with employers to persuade them of the need to be more open in their recruitment policies and more positive in employing someone with a disability.

163 Ev w37
164 Louisa Peacock, “Coalition ‘back to work’ plan under fire; Think tank says £3bn programme may struggle due to a lack of jobs”, The Daily Telegraph, 5 October 2010.
165 Office for National Statistics, Labour market statistics, April 2011
166 Ev w26
167 Ev w10 Dorset County Council and Ev w73 BTCV
8 The role of Jobcentre Plus

Avoiding duplication between the supply chain and Jobcentre Plus

170. Jobcentre Plus (JCP) will manage the referral of customers to the Work Programme. Jobseeker’s Allowance (JSA) claimants over the age of 25 will be referred after 12 months. Younger JSA claimants and those facing significant disadvantage can be referred earlier, and Employment and Support Allowance (ESA) claimants can be referred at any time.168

A key role for JCP will be to prevent clients having to enter the Work Programme by using their expertise to help them in the first 12 months of unemployment. Advisers will also be able to refer clients to non-contracted local providers.

171. JCP will retain the role of sanctioning claimants who are in receipt of benefits and participating in the Work Programme. These individuals will continue to be required to report to JCP every two weeks and their progress on the Work Programme will be reviewed. JCP will make decisions on whether customers should be sanctioned, for example by having their benefit payments discontinued, if the prime contractor states that they are not fulfilling their obligations.169

172. Professor Finn told us that individuals might receive “mixed messages” from JCP and Work Programme providers. He thought that customers could become confused about where they had to turn up for a particular interview and what the consequences would be for their benefits payments if they failed to attend.170

ERSA have called for the co-location of JCP and provider premises, to provide efficiency savings and encourage partnership working.171

173. Some providers told us that they would not want to be responsible for sanctioning Work Programme participants. The Scottish Association for Mental Health said that subcontractors could face “serious repercussions” and “an erosion of trust” in their relationships with the participants that they are supporting.172 Community Links argued that if voluntary organisations were required to implement sanctions, this could have a significant impact on their reputation locally.173

174. However, there is potential for confusion if an individual was required to report separately to JCP and a Work Programme provider. A rigid requirement to attend JCP for a fortnightly interview may affect someone’s ability to undertake work experience or take up a voluntary post, hindering the support that the Work Programme provider is offering and damaging the opportunities available to the individual. Moreover, the Minister told us that Work Programme providers would be expected to notify JCP when individuals were not participating in the programme, so that JCP could seek an explanation and impose a
sanction. In that case, since there would already be an expectation that prime contractors would inform JCP of non-participation, it would appear unnecessary to require claimants to report additionally to JCP every two weeks.

175. There is some potential for confusion among Work Programme clients, who will be required to report to both their Work Programme provider and Jobcentre Plus (JCP). We are anxious to ensure that a client’s requirement to report to JCP does not conflict with their programme of work-related activity on the Work Programme. We recommend that the Government consider introducing some flexibility where appropriate in relation to the requirement on jobseekers to sign on fortnightly at the Jobcentre. However, the sanctioning decision in relation to Work Programme participants who fail to attend the programme as required should remain with JCP.

**Support for jobseekers who are not eligible for the Work Programme**

176. As with previous employment programmes, the Work Programme will focus support on jobseekers who are in receipt of benefits. We asked the Minister what employment support would be available to jobseekers who were ineligible for the Work Programme. He was clear that the Work Programme would not be available to jobseekers who were not in receipt of benefits or to contributory JSA claimants:

First and foremost, the people on the Work Programme will be those in receipt of Jobseeker’s Allowance and that will be income based Jobseeker’s Allowance. At the moment, neither Jobcentre Plus nor any other part of Government offers somebody on contributory JSA more support than is provided through the Jobcentre in that first six month period, and we will obviously have some clear offers for that group—routes to self employment, routes to work experience, and so on and so forth. No past programme has provided support for that particular group of jobseekers.  

177. Many witnesses highlighted the vital importance of JCP in supporting customers before, during and after their participation in the Work Programme. PCS expressed concern about job cuts within Jobcentre Plus and rationalisation of JCP offices:

The DWP is losing 15,000 jobs, over 9,000 of which will be lost in Jobcentre Plus. A further ‘rationalisation’ of Jobcentre Plus offices has also been announced. These cuts will deprive claimants access to the best staff and service available, described in the CSR [Comprehensive Spending Review] report as “internationally acclaimed as effective in getting people back into work."

178. We were anxious to explore how JCP would be able to fulfil its Work Programme role and its role supporting other jobseekers in a climate of cost and headcount reductions. Stephen Evans of the London Development Agency attempted to explain how it might be done:

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174 Q 224
175 Q 167
176 See, for example, Remploy Ev w3; RNIB Ev w13; Reed in Partnership Ev w13; RNID Ev w18; Lifelong Learning UK Ev w35; G4S Ev 64; A4E Ev w51; ERSA Ev 80
177 Ev w39
Part of that reduction is because the headcount was raised during the recession to cope with those extra flows, so you would expect some drop off anyway. You’ve also got people who will go to the Work Programme provider rather than Jobcentre Plus, so there’s a reduced need. The Department’s also placing a degree of emphasis on people doing more things online or over the phone rather than in person, which, if it turns out like that, would indeed save resources. I’m sure it’s got lots of very detailed plans that I haven’t seen. On the face of it, there are reasons why you’d expect it to be able to deliver its role with fewer people and fewer buildings and things, but how it plays out in practice, a bit like the Work Programme, is open for debate.  

179. We understand the rationale of focusing employment support on those jobseekers who are claiming benefits. However, DWP must ensure that an appropriate level of employment support remains available to all jobseekers, including those not eligible for the Work Programme. The role of Jobcentre Plus will be central to the effectiveness of the Work Programme and to assisting those not eligible for the programme.  

180. We recommend that, in its response to this report, DWP set out how it intends to maintain support through Jobcentre Plus, both for Work Programme participants and other jobseekers, in the context of the anticipated headcount reductions and rationalisation of Jobcentre Plus offices. We also request that DWP explain the contingencies it plans to put in place to adjust the headcount reductions should unemployment levels prove higher or lower than forecast.
9 The transition to the Work Programme

Concerns about gaps in provision

181. Our report into Youth Unemployment and the Future Jobs Fund (FJF) expressed concern that young people would experience a gap in provision between the termination of referrals to the FJF in March 2011 and the Work Programme commencing in June 2011. We therefore stated that our inquiry into the Work Programme would pursue the issue of the continuation of welfare-to-work provision during the transition period ahead of the establishment of the Work Programme.  

182. DWP told us that no customer would be left unsupported during the transition from existing employment programme contracts, most of which were due to end by 31 March 2011, and the introduction of the Work Programme. However, DWP also stated that their priority was the establishment of the Work Programme and that there would "inevitably be some disruption".

183. The Minister had previously given an undertaking to the House on ensuring that there would be no gaps in provision: "Until the Work Programme is implemented, we will ensure that support is in place. Where necessary, we will seek to extend current arrangements to ensure that there is no gap in provision and people can continue to receive help and support to get back to work."  

184. Several witnesses expressed concerns about potential gaps in provision. It is, however, important to note that these concerns were expressed before the Government announced extensions to “mainstream” employment programmes (see below). Reed in Partnership commented:

Currently a number of programmes, including Employment Zones, will finish at the end of March 2011 [...] The gap in provision will mean that customers will be left without specialist support. It will also impact on the infrastructure in place to deliver the Work Programme in summer 2011—experienced advisers will be moved to different activities or leave the industry altogether, wasting talent at a time when it is most needed.

Jonny Boux of Community Links, a New Deal provider, highlighted the financial strain a gap in contracts would cause. He told us that “unless [...] there is some form of bridging

180 Ev 69
181 Ev 69
182 HC Deb, 10 June 2010, col 37WS
183 For example, Ev w11 Reed in Partnership, Ev 62 G45, Ev 77 ERSA, Ev w60 Association of Learning Providers, Ev w65 Papworth Trust and Ev w67 MyWorkSearch.
184 Ev w12
arrangement over that transition period between April and July, there is a risk that we would have to lay people off.”

185. ERSA believed that gaps between existing and Work Programme contracts would adversely affect a wide range of organisations from both the private sector and the voluntary and community sector. They suggested that many organisations were commencing staff redundancy consultation exercises, and that some organisations might not have the commercial viability to survive during the intervening period without funding. On 2 February, Kirsty McHugh of ERSA told us:

I have taken telephone calls in the last few days from both charity members of ERSA and from for-profit members of ERSA saying that they are going into 90-day consultation, they are potentially looking at Transfer of Undertakings (Protection of Employment) Regulations (TUPE) to Jobcentre Plus, potentially redundancy. There is a lot of uncertainty about this.

**Extension of previous employment programmes**

186. We wrote to the Minister on 4 February 2011, asking for clarification in relation to the transition arrangements. He replied on 14 February and the Department also issued a Written Ministerial Statement (WMS) on the same day. The Minister told us that DWP would be “working with our suppliers to extend referrals to existing mainstream support for Jobseekers until June 2011”. The WMS categorised “mainstream” support as New Deals and the Flexible New Deal and also announced the extension of progress2work contracts (employment support for people recovering from drugs misuse). The Minister’s letter made clear that “our approach to supporting ESA customers is changing and Pathways to Work contracts will not be extended any further than they have already.”

187. We wrote to the Minister again on 16 February, asking for clarification on whether customers who would have previously gone to Pathways to Work would receive the same range of services from Jobcentre Plus from April 2011. He confirmed that the new system of support would be in place in Jobcentre Plus from April 2011, and “whilst customers will experience a different type of support than they did in Pathways, customers will be fully supported until the Work Programme starts delivery in June”. We also asked him exactly which New Deal programmes were being extended until June 2011. His reply stated that this applied to “old style New Deals including New Deal 18-24, New Deal 25+, Private Sector Led New Deals and Employment Zones”.

188. We welcome the extension of mainstream employment support from April until June 2011, but regret that the Government did not provide detailed financial information in relation to the transitional arrangements for the Work Programme at an earlier stage. Clearer and more timely information would have given providers the

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185 Q 78
186 Qs 123-125
187 Ev 83
188 Ev 84
189 Ev 84
opportunity to plan effectively for the transition to the Work Programme, including avoiding the risk of any unnecessary staff redundancies.

189. Despite the Government’s welcome decision to extend existing contracts there will inevitably be some disruption to, and gaps in, provision for claimants as existing programmes are wound down before capacity is built up to deliver the Work Programme in full. The Government needs to ensure that claimants are not disadvantaged as they are moved from one programme to another.

**Termination of programmes for disabled people**

190. As we have highlighted above, the decision in March 2011 to extend several employment programmes until June 2011 only applied to mainstream provision such as the New Deal programmes and Employment Zones. A decision was taken not to extend support for disabled people in a similar manner until June. Pathways to Work and the New Deal For Disabled People therefore closed in April 2011, with the intention that Jobcentre Plus would provide a service for these clients during the gap before the Work Programme commenced.

191. In October 2010, the Government introduced the Work Choice programme, which was designed to provide specialised support for disabled people with more intensive needs. It was intended to replace WORKSTEP, Work Preparation and the Job Introduction Scheme, rather than to replace Pathways to Work or the New Deal for Disabled People. Scope told us that it remains unclear how the relationship and referral routes will work between Work Choice and support for disabled people through the Work Programme.

192. We request that DWP clarifies how people with severe disabilities who require extra support to access work will be referred to Work Choice once the Work Programme is in place.

193. We were interested in exploring the reasons why Pathways to Work and the New Deal for Disabled People had been closed when services for mainstream clients had been extended. The Minister explained DWP’s reasoning in relation to Pathways to Work as follows: “Pathways is coming to an end anyway. It was due to be ended by the previous Government. It has been given a pretty heavy thumbs-down by the NAO [National Audit Office] and by the Public Accounts Committee.” The Minister also explained that the organisations delivering services for Pathways to Work would receive service payments for clients until late April and that they were still eligible for outcome fees “for some weeks after those payment contracts are over”. His view was that these organisations should continue delivering services beyond late April as they would otherwise have been “paid for a lot of support that they may not actually be delivering”.

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190 Q 149


192 Q 149
194. We note the findings of the National Audit Office and Public Accounts Committee in relation to Pathways to Work, and that it was the previous Government’s intention to close the service in April 2011. However, we are concerned that employment services for disabled people were the only services that were excluded from the list of programmes that were extended until June 2011.

195. We are concerned that Jobcentre Plus may not have the resources to offer adequate alternative provision to meet the employment needs of disabled people between April 2011 and the start of the Work Programme, particularly as the Government has already begun the full scale migration of people from Incapacity Benefit to Employment and Support Allowance, resulting in an increase in the number of claimants with a history of ill health requiring specialist support. We request that, in response to this report, the Government sets out the steps it has taken to ensure that Incapacity Benefit claimants have not suffered a diminution of employment support provision in the period between the closure of targeted programmes and the roll out of the Work Programme.

The application of TUPE regulations

196. Transfer of Undertakings (Protection of Employment) Regulations (TUPE) afford protection to employees, subject to certain conditions, when a business, part of a business or a contract to provide a service transfers from one employer to another. In these instances employees may be entitled, subject to the conditions set out in the regulations, to transfer to the new employer under their existing employment terms and conditions.\(^{193}\)

197. Witnesses complained that DWP had not been clear about the applicability of TUPE in the transitional period. The Association of Learning Providers told us that DWP “have tended to evade the question of TUPE rights and largely left it to providers to determine”.\(^{194}\) BTCV complained of a “lack of clear rules where TUPE applies”.\(^{195}\)

198. We asked the Minister whether TUPE regulations would apply to staff of Pathways to Work providers as the employment support they were currently providing would arguably be initially transferring to Jobcentre Plus and then to Work Programme prime contractors. He told us: “We do not think TUPE applies to Pathways staff. Pathways is coming to an end anyway. It was due to be ended by the previous Government”.\(^{196}\) He also stated that there would be differences in the type of work undertaken by Jobcentre Plus and Work Programme staff compared to Pathways to Work staff and so TUPE could not apply. Alan Cave added:

> Our position has been clear; we have been in correspondence with ERSA and with individual providers about this, and we have made it clear all the way through that we do not believe this is a case of continuity of service or even continuity of service

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194 Ev w62

195 Ev w73

196 Q 149
that is sufficiently like the previous one to justify the TUPE transfer into Jobcentre Plus.\textsuperscript{197}

We are aware that DWP contacted providers in September 2010 to assess the impact that the Work Programme may have on current contracts, particularly in relation to TUPE arrangements.\textsuperscript{198}

\textsuperscript{199} We note the difference in view between the Government and providers on the applicability of TUPE regulations to the transition to the Work Programme from Pathways to Work and the concerns of witnesses that the Government did not take sufficient steps to clarify the position. We recommend that the Government engage fully with the supply chain and clearly communicate its position in relation to TUPE arrangements insofar as these relate directly to DWP programmes.

\textsuperscript{197} Q 151

\textsuperscript{198} www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/notices-to-providers/tupe-implications.shtml
10 Conclusion

200. We recognise the challenges of commissioning a contracted employment programme of the size and complexity of the Work Programme. However, we welcome the simplification of contracted employment services and the potential cost savings brought about by the consolidation of a range of services into a single programme.

201. The Work Programme attempts to address “creaming and parking” through differential payments. However, the financial modelling for the programme is inherently uncertain as many participants have not received employment support before and face complex barriers to work. It remains to be seen how successful the payment model will be in preventing providers focusing on the easiest to help participants within client groups. We expect that the payment model will need to evolve over time to respond to this.

202. The Work Programme faces significant risks and uncertainties. Prime contractors will have to meet very high performance standards to make the programme economically viable and subcontractors will need protection if they are to survive in a results-based environment. DWP has a vital role to play in contract and supply-chain management.

203. The success or failure of the programme will depend to a large extent on economic recovery and the availability of suitable job vacancies for Work Programme participants, as well as a willingness amongst employers to take on those who may have been out of the labour market for some time. DWP must ensure that the programme maintains the flexibility to adapt to the realities of the labour market.

204. We understand the enormity of the challenge facing the Work Programme and welcome the Government’s efforts in this task. We are supportive of its intentions but, due to the size of the programme, we believe that adjustments and modifications may be required as it rolls out across the country and we urge the Government to be flexible as and when potential difficulties emerge.
List of conclusions and recommendations

Design of the Work Programme

Funding employment services from future benefit savings

1. The Work Programme will be funded from projected future benefit savings, the scale of which is as yet unknown. This means that, instead of funding the programme from the Departmental Expenditure Limit (DEL) in the usual way, the source will be Annually Managed Expenditure (AME) from which benefits are paid (the so-called AME/DEL switch). It is a bold decision by the Government to press ahead with this untried method of funding. We welcome the extra resources that the Government has released by using the AME/DEL switch mechanism to help people find jobs in a time of constrained public finances. However, there is a risk that the expected savings will not be realised if too few people gain full time work or if the number falling out of work rises. We recommend that the Government publishes at regular intervals the cost of the Work Programme and an estimate of the benefit savings accrued from it. We also recommend that the Government commission an independent external organisation to conduct a full evaluation of the programme, including an assessment of its cost-effectiveness in relation to previous employment programmes. (Paragraph 20)

Personalised support for Work Programme customers

2. We support the principle of black box provision of employment support, where prime contractors will be allowed considerable freedom to personalise interventions to match the needs of jobseekers, as long as there is transparency about what prime contractors undertake to provide within the black box. DWP should not interfere with this approach without exceptional reason. However, DWP must ensure that prime contractors are held to account for what they promise to deliver within the black box and that protections for the customer are included within contracts. We request that the Government clarifies how this will be achieved, in response to this report. (Paragraph 24)

Use of intermediate labour markets within the black box

3. We welcome that Work Programme prime contractors may choose—within the black box—to use a proportion of their fees to subsidise jobs for their Work Programme participants. However, there has previously been a perception that EU state aid rules could be a barrier to private sector employment of this kind. Whilst it will be for prime contractors to establish the legality of such interventions under state aid rules, we recommend that the Government produce straightforward guidance on how intermediate labour markets may be used within the Work Programme in a way which is compliant with state aid rules. (Paragraph 28)
The tendering process

Prime contractors’ relationship with voluntary organisations

4. We welcome the establishment of the Framework for the Provision of Employment Related Services (ERSS) and the intention to create a mix of private and voluntary sector involvement in ERSS consortia. Without the involvement of voluntary sector organisations the programme would risk losing a wealth of innovation and specialist knowledge. (Paragraph 42)

5. It is important that the voluntary sector’s involvement in the Work Programme is meaningful and that organisations are not simply used to make prime contractors’ bids more attractive. We welcome the Minister’s assurance that any prime contractor which included a voluntary sector organisation in their bid at the tendering stage but was subsequently found not to be using that voluntary sector organisation in service delivery will have their contract cancelled. DWP must monitor this and act accordingly once the programme is underway. (Paragraph 43)

6. There may be subcontractors who have formed bids with framework providers who have been unsuccessful in gaining preferred bidder status. These organisations may hold significant expertise and could face a lack of involvement in the Work Programme through no deficiency of their own. We expect the procurement process to be sufficiently flexible to enable Work Programme prime contractors to engage these organisations where appropriate. (Paragraph 44)

Effectiveness of the procurement process

7. DWP seem to have learned lessons from previous procurement exercises in setting the bid evaluation criteria for the Work Programme. Its approach to the tendering process appears to have run relatively smoothly despite the very ambitious timescales set for it, and the Department deserves credit for this. (Paragraph 54)

8. It is important that prime contractors do not place an unnecessarily onerous administrative burden on subcontractors when establishing their supply chains. The Department has a role to play in this and should work with prime contractors and representative bodies within the industry to promote the use of a single simplified Expression of Interest form for subcontractors. (Paragraph 55)

Competition within contract package areas

9. We request that, in response to this report, the Government clarifies the extent to which discretion or flexibility may be applied when shifting market share from one prime contractor to another. We are concerned that prime contractors who are performing well relative to those in other contract package areas should not be penalised arbitrarily. The Government should also explain the rationale for setting the criterion for market share shift at 3% difference in performance level. (Paragraph 66)
10. We recommend that, within 18 months of the application of the first shift of market share between prime contractors, DWP undertake and publish a review of the impact on clients and prime contractors of the operation of this mechanism. (Paragraph 67)

11. In order to ensure that competition between prime contractors in contract package areas is effective in driving up performance, the Government must ensure that transparent performance data is publicly available. We recommend that the Government carry out and publish a comparative evaluation of the levels of performance between contract package areas with two and three prime contractors after the first year of operation of the Work Programme, and then at regular intervals. (Paragraph 68)

**Differential payments**

*Definition of job outcomes under the Universal Credit*

12. We welcome the Government’s emphasis on payment by results and particularly the introduction of a sustainment fee. Universal Credit is to be introduced commencing in 2013 and the Department was not yet able to define what would constitute a job outcome under the new benefit system. We recommend that the Government indicate as soon as possible how a job outcome under the Work Programme will be defined once Universal Credit is introduced. This information will be fundamental to prime contractors who are in the process of planning their delivery of the programme. (Paragraph 74)

**Incentives to support all customer groups**

13. The differential payments model under the Work Programme has been designed to incentivise prime contractors to support all client groups, including those facing the greatest barriers to work. We welcome this and believe that it represents an improvement on previous employment programmes. We acknowledge that lessons have been learned and a determined effort has been made to reduce creaming and parking. However, the risk remains that providers will focus on the clients they assess as being easier to help within each of the different customer groups and that creaming and parking of participants who face significant barriers to work could still occur. This payment model is not the only incentivisation scheme available and its effectiveness in addressing creaming and parking will only become clear once the programme has been running for some time. We recommend that the Government keep the payment model under review and assess the outcomes for participants within and between each client group. (Paragraph 83)

14. To inform the Government’s assessment of the effectiveness of the Work Programme for all client groups, we reiterate our recommendation that it commission a full evaluation of the programme, to be conducted by an independent external organisation and carried out on a regular basis. (Paragraph 84)

15. We welcome the Work Programme’s focus on longer-term sustained employment, which represents an improvement on previous contracted employment
programmes. However, it is important that the support participants receive to sustain employment while they are on the Work Programme equips them to remain in work and increase their earnings once they are no longer part of the programme. The Government should ensure that transparent mechanisms exist to track long-term outcomes from the Work Programme in relation to sustained employment and wage levels of participants. (Paragraph 87)

Regional variation

16. The Government should monitor the comprehensiveness of a prime contractor’s service in all localities within their contract package area and explain how it plans to assess whether the quality of provision is consistent across all local areas (Paragraph 94)

17. We are concerned that the needs of many Work Programme participants should not be neglected because prime contractors are not providing the same level of service across their contract package areas and that the payment model and performance management mechanisms should be sufficient to ensure consistency of provision. We are particularly concerned that participants in rural or remote areas and areas where job opportunities are few should not be neglected. We recommend that the Government monitors closely the regional and intra-regional delivery of the programme, and acts to ensure that any disparities in service delivery are resolved through its contract management mechanisms. If the reality of the programme exposes significant regional and intra-regional differences in provision, the Government should consider how the differential payments model might evolve in order to address this problem. (Paragraph 95)

Managing performance of prime contractors

Minimum performance levels

18. The performance standards set for the Work Programme are very ambitious and create a significant financial and operational challenge for prime contractors. We are concerned that the high level at which minimum performance levels have been set should not put the financial viability of prime contractors at risk. This in turn might lead to some clients receiving lower quality support and to significant costs to the Government in responding to service failures. (Paragraph 104)

19. The Government needs to clarify how the non-intervention performance levels have been calculated. It should also explain whether it is prepared to amend them in response to significant changes in unemployment rates or labour market conditions. We request that it does so in response to this report. (Paragraph 105)

20. We recommend that the Government monitor closely the performance and financial stability of prime contractors and put contingency arrangements in place to ensure the continuity of high-quality provision for clients. In particular, we request that the Government sets out, in response to this report, the arrangements for replacing a prime contractor which withdraws from the Work Programme during the contract period with another framework provider. (Paragraph 106)
**Key performance indicators**

21. The key performance indicators are an important mechanism for ensuring that participants in the Work Programme understand the level of service to which they are entitled and that prime contractors do not neglect any groups of clients. We welcome the Minister’s commitment to publish the details of the key performance indicators for each client group. It will be just as important for the Government to hold prime contractors robustly to account against these measures as the minimum standard levels. (Paragraph 110)

**Financial returns for prime contractors**

22. Given the demanding minimum standards set by DWP, we believe that it is unlikely that a provider will profit excessively from the Work Programme in the current labour market and economic conditions. Since the programme transfers very significant financial and delivery risks to prime contractors, it is acceptable to allow them to make a profit where they have delivered exceptional outcomes for jobseekers and significant savings in social security payments for the Government. We do not believe that payments to providers should be capped in the current economic conditions but they should be kept under review to ensure that prime contractors do not make excessive profits from the Work Programme if circumstances change. (Paragraph 116)

**Contract monitoring and variation**

23. The Work Programme needs to be sufficiently flexible to adapt to the realities of delivery and the economic climate and the Government will need to use its contract variation powers carefully to ensure that the Work Programme caters for all client groups. However, it must engage with prime contractors responsibly. Decisions about when to exercise its power to vary contracts should be based on robust and transparent data. We request that, in response to this report, the Government provides us with more information on the mechanisms it will use to collect and collate performance data. (Paragraph 122)

**Managing the supply chain**

**The flow of funds to subcontractors**

24. We welcome in principle the increased emphasis that the Work Programme model places on outcome-based payments. However, we acknowledge witnesses’ concerns about the risk to the financial viability of smaller, specialist subcontractors if prime contractors do not pass on sufficient upfront funding. DWP should be proactive in reminding prime contractors that a key aspect of their role in the Work Programme is to bear financial risk, rather than passing it on to subcontractors unfairly or disproportionately. The structure of prime contractors’ payments to subcontractors should reflect this and, in managing its contracts with prime contractors, DWP must act to ensure that this is the case. (Paragraph 129)
Managing relationships between prime contractors and subcontractors

25. We welcome the creation of the Merlin Standard as a significant step in helping to promote fairness in the supply chain. However, we share the concerns of some witnesses that it still lacks sufficient “teeth”. We recommend that DWP establishes robust sanctioning arrangements and takes steps to make the Merlin compliance measures more precise and objective. DWP must also demonstrate how the arbitration process will be truly independent and impartial. (Paragraph 139)

26. The success of the Work Programme will depend on effective relationships between prime contractors and their networks of subcontractors. Contracting arrangements will need to be framed so as to ensure not only that subcontractors are fairly managed, but also that prime contractors are able to hold subcontractors to account for poor performance and, where necessary, terminate agreements with subcontractors who are not performing to agreed standards. We request further details from the Government, in response to this report, on how contracts will support prime contractors in managing poor performance among subcontractors. (Paragraph 141)

Client flows

Eligibility for the Work Programme

27. We believe that the Government should quantify and publish on an annual basis the numbers of working age people who will not qualify for help under the Work Programme because they are not in receipt of a qualifying benefit. (Paragraph 147)

Provision for former Incapacity Benefit claimants

28. We are concerned about the prospects for former Incapacity Benefit claimants in the Employment and Support Allowance (ESA) Work Related Activity Group (WRAG) who are assessed as not yet ready to work and who will no longer receive contributory ESA payments after one year. We recommend that the Government clarify the arrangements for the reassessment of individuals in the ESA WRAG who have been assessed as not fit for work within three to six months. The Government should set out how frequently these individuals will be reassessed and what the arrangements are for reassessment. (Paragraph 152)

29. The role of personal advisers in provider organisations will be crucial in the effective delivery of the Work Programme. DWP must ensure as part of the performance monitoring process that prime contractors have a sufficient number of staff trained to meet the varying needs of the different client groups, including the large numbers of former Incapacity Benefit claimants who will join the programme. (Paragraph 158)

Overall Work Programme client flows

30. We recommend that DWP develop accurate and transparent tools to estimate the anticipated numbers of Work Programme participants, and provide quarterly
assessments of caseload and regional flows to inform prime contractors and the supply chain. We also recommend that DWP clarifies how unemployment forecasts from the Office for Budget Responsibility will inform the estimates of caseload flows. (Paragraph 163)

**Job availability**

31. While the Government has a role, we believe that prime contractors should play a more active part in working with employers to persuade them of the need to be more open in their recruitment policies and more positive in employing someone with a disability. (Paragraph 169)

**The role of Jobcentre Plus**

**Avoiding duplication between the supply chain and Jobcentre Plus**

32. There is some potential for confusion among Work Programme clients, who will be required to report to both their Work Programme provider and Jobcentre Plus (JCP). We are anxious to ensure that a client’s requirement to report to JCP does not conflict with their programme of work-related activity on the Work Programme. We recommend that the Government consider introducing some flexibility where appropriate in relation to the requirement on jobseekers to sign on fortnightly at the Jobcentre. However, the sanctioning decision in relation to Work Programme participants who fail to attend the programme as required should remain with JCP. (Paragraph 175)

**Support for jobseekers who are not eligible for the Work Programme**

33. We understand the rationale of focusing employment support on those jobseekers who are claiming benefits. However, DWP must ensure that an appropriate level of employment support remains available to all jobseekers, including those not eligible for the Work Programme. The role of Jobcentre Plus will be central to the effectiveness of the Work Programme and to assisting those not eligible for the programme. (Paragraph 179)

34. We recommend that, in its response to this report, DWP set out how it intends to maintain support through Jobcentre Plus, both for Work Programme participants and other jobseekers, in the context of the anticipated headcount reductions and rationalisation of Jobcentre Plus offices. We also request that DWP explain the contingencies it plans to put in place to adjust the headcount reductions should unemployment levels prove higher or lower than forecast. (Paragraph 180)

**The transition to the Work Programme**

**Extension of previous employment programmes**

35. We welcome the extension of mainstream employment support from April until June 2011, but regret that the Government did not provide detailed financial
information in relation to the transitional arrangements for the Work Programme at an earlier stage. Clearer and more timely information would have given providers the opportunity to plan effectively for the transition to the Work Programme, including avoiding the risk of any unnecessary staff redundancies. (Paragraph 188)

36. Despite the Government’s welcome decision to extend existing contracts there will inevitably be some disruption to, and gaps in, provision for claimants as existing programmes are wound down before capacity is built up to deliver the Work Programme in full. The Government needs to ensure that claimants are not disadvantaged as they are moved from one programme to another. (Paragraph 189)

Termination of programmes for disabled people

37. We request that DWP clarifies how people with severe disabilities who require extra support to access work will be referred to Work Choice once the Work Programme is in place. (Paragraph 192)

38. We note the findings of the National Audit Office and Public Accounts Committee in relation to Pathways to Work, and that it was the previous Government’s intention to close the service in April 2011. However, we are concerned that employment services for disabled people were the only services that were excluded from the list of programmes that were extended until June 2011. (Paragraph 194)

39. We are concerned that Jobcentre Plus may not have the resources to offer adequate alternative provision to meet the employment needs of disabled people between April 2011 and the start of the Work Programme, particularly as the Government has already begun the full scale migration of people from Incapacity Benefit to Employment and Support Allowance, resulting in an increase in the number of claimants with a history of ill health requiring specialist support. We request that, in response to this report, the Government sets out the steps it has taken to ensure that Incapacity Benefit claimants have not suffered a diminution of employment support provision in the period between the closure of targeted programmes and the roll out of the Work Programme. (Paragraph 195)

The application of TUPE regulations

40. We note the difference in view between the Government and providers on the applicability of TUPE regulations to the transition to the Work Programme from Pathways to Work and the concerns of witnesses that the Government did not take sufficient steps to clarify the position. We recommend that the Government engage fully with the supply chain and clearly communicate its position in relation to TUPE arrangements insofar as these relate directly to DWP programmes. (Paragraph 199)
Annex: The Committee’s visit programme in the United States

The Committee visited the United States from 28 February to 5 March 2011.

Members participating: Dame Anne Begg (Chair), Karen Bradley, Kate Green, Mr Oliver Heald.

Accompanied by: Second Clerk, Inquiry Manager, and Chair’s Facilitator.

**Madison, Wisconsin**

**Monday 28 February**

Briefing from Foreign and Commonwealth Office officials

**Tuesday 1 March**

Meeting with Sarah L. White, Senior Associate, Center on Wisconsin Strategy (COWS)

Meeting with Eloise Anderson, Secretary for the Department of Children and Families, Wisconsin

Meeting at the Wisconsin Department of Children and Families (DCF) with DCF officials and officials from the Wisconsin Department for Workforce Development

Roundtable discussion with former administrators and commentators (Julie Kerksick; Jason Turner; Tony Driessen; Ken Taylor)

**Wednesday 2 March**

Meeting with Keith Gilkes, Chief of Staff to Wisconsin State Governor, Scott Walker

Visit to Joining Forces for Families

Meeting at the Institute for Research on Poverty, University of Wisconsin-Madison (Dan Meyer, Professor of Social Work; Maria Cancian, Associate Dean for Social Sciences; and Jennifer Noyes, Associate Director of Programs)

Visit to Dane County Jobs Center
New York City

Thursday 3 March

Briefing from British Consulate General

Visit to Sustainable South Bronx

Visit to Bronx Educational Opportunity Center

Roundtable discussion with academics and experts (Professor Larry Mead, New York University; Nancy Cauthen, National Center for Children in Poverty; Professor Michael Wiseman, George Washington University; Amy Crawford, Deputy Director, Center for an Urban Future; and Heather MacDonald, Fellow at the Manhattan Institute)

Friday 4 March

Meeting with Professor Michael Wiseman

Meeting with the Center for Economic Opportunity (Veronica White, Executive Director, and Allegra Blackburn-Dwyer, Chief of Staff)

Working lunch on Opportunity NYC (Veronica White, Executive Director, Center for Economic Opportunity; Allegra Blackburn-Dwyer, Chief of Staff, Center for Economic Opportunity; Jim Riccio, Director of Low Wage Workers and Communities, MDRC; Francine Delgado, Senior Vice-President, NYC Community Programs, Seedco; Saroya Friedman-Gonzalez, Vice-President, NYC Community Programs, Seedco; and Professor Michael Wiseman, Professor of Public Policy, George Washington University)

Meeting with Seedco.
Formal Minutes

The following declarations of interest relating to the inquiry were made:

**12 January and 2 February 2010**

Harriett Baldwin declared a pecuniary interest as Vice Chair of the Social Investment Business, which invests in organisations that operate public service contracts, including employment-related contracts.

**Wednesday 27 April 2011**

Members present:

Dame Anne Begg, in the Chair

Andrew Bingham
Karen Bradley
Kate Green
Mr Oliver Heald
Glenda Jackson
Brandon Lewis
Stephen Lloyd
Teresa Pearce

Draft Report (*Work Programme: providers and contracting arrangements*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 204 read and agreed to.

Annex and Summary agreed to.

*Resolved*, That the Report be the Fourth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House, together with written evidence reported and ordered to be published on 13 December 2010.

[Adjourned till Wednesday 4 May at 9.15 am.]
Witnesses

Wednesday 12 January 2011

Stephen Evans, Director of Employment and Skills, London Development Agency, Maria Hudson, Policy Studies Institute, Professor Dan Finn, Professor of Social Inclusion, University of Portsmouth (and Associate Director of the Centre for Economic and Social Inclusion) and Dave Simmonds, Chief Executive, Centre for Economic and Social Inclusion.

Wednesday 2 February 2011

Cllr Stephen Houghton, Leader of Barnsley Metropolitan Borough Council, Jonny Boux, Head of Employment Links, Community Links, Caroline Taunt, Head of Fundraising (Prime Contractors), The Prince’s Trust, and Christopher Knee, Chief Executive Officer, St Loye’s Foundation.

Kirsty McHugh, Chief Executive, and Rob Murdoch, Chair, Employment Related Services Association, Sean Williams, Managing Director, G4S Welfare to Work, Richard Johnson, Managing Director, Serco Welfare to Work, and Laurie Russell, Chief Executive, The Wise Group.

Wednesday 14 March 2011

Rt Hon Chris Grayling MP, Minister for Employment, Mark Fisher, Jobseekers and Skills Director, and Alan Cave, Delivery Director, Department for Work and Pensions.

List of printed written evidence

1   St Loye’s Foundation
2   The Prince’s Trust
3   G4S
4   Department for Work and Pensions
5   Community Links
6   Wise Group
7   Employment Related Services Association
8   Correspondence between the Chair and Rt Hon Chris Grayling MP, Minister for Employment
# List of additional written evidence

(published in Volume II on the Committee’s website www.parliament.uk/workpencom)

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# List of Reports from the Committee during the current Parliament

The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

**Session 2010–12**

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Oral evidence

Taken before the Work and Pensions Committee
on Wednesday 12 January 2011

Members present:
Dame Anne Begg (Chair)
Harriett Baldwin
Andrew Bingham
Karen Bradley
Alex Cunningham
Kate Green
Mr Oliver Heald
Glenda Jackson
Brandon Lewis
Stephen Lloyd
Teresa Pearce

Examination of Witnesses

Witnesses: Stephen Evans, Director of Employment and Skills, London Development Agency, Dr Maria Hudson, Senior Research Fellow, Policy Studies Institute, University of Westminster, Professor Dan Finn, Professor of Social Inclusion, University of Portsmouth and Associate Director, Centre for Economic and Social Inclusion, and Dave Simmonds, Chief Executive, Centre for Economic and Social Inclusion, gave evidence.

Q1 Chair: Can I welcome everybody to the first evidence session for our new inquiry into the Work Programme? Before we start, Harriett Baldwin has a declaration to make.

Harriett Baldwin: Yes, can I declare an interest, please, as vice-chair of the Social Investment Business, in small, non-prime, voluntary sector providers?

Q2 Chair: Thank you very much, and welcome to you all, and thanks for coming along this morning. May I just start off by asking, in very general terms, whether you agree with the Government’s aim in establishing a single welfare-to-work programme, as opposed to the variety of work programmes we’ve seen to date? Dave, would you start?

Dave Simmonds: Yes, thank you. Yes, we do agree that it was the right step to take; I think we have to be clear that this was the direction of travel over a number of years, and we have to remember that the Work Programme, in terms of its design, does draw very heavily upon the Flexible New Deal (FND). So we are seeing a lot of continuity here between the last Government and this one, but the Coalition has done what it said it would do: speed up and deepen the pace of reform for programmes for unemployed people. So bringing it together into one single programme was the direction of travel anyway, and that is something that we welcome.

Professor Finn: If nothing else, they save a lot of money by reducing the transaction costs, and having bids and tenders for a whole range of different programmes and getting that all concentrated in one. However, one point does need to be made: there isn’t just one programme; there’s also Work Choice, which I’m sure you’re aware of, Anne, which runs alongside the Work Programme.

Dr Hudson: Just to add that I agree that the Work Programme forms a next step from the Flexible New Deal. Clearly, there are some challenges that need to be engaged with, and there are some hints within the Work Programme prospectus that the Government are beginning to engage with some of those challenges.

Stephen Evans: Yes, and in an early outbreak of consensus, I think I would agree that it’s right to bring support together into a single programme. It’s right to extend greater active back-to-work support to wider groups. It’s right to have a more open, black box approach and to judge and pay according to results. I’m sure we’ll get on to the range of challenges, but I think the principles underpinning it are right and really an acceleration of some of the travel under the previous Government.

Q3 Chair: If it’s still the same road that the previous Government were travelling, and if it’s building on what the previous Government did, what’s different about this one that is going to bring about what this Government say is going to be the “transformational” change in the benefits system? What you described is, “Well, this is just the way things were going anyway; it’s not that different,” but something has to be different if it’s going to revolutionise the way that welfare operates in this country.

Professor Finn: It accelerates what the previous Government were going to experiment with: whether you can fund current expenditure, in terms of investing in upfront employment services, and pay for them from the future benefit savings that come out of that. Now, that’s a fundamental principle that underpins the Work Programme, which the previous Government were much more cautious about and were in the process of testing through some kind of pilots, but this Government have obviously made the decision, “This is what we’re going to accelerate.”

The other key question—and we’ll get on to this as we go on, no doubt—is: how can you synchronise the design and incentives in the Work Programme with what is undoubtedly a major transformation of the benefits system that will be working its way through, alongside the implementation of this programme? That’s going to cause significant design and implementation issues, at the end of the day.
Q4 Chair: What is it about this programme that makes it so different that it’s going to work better than any of the previous programmes?
Dave Simmonds: Well, I think there are going to be, as exist anyway within Flexible New Deal, drivers to secure higher levels of performance, but they will be far stronger. Again, I think later we’ll probably come on to the minimum performance standards that are being expected. These are absolutely critical, but in effect the Government are saying, “We will only fund those performance gains that you are going to secure. What we’re not going to fund are all of those people who would have got a job anyway.”

Q5 Chair: We do have questions about that later. What about the black box? Is that the right approach?
Dave Simmonds: Absolutely. The thrust of reform over the years has been to try and end the “one size fits all” approach of the old labour market interventions. So there has been a continuous drive to try and personalise employment programmes because of the greater range of disadvantages that different groups face. So if you are going to personalise support sufficiently, then, from our point of view, a black box is necessary.

Stephen Evans: I think Dave’s right; people don’t fit neatly into boxes, so their provision is not going to fit neatly into boxes. The challenge is that you’ve got to couple that with some minimum expectations of what people can expect when they are on this programme—because it is a public programme that you have to be on to get your benefits—and also transparency and accountability in terms of that performance data. So if you’re going to have a black box approach, you need to have a process where you can identify what’s working in a particular area or for a particular group, and not force that upon the rest of the system, but make sure that everybody’s aware of it and people can take on that best practice approach across their own programmes too.

Q6 Chair: I think we’ve got questions about best practice if you’ve got a black box, and how you can see that. In terms of accountability, if you’ve got a true payment by results, it comes out at the other end of the black box whether it has worked or not. That, as you’ve just said, is public money. Have the Government built in accountability at the different stages of the programme, so that it’s not a year down the line before we discover that what’s coming out of the black box isn’t working at all?
Professor Finn: I think this is about the nature of contract management. These aren’t contracts where you simply sign on the dotted line and give it to the contractor saying, “Go away and do that, and then we’ll simply pay you on results.” This is about the nature of a relationship and part of this will be about what we mean by DWP stewardship of the market as it evolves and as it moves forward. Can I just go back to one point. Anne, about what’s different about this programme as opposed to other ones? The first thing is that this is the first major intervention that’s going to be working with the large number of people who have been on Incapacity Benefit for an incredibly lengthy period of time—people whom the last Government were inching their way towards engaging, but hadn’t actually delivered services for. So that’s very distinctive, very different, and that group is going to be one of the most challenging and one of the most significant groups coming into this new programme.

Q7 Chair: Are there issues about the quantity and the actual capacity to be able to deliver something that is this big across the whole country?
Professor Finn: For sure, but again I think the Department is not operating from an empty base. It’s had 10, 12 or 15 years of experience of contracting out programmes and it knows something about the capacity of the provider network out there. Certainly, in terms of the selections and pre-qualification processes that providers have gone through, as I understand it that has been subjecting them to some pretty rigorous tests around their financial viability and in the mini-competition about what they actually propose to deliver. Whilst it’s a black box from the Department’s point of view, once the contract’s signed, it isn’t black and white for the providers. They are going to be saying, “What is it we plan to do with services users?” and I assume the Department will be holding them to account in actually delivering what they said to win the contract.

Q8 Chair: The concept of the black box is that providers can do what they think is necessary in order to get people into jobs. I know it’s early days, but do you think that’s going to happen? Given the automatic tendency of governments to interfere, and the Department to interfere and determine, do you think they’ll be able to resist that and they will be able to trust the providers and say, “Go off and do anything you want. It’s up to you”? You’re smiling.
Dr Hudson: I think it’s perhaps important to note that some of the evidence from previous programmes—Provider-Led Pathways, Jobseekers Regime, and Flexible New Deal—indicates that it was common for providers to have common core features in their service delivery. So the black box doesn’t necessarily represent a radical departure; you’re going to have providers who are drawing on quite considerable experience in working with a range of clients.
Stephen Evans: It sounds a bit counter-intuitive, but the more of a black box approach you have, the more proactive a contract management function you need in the DWP. It’s a different type of contract management. You’re not looking and saying, “Have you ticked that box? When somebody came through the door, did you do this, did you do that?” You’re trying to manage the flows along the key performance indicators; the previous question that you asked was about making sure that we don’t get a year down the line before we find out if anything’s going well or not. You need to be able to manage a market and understand what competition in the market looks like, how you shift that market share around, and how subcontractors and their chains are being managed as well. So I think you need more active contract management, but a different type of management from the one you needed under previous programmes.
Dave Simmonds: I also think that there’s a heavy responsibility on the providers as well. If they’re not delivering the black box responsibly, if they’re not actually delivering the minimum standards that they’re promising within their bids, the more that we hear complaints from individual claimants who are on the programme, the more likely it is that the Government will want to be peering deeper into the black box and, as we say, “greying” the black box.

Dr Hudson: I think that issue of customer feedback is really a very important one; having appropriate mechanisms in place for the customer voice. That links into issues around the operation of payments by results.

Q9 Mr Heald: The procurement process is at stage one, with the framework being announced, so we know who the approved providers are, but of course we’re moving into stage two, which is who actually gets a contract. The assessment process seems to be about quality and value for money. Having looked at it, are you happy with the way that the Government are approaching this? Do you think that some of the lessons from Pathways to Work have been learned, where a lot of the contractors put in unrealistic bids? What’s your overall assessment of that? Would you like to start, Dave?

Dave Simmonds: At the moment, what is in the Invitation to Tender (ITT) is that there is a 50-50 split on the scoring between quality and value for money, which is a slight change from what was talked about earlier when there was a weighting towards quality. There is no doubt that the information requested in the bidding document is a lot more detailed than I thought it would be on the cost side, down to the cost per square metre of office space and so forth. Now, I think that this is probably the right direction, and probably the only direction that the Department can go in, because what it is trying to do is to look at what the provider is promising that they will deliver—that’s the quality side—and then assessing whether or not they’ve got the right level of costs to deliver that quality. That’s the right approach, I think, but there does have to be a question mark as to whether or not, within the Department itself, there is the capacity and capability to form those right judgements at the end of the day. So it’s the right approach but there’s just a slight concern and question as to whether or not the Department at the moment is in the right position to take those judgments.

Dr Hudson: I agree with Dave that this seems to be the right kind of approach, going in the right direction. Clearly, there’s a lot of uncertainty involved; there’s going to be a reassessment of Incapacity Benefit claimants. It’s unclear what the resource implications are going to be for providers in supporting this new and sizable tranche of customers. So there are potential issues there for the providers in terms of the risk sharing that’s taking place in the climate of that uncertainty.

Q10 Mr Heald: I wonder if we should take account of the past record of contractors in looking at these bids. Obviously in the past there were some very unrealistic bids, and at one point it was thought, in the Pathways programme, that something like a third of contractors lost money on the bids they made. What’s your thinking on that?

Dr Hudson: You’re right; contractors did struggle, and Pathways coincided with the economic downturn, which put into question the commercial viability of the contracts. I was involved in research on evaluating influence of outcome-based contracts in Provider-Led Pathways and also the evaluation of our Phase 2 areas, and providers were expressing concerns about the sensitivity of contracting arrangements to economic conditions. My perception is that with the Work Programme there is considerable emphasis on the provider absorbing the risk, and having sufficient capital resources to do so. So that raises issues of it being imperative that, through the bidding process, sufficient mechanisms are put in place to ensure that is the case.

There are also issues around the supply chain. The Work Programme is emphasising that we need to build on the best of that and also address some of the problems that have been experienced in the supply chain in previous programmes. There are lots of principles that are being established within the Merlin Standards that are trying to engage with the imbalance of power that there’s been between the prime providers and the smaller organisations. On paper, it certainly looks like there’s been engagement with some of those issues, and disincentives for smaller organisations with a lot to contribute to engage in the programme and to make the contributions that it’s essential that they make as part of the supply chain. Going further down the line, I do think it’s important in implementing the Work Programme that we see that these checks and balances are appropriately monitored and evaluated.

Q11 Mr Heald: Dave, you mentioned quality. One of the issues is: how many contracts in each area? What is proposed is two providers in each of the 18 contract package areas. Is that enough really to promote competition?

Dave Simmonds: I think only time will tell on that one. First of all, we’ve got to be clear that competition isn’t there to give customers a choice. Claimants are assigned a provider, so the competition is only there to drive up competition around performance. I think that with two there, there is obviously a concern about some cohesion between the two, but I think that all companies providing contracts for the Work Programme are probably going to be operating in more than one area. They will all see it as in their interests to drive up performance, not just in one single area but across the whole company. So it probably is going to be sufficient, because there is a direct comparison, but we also need to remember that there are some contract package areas with three contractors. So we have got the capacity to test over a period of time whether or not there is any difference between those with two and those with three, if indeed you can disentangle the different impacts on performance levels. So I think that the jury is out on that question.
Q12 Mr Heald: Stephen, one of the things that is noticeable is that the tendering process ends in the spring and delivery is supposed to be rolled out nationwide by the summer. What do you make of that? Is it realistic?

Stephen Evans: I think it brings risks. It depends who gets the contracts; if some of the contracts go to people who are already operating Flexible New Deal and have got the supply chains there ready to go, then that’s less of a risk. If you’re giving a contract to a new provider, they’re still likely, actually, to be subcontracting to some of the same people, so it’s not like literally starting from scratch, but clearly it becomes more of a challenge. So the time scales are challenging—that’s clear—but it depends on who gets the contract and the degree of readiness within their supply chains, because quite often it’s going to be the supply chains doing most of the delivery, rather than the prime contractor, necessarily.

Dave Simmonds: Can I just have a quick word on that? I really do think that the Department has to grapple with these transitional arrangements quickly for two reasons. The first reason is for claimants themselves, to make sure there is continuity of support and no gap, because certainly this year is not the year that we want people not receiving support to secure jobs, given the anticipated state of the labour market. Secondly, in terms of the actual commencement of the Work Programme itself, and transitioning from one set of contracts to Work Programme contracts, it is highly complex. It is very complex, because you’ve not only got a number of the separate programmes that are being folded in that have got to be wound up, but you’ve also got a range of companies with a range of different contracts. So it’s highly complex, and there is probably no single answer, but there is no doubt that it’s causing a lot of concern out there.

Q13 Mr Heald: Is there more that should be done—put this to the panel generally—in order to tackle this issue of the gap, which has been very well described by Dave? Does anyone else want to come in on that?

Stephen Evans: Just to add that I think there’s a general tendency in the last few months of a contract for performance to slip, and in the first few months of a contract for things to be more difficult than you thought they were going to be. So again I come back to the role of the DWP and contract management in getting in there and being proactive, not just in challenging the bids as they come back on their own, but also, once the contracts are awarded, in making sure that the implementation plan is right and on track, and that it is not just the provider saying that; the subcontractors should agree, and Jobcentre Plus should be clear about the referral routes. Despite the black box approach, which, as I say, I welcome, I think there’s a proactive role for the DWP, particularly over the transition point, where there’s a clear risk that either things don’t quite get started as they should, or performance doesn’t pick up as quickly as it should, to really get in there and proactively contract manage them.

Q14 Mr Heald: Is there a need to avoid the gap by extending some contracts a bit or doing something to avoid a gap appearing?

Dave Simmonds: I would say yes, but again it is highly complex because of the range of different programmes and the different times at which they’re supposed to be winding up. The Department needs to be working from the basis that no claimant should suffer any shortfall of provision—quite the opposite; people should be fast-tracked on to the Work Programme irrespective of the length of time that they’ve had on, say, the New Deal so far. With the start of the Work Programme and the scale and ambition that it has, I think that it is justified that there is the proper pump-priming from the word go. I don’t think that it’s in anybody’s interests at all for it to have a rocky start, and there is a danger that it will have a rocky start if there isn’t sufficient pump-priming from the word go. Part of that equation is the right transitional arrangements from previous contracts.

Mr Heald: Thank you.

Dr Hudson: I agree with the points that have been made by members of the panel. My little understanding of to what extent provisions have been put in place to try and bridge the gap is that some attention is being paid to it. I’m not familiar entirely with the detail. One point that I would add, picking up on the black box approach, is the importance of learning the lessons of previous incarnations of programmes and interventions. A good example of this is the lessons that have been learned around integrating health and employment support, particularly for vulnerable groups. The example of people with mental health conditions is a very good one; I think it’s important that the transition takes an accurate note of the need to ensure that arrangements are in place to make sure that those lessons are transmitted. It’s about making sure that existing good practice is drawn on and built on.

Q15 Glenda Jackson: A propos of what Dr Hudson has just said, who should learn these lessons? Is this a lesson for the Department and for those people who will eventually make the decision as to where contracts are awarded? On what Mr Simmonds was saying about pump-priming and ensuring there isn’t a gap, surely it’s going to be Jobcentre Plus that’s going to be expected to hold the ring during that process? As we know, Jobcentre Plus is looking at vastly reduced staff and support, so there seems to be a contradiction in terms in what the Department is proposing and what it can deliver.

Stephen Evans: At the risk of adding another layer of complexity, I think at the same time you’ve got a lot of providers, particularly when you’re talking about previously economically inactive claimants. In terms of referring people in, partnerships with local authorities and with registered social landlords are going to be critical. A similar point applies to people coming from Incapacity Benefit and partnerships with the health service; all of those services are going to go through a whole series of changes and efficiency savings over the same period, too. I think that adds another layer of risk on top. You’re right that the
Department needs to learn the lessons of previous transitions and changes, but also be even more proactive and responsive here and recognise that this is going to happen and do that sort of proactive stuff that I talked about before. That is critical, because there are so many links in the chain to the Work Programme, and if one of those drops then people are going to suffer, so we have to proactively make sure that none of those links drop out in what’s going to be an extremely challenging time.

Q16 Stephen Lloyd: On that point, you obviously know the DWP very well; it is obviously aware of the dangers and the challenges here. What is your take on whether or not the Department itself is absolutely cognisant of the possible dangers in that transition period? Do you know the Department well?

Stephen Evans: My judgment would be that it is cognisant of those risks. I don’t intimately know the sort of plans that it is putting in place for it or what it is planning to do, but I know it’s something that it is aware of. As to its precise plans to deal with it, I’m not intimately acquainted with them, because obviously it’s part of its procurement process as well, which I’m not party to.

Professor Finn: Just in picking up on one of the points Glenda Jackson made about the relationship with Jobcentre Plus, while there are parts to the Department, the Department isn’t one thing; it’s made up of multiple delivery and design units. Parts of it may be cognisant of the risks and trying to anticipate them in the design of the contracts. Some of the clauses that are in the contracts will allow them to re-design as issues come up, and one of the areas that I think the Committee could usefully focus on is the precise nature of the relationship between Jobcentre Plus and these FND providers. Who, for example, is responsible for the customer/user—the client experience—in this process? What’s the relationship between the sanctions regime, as delivered by Jobcentre Plus, and the Work Programme providers? While the Department may be cognisant of those sets of risks at a very abstract level, I think the detail of it is going to impact on service users, and that’s where I think some of the problems are going to start to emerge, particularly in the first year.

Q17 Glenda Jackson: Do you think that knowledge is in the Department? In effect, what we’re talking about is a completely new area. The target is Incapacity Benefit claimants. There is an element of the stick and the carrot with all of this. There is going to be increasingly difficult work for the people who are going to have to deliver these contracts; I’m not even touching on disabilities, either physical or mental, here. Is there that knowledge within the Department to be able to draft contracts or to be able to monitor contracts, if that is indeed what is going to happen, bearing all these new issues in mind? Nobody’s been down this road before.

Professor Finn: I think there’s some previous experience, in terms of the voluntary programmes, and lots of them—

Glenda Jackson: Yes, in the people who deliver, but I mean—

Professor Finn: For sure, and in terms of some of the people in the Department who have worked on those programmes and have contract managed them, but I think you’re right; this is a real new territory for people.

Q18 Harriett Baldwin: You may have gathered from my declaration of interest at the beginning that I’m particularly interested in the role of the voluntary organisations and the smaller social enterprise community organisations in this whole delivery chain. Clearly, one of the challenges of the process is how the companies that are delivering the Work Programme is cash flow and working capital; I think that was mentioned in the introductory remarks. First of all, I just wanted to ask all of you if you feel that there were any small, specialist, third-sector providers that ought, perhaps, to have been included as prime contractors that you’re surprised haven’t been.

Professor Finn: No specific ones. I mean people tried to design some special purpose vehicles to meet some of the requirements around contractors, but my own point of view is that this contract has been designed in a way that means that it’s very difficult for non-profit and people who’ve got different governance arrangements to take on the levels of debt and the types of requirements that prime contractors need. That doesn’t mean they don’t have a role as subcontractors or in other parts of the delivery chain, but one of the points I would make to the Committee is, from looking at the evolution of these types of markets in other countries, one of the things that certainly happens is a rationalisation of smaller voluntary sector providers of earlier employment and training programmes.

Q19 Stephen Lloyd: Which may not be a bad thing, of course.

Professor Finn: Well no, exactly. Part of the efficiency gain is the exclusion of providers who may have talked the talk but weren’t particularly good at actually getting people into jobs. It’s a moot point.

Q20 Harriett Baldwin: So the need for working capital and the ability to borrow, to be able to be paid on a performance basis, is really the key reason why
the prime contractors tended to end up being companies that had access to finance?

Dave Simmonds: That’s true and so, as Dan said, being a prime is loaded against many non-profits, but we should remember that there are some non-profit organisations as primes, so it is possible and feasible to do it. Those organisations have a long track record, and have built up high levels of delivery and volume in different parts of the country, so their track record stands for everybody to see. I think the problem is for those smaller, more local or highly specialist organisations, and I think the assumption all the way down the road is that they would be in the supply chain, as opposed to as a prime contractor.

Q21 Harriett Baldwin: They do often play a key role in terms of innovation and bringing to bear different approaches to getting people back into work, particularly specialist groups. Is that something you’ve observed?

Stephen Evans: I think that’s true, and that’s why the supply chain thing is really critical—how a prime contractor’s going to set up their supply chains, and what sort of things is the risk that the Department is transferring to them they are going to transfer to their supply chains. I would argue that it should be different for different types of organisations within there, not least because you need some of that specialist expertise that you talked about from organisations that won’t be able to take on the debt risk and the cash flow. So I think there’s an important role for the Department and places such as this Committee and other regional and local areas to monitor how that’s working in practice, how those primes are setting up those supply chains, how they are treating them, and how it is working in practice, and in making sure that there’s an accountable flow of information on that to judge against.

Q22 Harriett Baldwin: We’ve certainly heard from the Secretary of State and from the Minister that they are very keen to make sure that the supply chains do include these kinds of organisations. If the working capital challenge, in terms of the attachment fee and the performance fees, is hard for the prime providers, isn’t it equally the risk that the Department is not going to get even harder down the supply chain? Do we have a robust framework with this Merlin framework for monitoring how that’s working?

Dave Simmonds: Well, first of all, it’s up to the prime contractor as to how they pay their subcontractors. There will be differences both across prime contractors and within supply chains as well. If a prime contractor has a very large subcontractor, then probably they will just be passing on the same payment terms that they’re subject to from the Department. However, my expectation, and I think the general expectation, is that the small highly specialist support that a prime might want to purchase for particular individuals wouldn’t be subject to the same payment terms, and it would be upfront or on-the-spot payments. So we have to be making sure that there is not a general assumption that primes are just passing on the very rigorous payment terms from DWP to the subcontractor, and that they’ve got appropriate payment terms for the nature of the individual and the nature of the support that they’re purchasing, irrespective of the legal status of the organisation that they’re purchasing it from.

As to whether or not Merlin is sufficient, Merlin has been established and has been widely welcomed, but there is still some way to go to establish it as a robust framework with teeth and with the full backing of all of the primes. Now, DWP has tended, on Merlin, to start taking a bit of a backseat role, and saying it’s up to the industry to get its own act together, but of course at the moment that’s rather difficult because obviously we still don’t know who’s going to be delivering. So I would say that the Department can ill afford, at this point in time, to take that backseat role; they need to be pushing and resourcing to make sure that everybody is around the table, and that from day one—from day one—of the Work Programme there is that robust framework which everybody is signed up to. At the moment there is a danger that that won’t happen.

Q23 Harriett Baldwin: So does the rest of the panel agree that some of these smaller organisations do have the negotiating power to get payments that are different from the payments that the primes are getting?

Stephen Evans: Yes, I’m sure that will happen. I do agree with Dave that there is an awful lot more work for DWP to do here. It’s not enough simply to have a standard and say, “Off you go.” You have to back it: you have to make sure there’s a transparent flow of information, and you have to make sure there’s accountability against it. We were talking about competition before: in most areas there are going to be two providers, so it’s not like if you’re a small voluntary sector organisation you can just say you’re going to take your business elsewhere, not least as it’s DWP shifting around the market share a year down the line on the basis of resource. In that sort of environment where you’re not driving the thing by customer choice and you don’t have a lot of competition, then it’s really, really important for the Department and for others proactively to make sure that the principles in Merlin, which are correct, are applied in practice, and that people in that supply chain are fairly treated and we get the best provision for people who are out of work, which after all is the ultimate goal of the whole programme.

Dr Hudson: We don’t yet have detailed information on the experiences of the supply chain with FND; the evaluation is still ongoing, so that work isn’t in the public domain. From the Pathways to Work evaluation, I think there was clear evidence of the vulnerabilities of smaller organisations. Looking at the outline document statement of intent on Merlin Standards, it’s clear that the Department is recognising some of the issues that are involved there, but I agree with other members of the panel that there is still work to be done around implementation, ensuring accountability, the internal monitoring that needs to take place within the Department and also the external monitoring and evaluation of what’s going on.

Q24 Harriett Baldwin: So would you support a role for an independent adjudicator for potential
There is a very clear consequence
I think long and onerous application
There’s provision for that, as I
Isn’t it the case that a lot of the people
of DWP contracting with the primes, and those primes
That’s why it’s important to get in the best people,
who have the specialist knowledge to deliver the
difficult stock that Dan talked about are charities? The
payment structure is inevitably going to lead to them
carrying a lot more risk than they’re used to; they’re
going to have to have access to working capital. It
was suggested to me yesterday by one such charity
that the problem for them might be the Charity
Commission looking at why they are exposing their
organisation to all this risk, which is against the rules
of the Charity Commission. Is that something that any
of you have got any thoughts on, or has it been put to
you before?
Stephen Evans: I think it’s definitely come up. I don’t think it’s clear that that’s definitely how the Charity
Commission would apply the rules, but whether it’s
against the rules or not, there are clearly issues for
smaller providers in general, particularly those from
the voluntary and community sector and charities.
That’s why it’s important to get in the best people,
who sometimes are charities and sometimes aren’t. The only way they can do that
is by not cascading all of the risk that they’re taking
don down the supply chain to everybody. So I don’t think necessarily that a prime or the DWP would do
it by type of organisation, but you would look on a
case-by-case basis according to the size, expertise
and how important they were to your chain, and then
cascade the appropriate level of risk. The key word
there is “appropriate”, and that’s a judgment, and
that’s why I think the public sector nationally,
regionally and locally has to have a clear line of sight
across that, take a clear view on it, and proactively
recognise that this is an issue that they’re going to
need to take a view on; it is their responsibility, and
not just the primes’.

Q27 Glenda Jackson: On Merlin, which we’ve been
reading a lot about, and its powers for accreditation,
what constitutes the accreditation? What does
we have really bent our minds as to what the key issues are as yet.

Stephen Evans: The previous Government were planning something called the Personalised Employment Programme in a number of areas across the country, which did similar sorts of things. It was going to be a single programme for a range of client groups. You had to go as far as the Work Programme in payment by results, paying from future benefit savings, and true black box. I think my own personal judgment would be that we've had quite a lot of pilots over the recent years and we haven't always been quite as good as we could have been in scaling up the ones that work and stopping the ones that don't work, so I think the “faster, further” thing has an attraction to it. I think the challenge is on the “faster” bit, really, and in the implementation challenges we talked about before and what happens between April and June/July. I don’t have a problem with “faster” part brings the significant risks that we talked about before.

Professor Finn: One observation about pilots is this problem: you set up a pilot; you’ve talked about the Work Programme being the right way forward. I just wondered if this is likely to be a significant problem, as we hear different statistics about jobs being created and jobs being lost.

Chair: We’ll move on to questions on the delivery of the Work Programme with Alex.

Q29 Alex Cunningham: Thank you very much, and I think this probably fits immediately. You’ve talked a little bit about pilots, and you’ve talked about the Work Programme being the right way forward. I just wonder whether there ought to have been a pilot scheme on the whole programme, rather than just the accreditation pilot?

Stephen Evans: The previous Government were planning something called the Personalised Employment Programme in a number of areas across the country, which did similar sorts of things. It was going to be a single programme for a range of client groups. You had to go as far as the Work Programme in payment by results, paying from future benefit savings, and true black box. I think my own personal judgment would be that we’ve had quite a lot of pilots over the recent years and we haven’t always been quite as good as we could have been in scaling up the ones that work and stopping the ones that don’t work, so I think the “faster, further” thing has an attraction to it. I think the challenge is on the “faster” bit, really, and in the implementation challenges we talked about before and what happens between April and June/July. I don’t have a problem with “faster” part brings the significant risks that we talked about before.

Professor Finn: One observation about pilots is this problem: you set up a pilot; you’ve talked about the Work Programme being the right way forward. I just wondered if this is likely to be a significant problem, as we hear different statistics about jobs being created and jobs being lost.
Dave Simmonds: Well, in terms of the performance expectations that the Government have written into the Work Programme contracts, there is indeed a very high level of expectation. As such, the state of the economy as a whole could yet be the real Achilles heel to the success of the Work Programme. Basically, the minimum performance standard that is being expected is set at a level that is essentially the highest level of performance that the New Deal for Young People and the New Deal for those who are 25-plus ever reached, even at the height of the boom earlier in the 2000s. As such, the performance challenge is very severe indeed, and critical to that will be the number of jobs in the economy at large. There is, from our analysis, a very close correlation between changes in GDP and the total number of job outcomes that Jobcentre Plus can achieve across the board, including programmes as well. So as the economy goes down, not surprisingly job outcomes go down, and vice versa. If the Office for Budget Responsibility (OBR) is correct in its estimates for growth over the coming period—effectively, it is saying there are going to be 1 million new jobs over the next four or five years—then, on this assumption that primes can convert those jobs into jobs for claimants, I think that we’re looking at the upside there. The downside would be: a) obviously, if the OBR is not correct and job growth isn’t as robust as it thinks it might be; b) if primes or the nature of the job growth don’t lend themselves to getting existing claimants into the sorts of jobs that are created; and c) we have to recognise that it’s a lot tougher in some parts of the country than others. At the moment, the ratio between the number of jobs and the people chasing those jobs is on average 1:5, but of course in some parts of the country we’re looking at one job for every 20 people chasing it. That, of course, makes it a lot more difficult for primes operating in those areas, and that is where I still think that something more needs to happen to recognise the needs of particular local economies.

Q32 Alex Cunningham: The provider staff will be absolutely critical to delivering for this programme. How confident are you that they will be properly trained? If I were a provider, I would want to know you spoke in glowing terms about some organisations, but others will find this quite challenging.

Dave Simmonds: That is something that we are very, very conscious of in all of our discussions with primes: that they do recognise this. One of the key lessons that has been learned from labour market interventions over the last decade is that the nature, role, capacity, skill and understanding of personal advisers—those front-line people—is absolutely critical. Really good, strong, empathetic people, but also people who know how to get the right sort of support and how to get people into work—those twin messages—are absolutely critical to all of these operations. Jobcentre Plus recognises that, and all the primes that we’ve talked to recognise that, and we are putting a group together now that is specifically looking at the training of personal advisers across industry, but we’re also talking with Jobcentre Plus to make sure that we’re all working to the same standards.

Stephen Evans: I agree with that. I’d just add that the evidence that we have and that we’ve seen is that the skill set needed to support people in work, particularly now we’re talking up to two years for a number of groups, is quite different from the skill set needed to support people from out of work to finding a job. So I think as well as that overall quality point—which is absolutely correct, critical and probably one of the most important things, if not the most important, that you can do as a provider—recognising that the in-work support can look quite different and require a different skill set to the out-of-work support is absolutely the heart of it as well.

Professor Finn: One hopes that the Department is paying close attention in the bids that it’s receiving to the staff development policies and the pay and reward policies that each of the individual providers is saying they’re going to be offering.

Q33 Stephen Lloyd: Could I come in very quickly, Alex? One of the things that you all seem to be saying in varying degrees is that the Work Programme is a substantial step forward in the direction of travel. I was interested to see that the Public and Commercial Services Union stated that, in its view, the difference between the Work Programme and its predecessors was cosmetic rather than substantive. That’s understandable politically, on their part—or would you agree with it? How would you respond to its view?

Professor Finn: They would say that, wouldn’t they?

Dave Simmonds: I think we’ve talked about where the differences are. I think it’s a matter of judgment as to whether or not it’s cosmetic or substantial, but there is no doubt that extending support and a degree of conditionality to those people who have been on IB for a long time and who have not received any support to date is a substantial change.

Q34 Alex Cunningham: The Royal National Institute for Deaf People has said that the black box approach to delivery may prevent the spread of best practice in service provision. To what extent do you think that will happen and what steps should DWP take to disseminate good practice and innovation in welfare-to-work provision?

Stephen Evans: If I were a provider, I would want to hang on to my best practice, because it helps make me money, and then next year I’m going to get a bigger market share; the same would be true if I were in a provider’s supply chain. So the natural incentives would be to hold on to that, which is why, again, I come back to the point that it’s critical that the DWP and also regional and local stakeholders, councils and authorities play a proactive role in ensuring transparency of information from the primes and their subcontractors. It is also about really getting in there and understanding what’s working and what isn’t. You can be relatively open and black box in terms of the invitation to tender you put out, and in allowing providers to flex their provision along the way, but you need to be even more rigorous about getting in there and understanding what’s working and spreading that out, because the natural market incentives are not
to do that, I think it’s a critical role for the DWP, but also for local authorities and others as well. Dr Hudson: I agree with that—that there is potential, with the emphasis on competition, for there to be disincentive effects. I know the Department has been doing some work around encouraging provider engagement and developing forums that provide a mechanism for the sharing of good practice, and it’s important that those kinds of developments are what the best practices are drawn on and built on to ensure that that sharing of practice takes place, for the benefit of the customers. What we don’t want to see is a lottery in the quality of service and the strengths of service delivery being accessed.

Q35 Alex Cunningham: How confident should we be that good practice will be spread?
Dr Hudson: We can only be confident if we see that the mechanisms are being put in place to facilitate that sharing. So it’s important that we get explicit information and evidence that that’s happening, and happening in good time.

Professor Finn: This is one of the risks in the nature of the contract. In work that I’ve undertaken in Australia, which has been doing this for over 10 years now, it has much more rapid turnover of contracts, so it’s every three years rather than every five to seven years. One of the ways in which performance was improved is that at that three-year point, you’ve been able to exclude your poor performers. So, in that sense, best practice development is accelerated by that process. There’s one other point I’d make, and this is very interesting because it’s slightly counter-intuitive. Many of the providers I’ve done research with in Australia aren’t that concerned about commercial advantage from best practice. Their argument to me has been generally that you get some advantage for maybe six months, maybe a year, by which time if other providers see that you’re doing something interesting and innovative, they’ll probably have poached one of your key people and have stolen your ideas and generalised it through them. So best practice development is accelerated through these mechanisms.

Dr Hudson: I think the other point to remember is that a lot of the prime providers are also subcontractors, so that increases the opportunity to find out about what’s going on in different areas.

Q36 Kate Green: The corollary of best practice is bad practice. What thinking are you aware of in the Department to ensure that complaints handling processes also lead to intelligence and redesign, and that that’s spread across the market as well?
Professor Finn: I think that is where it has not been developed as strongly as it should have been. The key thing here is again about the nature of the relationship initially between Jobcentre Plus and the providers, and not necessarily the provision that they’re going to be operating through. The formula under the previous experience with Flexible New Deal was that Jobcentre Plus somehow continued to have ownership of the customer experience and was supposed to be responding to individual complaints. Whatever level of scepticism I had of that working in practice, there was a line there. I don’t see any language like that yet in how the Work Programme is going to operate in practice. Beyond that, there is another set of issues about transparency, minimum performance standards and whether there’s going to be any service guarantees or customer insight developed independently of what the providers themselves are doing. I think this is an area that this Committee could focus on.

Dave Simmonds: I think this is an issue for the overall performance management mechanisms that DWP are putting in place, and about whether or not they’re going to be sufficient to identify, pick up and stop bad practice, however that is defined. There is a tendency at the moment to say, “Well, general performance will sort this out. If somebody is not performing well, the weaker players will lose market share and we can correct that; there’s review points during the course of the five years, which enables the Department to adjust the market share.” The problem with that is that that still does not, I think, sufficiently address your point: you can have prime contractors pursuing bad practices and still be high performers precisely because of the bad practices. After all, all of us, to one extent or another, have over the years been critical of Jobcentre Plus for getting people into a job, any job, no matter how long they stay there. We don’t want that sort of practice with the primes.

Stephen Evans: That’s also part of the bigger point about the role of customer choice within the entire system. At the minute the language feels as though services are something that are done to people—“You will be sent there, or you will be sent there”—whereas is there a role for customers to choose where they go? If I’m sent by my prime to subcontractor x, and I don’t get on with them or they treat me badly, and I’d rather go to subcontractor y because I know people who’ve got on well there, is there any mechanism for that to happen? It’s not clear to me that that’s a fundamental part of the design process at this stage.

Q37 Alex Cunningham: You’ve already addressed in part the role of Jobcentre Plus in the delivery and have suggested that the Committee needs to explore this further. What do you see as the specific role for Jobcentre Plus?
Professor Finn: I think this is one of the real moot points. There are going to be mixed messages that claimants are receiving. For example, if you’ve been on Incapacity Benefit for 10 years and you’ve been reassessed as now capable of work, you’ve been told to go to the Jobcentre Plus office every four weeks to report on your jobseeking activities and you’ve also been told to go to a Work Programme provider, who will develop an action plan with you, and who will want to see you on a regular basis—or an irregular basis, as they see fit. I don’t see where these things join up, and I think a mixed message is going out there to clients. Now, whether or not you want to go down the Australian route and say that it’s the provider that has the responsibility while they have the client, in terms of conditionality, their action plan and their engagement with services, I think at the moment there’s the potential for a really complex
service delivery system being experienced by people. It could be confusing— "When am I supposed to turn up? What happens to my benefit if I don’t turn up there on this day for that purpose?" So my view is not so much about what the role of Jobcentre Plus is; it certainly has a key role in the first nine months, or whatever the period, but once people are with a provider, are they with the provider, or are they half with the provider and half with Jobcentre Plus? There needs to be clarity about that.

Q38 Alex Cunningham: Well, one supplementary line on this was: is it right for Jobcentre Plus to have the sanctioning role with clients?
Professor Finn: I was making the point initially that Jobcentre Plus is, at the moment, anecdotally, ramping up the number of people it’s sanctioning for not looking for work. This includes people on Flexible New Deal who think they’ve agreed an action with their Flexible New Deal provider and adviser, but who then find themselves going along every fortnight to Jobcentre Plus, which has a different set of objectives and a different set of targets that it’s actually working to.

Q39 Alex Cunningham: So how then does the programme provide clarity for the client? What has it got to do?
Professor Finn: In previous programmes, for example under the Employment Zone, the client worked with the provider. The action plan had the effect of being a jobseeker’s agreement, and when somebody was held not to be following their plan or not attending interviews, they were reported to a Jobcentre Plus decision maker, which is the route I think it should follow. So far, at the moment both things can happen, as I see it.

Q40 Alex Cunningham: Finally from me, DWP faces cuts, as does Jobcentre Plus and the numbers of people there. Will they be able to fulfil their role with a reducing work force?
Stephen Evans: I’ll have a go. Part of that reduction is because the headcount was raised during the recession to cope with those extra flows, so you would expect some drop off anyway. You’ve also got people who will go to the Work Programme provider rather than Jobcentre Plus, so there’s a reduced need. The Department’s also placing a degree of emphasis on people doing more things online or over the phone rather than in person, which, if it turns out like that, would indeed save resources. I’m sure it’s got lots of very detailed plans that I haven’t seen. On the face of it, there are reasons why you’d expect it to be able to deliver its role with fewer people and fewer buildings and things, but how it plays out in practice, a bit like the Work Programme, is open for debate.

Dr Hudson: Perhaps I could just add that there are clearly some areas of expertise within Jobcentre Plus, and we’re going to have this growth of people with health conditions—fluctuating conditions—with whom providers are working within the Work Programme. You’ve got roles such as the disability employment advisers and work psychologists within Jobcentre Plus, and I think you probably need to give attention to how that experience can be drawn on by the providers. I think that links into the issues around the skills capacities of the providers to engage with the range of health conditions that they’re going to have coming through their doors. They have been dealing with a lot of those support needs by passing it through the supply chain, certainly within Provider-Led Pathways. I think the primes are going to have to do more, so again there’s potential for certain roles within Jobcentre Plus to have a support role.

Q41 Stephen Lloyd: We were in Brussels just before Christmas, and one of the bits of information that appeared to come out was that the German equivalent of Jobcentre Plus had received a considerable investment, both in human and capital resource. That was one of the reasons, we were told, that Germany, over the last few years, had been much more successful in getting people into work. Do you know much about the German model, and does it matter that the way the Coalition Government are doing it is using far more providers, rather than bundling it all into Jobcentre Plus? Do you know anything about the German model?
Professor Finn: There was a series of reforms called the Hartz reforms, which were introduced about five or six years ago that changed the whole delivery mechanisms there. One element of this was the public employment service, as it then was. Interestingly enough the inspiration for many of their changes was the Jobcentre Plus delivery mechanism here, and that’s one of the things that’s delivered the efficiency gains that you were picking up on at that point. The key thing is that there is a very complex and very different government structure there, and I don’t think we can simply translate one to the other, other than to say that the German public employment service is funded out of a social insurance fund, as well as by central Government, and that’s something that we don’t have to hand here.

Q42 Andrew Bingham: Going back to what Professor Finn said about the lengths of the contracts, in Australia it’s three years. Do you think that’s better? I can see arguments for both positions that were interested in your views on the length of the contract.
Professor Finn: The point I was making was that if you have shorter contract lengths, three years—
Andrew Bingham: I understand that; I was just wondering what you think is the optimum. Is three years—
Professor Finn: No, because the countervailing argument to that, when you go to the Australian environment, is there’s no incentive to invest in staff.
Andrew Bingham: Exactly.
Professor Finn: So the advantage we create here is that, with five to seven years, there should be a massive incentive for people to invest in their front-line staff capacities. My problem is more what the provisions are going to be for getting rid of a poor performer within a system where you’re dependent on only one or two, maybe at most three, providers within a particular area. So one of the things that I would certainly be looking for as a quid pro quo for a longer contract is something like a penalty clause.
Q43 Teresa Pearce: That’s one of my concerns. You are talking about these prime providers who are businesses who want to make money, obviously. What you describe is that they’ve got to come into a difficult environment with high targets, which is a hard way to make money. As people are referred to them, they get a payment anyway, whether they do anything or nothing; my concern would be: what’s to stop them just doing nothing? At what point would you know they’d done nothing, and at what point could you sack them? Would you do that in a number of years? I’m anticipating that this won’t happen with the prime providers you’ve got, but you could get a rogue one that could disrupt a whole area.

Professor Finn: I think there are two issues there. One is about the nature of upfront payments that aren’t conditional on job outcomes, and the other is the really badly performing providers. In terms of the upfront payments, the lobby from the third sector voluntary organisation providers of programmes in Australia was very powerful when the Australian Government privatised their employment services system. One of the things they won was that 40% of their income would be paid in upfront service fees. What the purchaser, the Department, subsequently found was that many of those providers could make quite a good living by getting the most job-ready into work and taking the service fees. It took them two or three contract rounds to unwind that system. In our system, the attachment fee is a very small component—no provider is going to be able to be viable simply on that attachment fee—so I think that part of the design is right. As to the mechanisms for how you identify a poor performer and how you get rid of them, I think it’s for the Committee to challenge the Department on how strong the clauses in those contracts are and how rigorous the contract management process is going to be.

Q44 Chair: You and Dave have talked about it being an Achilles heel, and have said that the Work Programme will stand or fall by whether there are enough jobs for people to go into. Is there enough flexibility in the black box for some of the providers to create their own jobs, through some kind of intermediate labour market intervention or something like that? If they’ve got the Jobseeker’s Allowance register when they might have done previously. Plus you’ve got the added complication of reassessing all

Q45 Kate Green: How do you think the DWP can best analyse and forecast customer volumes by region? Of course, it’s not just labour market changes; different client groups, as you pointed out earlier, will be coming within the ambit of the Work Programme. How can it best analyse and forecast the kinds of volumes and the make-up of claimants that providers will be dealing with?

Stephen Evans: I think Dave could probably add to this. I think the problem is that it’s very complicated; that’s what we found with FND. So it depends what’s going to happen with the economy overall, and we’ve talked about the OBR projections and whether they’re going to turn out. Then you’ve got to think about how many jobs that GDP growth will create, and at the moment, the OBR has said there’s a relationship between the two. I’m not so sure that that relationship will hold over the next couple of years as strongly as it has in the past, because firms got through the last recession by hoarding workers, cutting pay or cutting hours rather than sacking workers. So that relationship doesn’t necessarily hold as strongly for the next couple of years as it does in general. Then you’ve got to think about what that translates into, in terms of people not going on the Jobseeker’s Allowance register when they might have done previously. Plus you’ve got the added complication of reassessing all.
Incapacity Benefit claimants, and it’s not clear how many of those will end up in the JSA “work-ready” group and not the “can’t work” group. So you have to make a series of assumptions. Now, any assumption you make is bound to turn out wrong, so you have to have flexibility around it and you have to sensitivity test it. I think that’s the critical thing: allowing enough sensitivity analysis so the contract doesn’t become completely un deliverable if things go wrong by one, for example, so you have to have sufficient flexibility in it. For me the biggest unknown is probably around those IB claimants, and how many will pass through into that “work-ready” group, how many will disappear from the benefits register altogether and how many will be placed in the “not able to work” group. How that relationship varies geographically will have huge impacts for prime providers in each of those regional areas. So there are a lot of uncertainties. I think you just have to make some assumptions, sensitivity test them and build enough flexibility into the contract so it doesn’t fall over when the first thing goes wrong.

Dave Simmonds: The only thing to add to that is that the volumes contained within the bidding documents are very specific for each contract package area. We’re just starting to analyse that and look at some of the basic assumptions that DWP has sitting behind its present assumptions on volume. Certainly one thing that we have identified is that if we are looking at the total number of people who are currently on IB and end up on the Work Programme through whatever route—either when they’re reassessed on to ESA or reassessed and found fit for work and end up on JSA—the figures are around 300,000 are expected to transfer from Incapacity Benefit and end up on the Work Programme. That is just 14% of all those who are currently claiming Incapacity Benefit, not ESA; that is just looking at those on Incapacity Benefit. That 14% figure feels low to us, and we certainly need to do more to unpack those figures and the assumptions. That has led to a situation where the proportion of those with either current health problems or previous health problems, looking at the Work Programme as a whole, is a lot smaller than we were envisaging. So roughly one third of those people joining the Work Programme will have a current health problem or have had a previous health problem but have now been found fit for work. That 30% is certainly lower than we were expecting.

Stephen Lloyd: I’ve just done a quick number crunch on the figures that the DWP estimates will be moved from Incapacity Benefit to JSA, and moved from Incapacity Benefit to Employment and Support Allowance. There’s obviously been quite a lot of quite anxious publicity around this area. Looking at the numbers that it is expecting, it’s between 10% and 15%—not quite the dreadful stories that everyone’s going to get turfed out.

Dave Simmonds: That’s a question that all of the bidders at the moment are asking themselves. Indeed, that is a service that we as an organisation provide to them, because what they can’t do is draw upon the information and analysis that DWP has, which Jobcentre Plus would have had access to, but prime contractors obviously have to generate their own figures and formulate their model and cost assumptions, based on the volumes that have been given by DWP and a questioning over those volumes. They need that degree of tolerance in their cost model, with regard to whether or not they can easily ramp up or easily ramp down. That, of course, coming full circle a bit, does have implications for the supply chain as well, because the ramping up and the ramping down of provision will mostly fall on the supply chain. So there will be a question around contracts that is very easily adjusted up or down. It obviously will be up or down; there will be the good times, which are actually the bad times, of course, because they are when there is a bad labour market. We also need to remember that as unemployment and volumes go down, the supply chain will be affected.

Q47 Kate Green: How much confidence do you have in the Work Capability Assessment, given its potential impact on the Work Programme, and given the volume and the nature of the claimant base that arrives on the Work Programme as a result of that test?

Dr Hudson: I know that there have been lots of issues around the Work Capability Assessment. There’s a very strong theme around Pathways to Work coming across in evidence from both Jobcentre Plus advisers and provider advisers, with regard to delays in receiving information and the quality of information received. I know that this is an area that the Department has been looking at, and it made a range of proposals in 2010, some of which started to be piloted at the back end of last year. There are plans for further changes to ensure that WCA is fit for purpose in 2011. I guess there is an issue around the speed of implementation planned for the Work Programme, and whether the changes that are being made to the WCA process will have sufficiently kicked in by the time the programme is being kick-started.

Dave Simmonds: I don’t have a lot of confidence in it. The overall outcome of Work Capability Assessments is that 10% end up in the support group and 25% in the work-related activity group (WRAG), and 65% are found fit for work. As a result of appeals, and the high number of appeals, that fit-for-work group reduces from 65% down to about 50%. This is an incredibly difficult and enormous process, what with the reassessments. What we don’t know yet is the results of the pilot Pathfinder in Burnley and Aberdeen, so we don’t know the results of that and we’ll certainly be very keenly watching that.

I would add one further thing to this question, if I could tag it on. The eligibility to join the Work Programme for people on Employment and Support Alliance (ESA) in the WRAG group is that it has got to be found that they will be capable of work in three months. This is going to form yet another process of
assessment or prognosis within the WCA. Somebody at some point has got to say, "Yes, you are likely to be ready for work in three months, therefore you join the Work Programme." whereas others will be told, "No, you're not going to be fit for work for six months or a year", or whatever, and "Off you go on to ESA, and there you will sit until you're reassessed again." You do have the option of volunteering, but otherwise, for that group of people, who by definition should have the worst of the health problems, they will in effect be in the same position as people on IB are now—that is, they sit on the benefits but they can volunteer. So we shouldn’t lose sight of the position of that particular group, and that is one of the main reasons why volumes are a lot lower on the Work Programme than originally envisaged.

Q48 Kate Green: Earlier, some of you touched on the fact that some people will be arriving on the Work Programme after long periods on inactive benefits, particularly IB. In those circumstances, is two years going to be sufficient to provide the support that’s likely to be needed by disabled people to get into work, and for the providers to receive their reward?

Stephen Evans: I’d probably also throw lone parents into that mix, many of whom are on Jobseeker’s Allowance, and there’s a question mark about lone parents with younger children who are not part of the Work Programme and what an enhanced Jobcentre Plus support offer means in practice for them. That’s another question, but for those lone parents, disabled people and others with multiple disadvantages on the Work Programme, the DWP’s figures and analysis tell their own story. They’re assuming lower job entry rates for those groups throughout the support period. So the answer to your question is no, because we’re expecting lower volumes to go into work. The question is, if you extended that period, would you actually get any higher job entry rates? That’s an unanswered question because nobody’s really tried to proactively extend, on a mass basis, back-to-work support to that sort of group. I think for a proportion of people in that group you will get job outcomes, but it will be lower than for most of the other groups—the traditional Jobseeker’s Allowance groups. Disabled people and others with multiple disadvantages on the Work Programme, the DWP’s figures and analysis tell their own story. They’re assuming lower job entry rates for those groups throughout the support period. So the answer to your question is no, because we’re expecting lower volumes to go into work.

The issue is, if you extended that period, would you actually get any higher job entry rates? That’s an unanswered question because nobody’s really tried to proactively extend, on a mass basis, back-to-work support to that sort of group. I think for a proportion of people in that group you will get job outcomes, but it will be lower than for most of the other groups—the traditional Jobseeker’s Allowance groups. Therefore, there’s a big question about what happens to probably the majority of people in that group who don’t get a job through those two years, and what will happen to them at the end of those two years when they go back to Jobcentre Plus. A gain, we come back to the role of Jobcentre Plus.

Professor Finn: Can I just add one other thing? The issue is about whether two years is long enough, and then there’s the question of what is a job for the groups we’re talking about. The issue then becomes one of whether part time jobs are recognised in the reward system for Work Programme providers. Will that incentive structure work in sync with Universal Credit, which is clearly designed to encourage these groups particularly to engage in many jobs while they go through? Again, I think this is one of the areas that hasn’t yet been explored in the Work Programme design.

Dr Hudson: Just briefly to add that there’s been a lot of research in recent years around mental health and employment, and issues around the nature of the job that people are being placed in. That is crucial to issues around sustainability.

Dave Simmonds: I have a final point, and I think it is important to make. I think all of the bidders are scratching their heads about how many job outcomes they can get in the second year, because everybody knows and all the experience tells you that the majority of job outcomes you get are in the first few months of 'what somebody joins a programme, whoever’s running it. Everybody’s asking how many outcomes you can realistically get in the second year. Therefore, how much should you be spending on participants in the second year? That’s where we’ve got some real concerns for the disadvantaged groups. As primes point out to me—and I’ve got to agree—the price that the DWP is paying, or how we calculate the average price that DWP would be paying, is a bit less than FND. But FND was for only one year, and they’re now expected to spread that reduced amount over two years. So at the moment there has to be a real question mark over the level of service that can be expected in that second year for disadvantaged groups.

Q49 Kate Green: That relates to remarks some of you were making earlier about the way in which providers might choose to focus their activities around groups that would make them more money more quickly. Do you think, given all the uncertainties about volumes and profiles, and the point that Dave just made about the insufficiency of the reward for working with the more disadvantaged in the second year, that there is a risk that some providers might operate their contracts in such a way as to make excessive profits from the Work Programme?

Dave Simmonds: From our reading and the modelling of the payment structure, a provider would have to make a judgment on an individual and groups of people, about how much it’s going to cost to get that person into work versus how much money they’re going to get from the Government for doing it. The decisions always come around the margins, so that second year of delivery that Dave talked about is a margin. As you get more into that Incapacity Benefit group, that’s the margin. So again, it depends on how the bids come back in terms of what volumes people think they can deliver and what their assessment of cost of delivery is; nobody really knows, in practice, for this group because we haven’t tried it before. That’s why, again, we can’t just have the bid come in, judge it,
think “That’s probably about right,” sign it off and then say “Off you go.” You really need proactively to see how it goes as you go along, because you’ll learn not just best practice about what works, but best practice about how much it costs to work as well, and you need to adjust the contracts as you go along so you build the correct incentives in.

Chair: I’m going to move on because we’ve got three more sections in 15 minutes, so I ask for shorter questions as shorter answers. We’ve got some questions now on the payment structure.

Q50 Stephen Lloyd: Thank you very much, Chair. We’ve talked a little bit about the payment structure and we all know the DWP this time is having a different way of slicing the payment. Would you agree with the Department’s payment structure of an initial attachment fee, followed by a job outcome fee paid after 13 or 26 weeks in work and off benefits, followed by a longer term sustainment fee—that is, the key different package that the Work Programme is using? What are your thoughts on those three different strands?

Professor Finn: It’s an elegant enough design, but the delivery of it’s going to be really difficult. It’s a very complex structure. You’ve got seven different client groups going into the programme, and you’ve got at least four different sets of payments that each of them are going to be eligible for, and I can just see a lot of bureaucratic process being tied up in monitoring, checking and authenticating these types of outcomes. In that design it seems to me to answer some of the problems about sustainability, for example, but I think there are going to be some real issues in the delivery. What is a job? How long does somebody have to be in a job to get a sustainment payment? What happens with people with health problems who have a fluctuating condition and are in and out of work? When they’re in that sustained job period, what’s the permitted period for which they can come out? These things become very complicated in the actual delivery of it rather than the theoretical design, and the question is whether it will tweak the right kinds of incentives. That’s my own view.

Dave Simmonds: There’s no doubt that it’s highly complex. I think theidders themselves are only just getting their heads around it. We can see the logic of including all those different payments. There are good reasons why they are there, and there are good reasons why, for example, the attachment fee disappears in year three. A further payment that you didn’t mention is the possible bonus payment that kicks in. But the degree of complexity around it and the resetting of the language and how prices are expressed—everybody is trying to get their heads around that at the moment. It is leading to some confusion, especially in some organisations within the supply chain that are not fully immersed in this new language and new way of thinking about it. So on the surface people can easily read it; indeed, I had an organisation just the other day saying, “Isn’t it wonderful? We’re going to get £13,000 for every IB claimant.” Well, no, you’re not. So I can see the reason for that complexity, I can agree with much of the logic, but there is a danger that the very complexity leads to an unravelling and a whole load of unintended consequences that none of us can quite see at the moment.

Stephen Lloyd: I’d like to do, because there’s a limited amount of time and my colleague has a very important question that leads on from this, is just sum up what I think you all agree on, and apologies for not going to the other two at the minute. You agree that the principle behind it is a good thing because it’s likely to prevent the parking scenarios that we’ve had for ages, where difficult people are parked and easy people are swiftly moved on, but the challenges are in the complexity of the delivery. Would that be a reasonable summation? Good, thank you. I think the next question is very important and we’ve only got about eight minutes.

Q51 Karen Bradley: One of the things that has come out through the written evidence we’ve received is some concern about the incentives for providers to place easier-to-place clients over and above the more difficult-to-place clients. The example perhaps that sets this out most clearly is that the maximum outcome payment for ex-IB claimants is just under three times the maximum job outcome payment for ex-JSA claimants. Is that enough to incentivise the providers to place those very difficult-to-place clients?

Dr Hudson: I’m not sure that it is enough, given what we know about the complexity of some clients’ journeys. There’s been a fair bit of evidence around the potential benefits of having some acknowledgement of softer outcomes within the payment system. I know that some of the third-sector organisations working with some of those clients who have a longer journey have conveyed the importance of recognising some of those intermediary outcomes. I haven’t seen a great deal of discussion around why that greater recognition of softer outcomes can’t be integrated in some way. It would be good to have some further discussion on that.

Q52 Karen Bradley: What would you suggest?

Dr Hudson: I guess I’m going back to some of the discussions that took place around the Personalised Employment Programme and recognising that for some clients it’s quite a big step to increase confidence and self-esteem, and to access a training programme, particularly for some of those clients with more complex needs. Having said that, I recognise that that’s very complex to administer.

Q53 Karen Bradley: So we’ve got seven categories and three payments, which is complicated enough, but there may be a need to build in more complication for the more difficult to help?

Dr Hudson: I think that there are some strong arguments for that.

Q54 Stephen Lloyd: What do the rest of the panel think on the three times? This is a crucial thing. Three times is, I think, a really positive direction of travel compared with previous programmes; it’s a recognition of the issue, but do you think it should be four times or five times, or is three times really the
best that you can hope for in the current economic climate?

Stephen Evans: I think one of the common themes from today is that there are a number of unknowns and we are in some uncharted territory. This is probably one of those known unknowns, if you like. My best guess at this stage, based on the bids that came in for the Personalised Employment Programme that Maria mentioned, coupled with some experience from European Social Fund programmes and Pathways to Work and other programmes, is that it may well get you to some decent level of job outcomes, but the caveat is that those other programmes were far smaller in scale and this is the first attempt on this scale to do it. I think we’ve probably got a decent chance but I think it’s fair to say that it’s pretty uncertain.

Dave Simmonds: The three times is important but actually almost irrelevant. The critical bit of the equation is the performance in job outcomes that you expect for that group. So once you bung all of these assumptions into a financial model, the actual income a provider could expect from across all of the groups is roughly equivalent. In other words, the Department is only paying three times as much in order that the amount of income is roughly equivalent across all of the groups. As soon as performance is higher than that minimum performance standard that is expected, then your income can go up quite a bit. There, what we’ve got to be careful of is whether or not that additional income is being taken as profit or being ploughed back in to securing the income. So it’s one reason why I was talking about the re-setting of the language, and how people express things; we’ve always got to be very careful. While it might appear like three times as much, the reality from the providers’ point of view is rather different.

Q55 Karen Bradley: Do you think that the categories that have been developed, the seven categories, are the best indication of barriers to work?

Dave Simmonds: I’m sorry, the—

Karen Bradley: The types, the customer groups.

Professor Finn: They’re rough and ready. The problem is they come from benefit eligibility. There has been, and I think the Department’s still doing some work on whether you could use some kind of assessment tool, as they do in Australia—a thing called the Job Seeker Classification Instrument, which tries to take into account a wider range of factors in identifying the nature of the barriers that people have. I think one of the difficulties with the benefit eligibility being the starting point for your assessment of what a person needs to get back into work is: what happens when somebody’s circumstances change? Do you as a provider then have an incentive to go back and get them to reapply for another kind of benefit? I can see a lot of process stuff coming in there, if a person was put into the JSA group but six months later their condition worsened; it’ll mean them saying “We’ll support them making an application for a higher rate of Employment and Support Allowance,” and things like that. So I think there’s a complexity there that something like the more flexible Job Seeker Classification Instrument doesn’t fail prey to.

Stephen Evans: There are two things on top of that that slightly concern me. One is lone parents, who are not differentiated in any particular way within those classifications, and I think, given the specific issues there and around child poverty, there’s a real case for a slightly fast-tracked approach. Second, there is the lack of regional variation in prices and pricing, given that the cost of delivery will vary in different regions, the most obvious example being London. So by paying a common price you’re almost accepting a lower performance offer in London because of the reasons we just talked about; that £9,000 is not in fact three times three, in this case.

Chair: Well done.

Q56 Brandon Lewis: You mentioned the 1:5 ratio of jobs to jobseekers. Keeping that in mind, do you see, in terms of the Government’s Work Programme as well, are there people involved in local government that can help to inform the process to make sure that the providers and DWP are fully aware of that differential?

Dave Simmonds: I have two quick answers to that. First of all, in the general role of local government, I do think that there is in effect a scrutiny role. I think that local authorities ought to be holding contractors to account as to how they are delivering and the performance in their local authority. That seems to me only to be right and proper, and part of local democracy and accountability, and Work Programme contractors should be subject to that. The mechanisms about how this happens haven’t been discussed as yet, but there should be proper mechanisms put in place for that. Secondly, in terms of specific weak economies, where there are low numbers of jobs, where there is recognition, as we have had and still do have within Rate Support Grant for high levels of unemployment, I’m still attracted to the view that there should be additional resources for those areas that can only be spent in those areas, and can only be spent with the joint agreement of the Work Programme contractor and the local authority together. I’m not convinced that Work Programme contractors, left on their own, would automatically spend more money in those areas with higher unemployment and with less labour demand. So I think there needs to be, specifically for those very tough areas, an added incentive for Work Programme contractors not only to work harder and better in those areas but also to work formally in partnership with local government and other partners.

Q57 Brandon Lewis: Just as a quick follow up, briefly. When you talk about local government, particularly in terms of informing this issue around where work is available in some of the harder areas, do you think local government itself directly is the right source for that information and partnership, or is it the new Local Enterprise Partnerships, which have got the business involvement in them directly?

Dave Simmonds: Yes, we’ve got a different geography emerging now. Clearly in some parts of the country the Local Enterprise Partnership will be the appropriate local partner, however, we don’t have a
national uniform coverage of LEPs, so you have to leave it open for individual authorities to be involved. **Chair:** Thanks very much for coming along. I think quite a lot of other questions, as a result of what you said, have now been raised in our minds. That will help us in the questioning of our other witnesses in our inquiry. So thank you very much for coming along this morning.
Wednesday 2 February 2011

Members present:
Dame Anne Begg (Chair)
Harriet Baldwin
Andrew Bingham
Karen Bradley
Alex Cunningham
Kate Green
Mr Oliver Heald
Glenda Jackson
Brandon Lewis
Stephen Lloyd
Teresa Pearce

Examination of Witnesses

Witnesses: Cllr Stephen Houghton, Leader of Barnsley Metropolitan Borough Council, Jonny Boux, Head of Employment Links, Community Links, Caroline Taunt, Head of Fundraising (Prime Contractors), The Prince’s Trust, and Christopher Knee, Chief Executive Officer, St Loye’s Foundation, gave evidence.

Q58 Chair: Welcome to the second evidence session of our inquiry into the Work Programme. May I welcome some of the representatives of the subcontractors for the Work Programme? Before I start, Harriet has a declaration to make.

Harriet Baldwin: Yes. Chair, may I declare my interest as a board member of the Social Investment Business, please?

Brandon Lewis: I need to declare an interest in the sense that I have had work experience placements in my office from the Prince’s Trust.

Q59 Chair: Okay, thank you very much. I wonder if you can, starting from you, Councillor Houghton, introduce yourselves for the record, just very briefly.

Stephen Houghton: My name is Councillor Stephen Houghton; I am the leader of Barnsley Council in South Yorkshire.

Jonny Boux: My name is Jonny Boux; I am the Head of Employment Links at Community Links.

Caroline Taunt: My name is Caroline Taunt and I am Head of Fundraising for the Prince’s Trust.

Christopher Knee: I am Christopher Knee; I am the CEO of St Loye’s Foundation, a disability charity.

Q60 Chair: Well, thanks very much and you are welcome this morning. Just a very general question to get started. Do you support the Government’s decision to replace all of the various and existing contracted employment programmes with a single work programme? Is it the right thing to do? Is the basic structure that the Government has come up with, to deliver it through prime contractors, the correct structure? Who wants to start?

Christopher Knee: I think some rationalisation was required. It was a little confusing previously, as there were a large number of programmes. People in Jobcentre Plus were possibly themselves confused about in which direction to post customers, so some rationalisation was required. Whether to go down to one programme, or two with Work Choice was the optimum, I am not sure.

Jonny Boux: At Community Links one thing we welcome with the Work Programme is the simplicity of one programme and the black box approach. We are a current New Deal prime contractor, but we recognised the complexity of the number of various programmes that were involved across the board. I am still unsure—and I share the view—that one programme is the sensible way forward.

Q61 Chair: Is that because you think that certain groups will get lost when it is one single programme?

Jonny Boux: There is a concern in that when we look at the Work Programme and the emphasis on benefits and the different payment structure for benefits, there is perhaps not so much the emphasis on need. Whereas we help an awful lot of individuals who may be homeless, who may be lone parents, ex-offenders, that focus is perhaps a bit blurred in the Work Programme. Perhaps there should be a larger number of programmes homed in on different groups and different needs.

Stephen Houghton: Some of you will be aware that I led a review of the local authority partnership approach to tackling long-term unemployment and worklessness for the previous Government. Houghton Report—Tackling Worklessness: a review of the contribution and role of local authorities, DCLG, 2009. One of our conclusions was that, yes, the system did need reform, so I do not think there is any doubt about that, but we did suggest that it would be better for services to be commissioned locally through local partnerships because of the local intelligence evidence and need for partners to work together at that local level. The single Work Programme does not quite do that, so on that basis, I am not quite sure whether it will have the desired effect.

Secondly, the current policy of a single work programme suggests that unemployment and worklessness is a supply-side problem, but in large parts of the country that is simply not the case. There is a huge shortage of jobs and no matter how you reconstruct or organise your programmes, if there are no jobs, there are no jobs. The consequences of that are clearly going to be picked up further down the track. What are missing in the current programme are demand-side measures.

Q62 Mr Heald: One of the problems is that if you look at the vacancies nationally, and particularly in the regions you are talking about, quite a lot of the jobs that are being advertised are those in skill shortage areas or those that are hard to fill. Is that an issue in your area?
Stephen Houghton: Well, there are two points to make. Firstly, don’t look at vacancies as necessarily the picture for how many jobs are available. Each year, one third of everyone in employment moves round in churn, so what you are seeing is natural movement in the labour market. It is not necessarily opportunities for the unemployed to come in; it is people moving around. But secondly, yes, there is clearly a point about skills and moving people into high skills jobs where there are vacancies, and making people more competitive. But we have to be realistic: we have huge numbers now unemployed—the figure nationally is 5 million. That is an enormous number of people on various benefits, from Incapacity Benefit (IB), Jobseekers Allowance (JSA), lone parent benefits and so on. When you look at the numbers, we need not just high-skilled employment and high added-value employment, which creates the wealth—of that there is no doubt—but for other sections in the community we need other forms of employment that they can aspire to, and very often that is what is missing in the high workless areas.

Q63 Chair: Caroline, you were about to say something.
Caroline Taunt: Yes, I was going to agree with my colleague on the right here. We very much support the Work Programme. It is an opportunity to address some of the difficulties with programmes that have gone before. We too are a subcontractor on Flexible New Deal; there have been some issues with that, so hopefully this will be a chance to address that. But I would really support the fact that focusing solely on benefits, without being able to support particularly disadvantaged groups or look at other areas where clients in general—for us, that is young people—might need support, seems to us a real flaw. We focus, for example, on disabled young people, lone parents or young people in or leaving care, and I think there is a real risk with the Work Programme that those groups might be ignored. When you are solely looking at the customer journey from not being in work to being in work, you can omit those that need more complex support. As an organisation, we also support people into education and training, and sometimes that is the necessary step that provides the correct support for the individual, rather than supporting them directly into work.

Q64 Stephen Lloyd: But isn’t that where the black box comes in? Providers have the opportunity to be innovative, to use different subcontractors and to really think outside the box. That is what I thought that was all about.
Caroline Taunt: It is to a degree. I think that the black box is a very good idea because it means that you are not prescribed and can do what you do best. It just depends if there is enough money in it, and for us, in all our discussions with the prime contractors, it is difficult to see if there is the money to support, in our case, young people who really need more intensive interventions. Obviously you are not being paid on an education or a training outcome, for a young person who is getting nearer to the labour market but not quite there, you are solely being paid when a young person gets into work. That prescribes you just the same, to some degree, as a programme that does not take the black box approach would, because you have to deliver something that has that job outcome. It means that people for whom a different intervention would be better, or who would need something that was more intensive and therefore more costly, can well be ignored.

Q65 Chair: We have questions on the payment structure coming up. I think from what you are saying, however, that you feel that the old problem, even in Flexible New Deal, is the whole issue of cherry picking or creaming and parking; that that might still exist in the new programme. Is that so?
Caroline Taunt: Yes, I think it could well still exist.
Jonny Boux: I think it probably relates to payment structure. It is important to note that we welcome the black box if it is applied to delivery, but it is not being applied to the payment structure, and that is one of the major issues.

Q66 Brandon Lewis: Without focusing on the payment structure, which obviously we will come back to, does the panel think that the design of the structure—with the prime contractors looking effectively at that strategic side of delivery but then having subcontractors focused on delivery to the client directly—has advantages, or should some of the voluntary groups and what will effectively be subcontractors, have more opportunity to be the prime contractors and have an advantage in that?
Jonny Boux: It has an advantage in the sense that the larger primes that are coming into the market bring a wealth of expertise. Even we, who might be called a medium-sized voluntary sector organisation, could not aim to match their expertise in contract management or strategic management, given their sheer size. That is an advantage. However, there is a concern on our side that we have a strong voice, we have a very strong lobbying department called linksUK, who do an awful lot of work at a strategic level, and we might lose that voice and our seat at the table. That is where the concern lies.

Q67 Brandon Lewis: Can I just ask, particularly with the focus on that, and the same for anyone else when you answer, what do you think needs to be in place to ensure that sort of voice can still be clearly heard?
Jonny Boux: Perhaps something through the Merlin Standard, where there is an emphasis on the subs—off the top of my head, I’m not quite sure how it would work but I guess it would make sure that we have our place at the table, and that the primes make sure we do as well.
Christopher Knee: I think the supply chain length is an issue. You put a scenario of a prime going down to subcontractors, who may be charitable organisations, but there is sometimes an intermediate tier as well. I am concerned that the length of the supply chain may mean that the delivery organisations that many of us represent may be working on overly restricted budgets. That is one issue.
Secondly, there are some charitable organisations that are prime providers; I know of two in the south-west, and maybe there are others in other parts of the country, so there is some chance to have a relationship there. Most prime providers are aiming to get charitable organisations involved. Their difficulty is in risk management whilst being seen to bring us in. On the one hand, they have to show a return to their treasuries; on the other hand, they know the Government would like to see more charitable involvement, and how do you play that off? It is that dynamic that we are exploring at the moment.

Caroline Taunt: I would say that we are really positive about the move to subcontract with prime contractors. It is something that is reasonably new. For us it potentially offers real security. The alternative for us is bidding for smaller contracts, which have more of a tendency to finish and to turnover. With this we are seeing quite long contract value, potentially of quite significant sizes and, for us, that could offer real security, so we welcome it.

Also, it gives us the chance to build real strategic partnerships with these organisations; the voluntary sector may say we are talking about partnerships but I do not think we are always doing it. But we are seeing this as an opportunity, not just to build a partnership for the Work Programme but for other programmes that may come up, so we are not always starting from scratch and kind of scrabbling to get ready for things; we have some strategic partnerships in place that we can use year after year and build some strong foundations for our work with young people.

I would echo what others have said, though, that it does have to be a genuinely mutual partnership. The voluntary sector does have a huge amount to offer through this, and there is a phrase that is emerging through the bidding process about being “bid candy”—involving the voluntary sector just to make the bids look good and to persuade DWP to pick—and I think it has to be a genuine partnership with the voluntary sector that does have mutual benefit, rather than just being there for the show of the name.

Stephen Houghton: We know already that worklessness, long-term unemployment in particular, varies from one area to another and place to place in terms of its causes and its consequences. If we are talking about strategic top-down solutions, they will not work. We know that from the past. What we really need to do is design programmes as close to communities and people as is possible and that means establishing local partnerships to see what the issues are and to try and develop solutions.

The worry that I have at the moment is that contracts are on a big regional level; if we are designing solutions in that context, they won’t work because even within regions, there are huge differences in terms of the context and the people affected. All the contractors need to be engaging not only with each other in this process but with local authorities and other local partners to see what needs to be done. If they do not, then it will fail and there is no question about that.

Now to be fair, contractors are starting to explore those discussions, certainly in my authority and I suspect elsewhere. But we cannot have a position where someone can design something, as we had in London previously, or in Leeds, as it might be—my region—and think they have the answer to it all because they won’t. We need to get into that kind of local detail, particularly in those high worklessness areas where we have huge volumes of numbers.

Q68 Harriett Baldwin: Just a question for the Prince’s Trust, because I know you work a lot with young people helping them set up their own businesses. Do you think becoming sustainably self-employed ought to be an outcome that is paid for under the Work Programme?

Caroline Taunt: Yes, I think it should be, and with most prime contractors we have been talking to, it is being treated as that. Some have a separate pathway for self-employment. But yes, I very much think so. For some of the young people we support, and I particularly look at young offenders under this, self-employment is a really positive option. A lot of the young people that we come across may not have the skills or qualifications for some employment pathways, but they are very entrepreneurial and self-employment can be a very positive route. The slight difficulty we are coming across is the benefits question. When a person sets up in self-employment, it is a slow process to completely come off benefits, and the young people we work with, despite quite intensive mentoring, may not get to that stage for a couple of years or more. That can obviously cause a little bit of tension through this programme because a young person will be required to come completely off benefits, but I definitely see self-employment as being an option there, yes.

Q69 Chair: Is the Universal Credit going to help with that; do you think?

Caroline Taunt: Potentially yes, and there are other programmes around as well that self-employment is an option for. So we are looking at, for example, the New Enterprise Allowance, which applies to a slightly different group of young people from those that will be coming through the Work Programme.

Stephen Houghton: Just to come back to the point about designing programmes and the black box approach. If we want to be innovative and we want to develop solutions for individuals who have got complex needs, the providers do not have the services that are required for that. They lie in other agencies. Those other agencies need to be engaged in the process to create new solutions but obviously in the design process as well, right at the beginning. Local authorities, health bodies, currently Primary Care Trusts (PCTs), soon to be GP consortia or whatever it might be, all need to be at the table and involved in designing the solutions. If you do not have them, you will lose the people who you are trying to bring back into the labour market.

Q70 Glenda Jackson: Just following on from that, everything we have heard to date, interesting though it is and we are grateful for it, is based on past experience but we are going into a completely new area. Some of us dispute whether this is actually about welfare to work; it is something, it seems to me, of
reducing the benefits bill. How can you possibly put forward a programme, when you do not know how many people you are going to have to deal with? You spoke about young people, people leaving prison: we all know that the people who are going to be the most difficult to work with have a multiplicity of difficulties— they do not fit into neat boxes. How can you possibly know what you are going to have to need to plan for as a programme, when none of us know how many people are going to be coming through the door and how they are going to be coming through the door? Have you any idea at all of what the kinds of costs are going to be?

Jonny Boux: This is an issue for us in our negotiations with primes, in the sense that the flows or projections that are being bandied about seem very low to us.

Q71 Chair: What do you mean when you say the flows seem very low?

Jonny Boux: The predicted numbers of referrals through the door basically, when the Work Programme goes live.

Q72 Chair: Is that because there is going to be a slow start or a soft start?

Jonny Boux: It is based on DWP projections and we know, being a New Deal provider at the moment, that the flows that are coming through our doors are that much higher than what is being predicted.

Q73 Chair: And that is without all the new ones?

Jonny Boux: Yes, and therefore, when the Work Programme goes live, it raises all sorts of issues about planning because simply we know that the chances are, two or three months into the programme, that the numbers may go flying up.

Q74 Glenda Jackson: But surely the bottom line here is the assessment of the individual. People are going to be in danger of losing their benefit if they do not meet certain requirements and what I am asking you is, have you any idea at all of how many people that is going to bring through the door?

Caroline Taunt: We certainly do not.

Glenda Jackson: Thank you.

Caroline Taunt: That is a huge factor for us with the programme: the vast quantity of unknowns. We are quite a large voluntary organisation and we are quite well resourced, and even so, we do not necessarily know exactly the benefit groups that young people are in when they come to us and there is big cost difference there. We do not necessarily know the length of benefit claim that young people have had when they come to us. We do not necessarily know the length of time that it takes for each young person in a particular benefit group to move into employment. There are huge unknowns.

We are quite well resourced and we have an evaluation team and we do monitoring, so we are reasonably well set up for this. Other voluntary providers, I can imagine, will have even less knowledge. That all equates to an enormous financial risk. We are positive about the programme because it is large scale and, quite frankly, we have to engage with it because not only does it represent such big contracts but also there is a real risk that we would not be able to work with a lot of the young people that we do now and we do good work with now because they will go through the Work Programme and will not be available to us. We feel and I think other voluntary providers feel that they have to engage with the Work Programme, but it may come with enormous cost implications that we just do not know about yet. It is definitely a big risk.

Stephen Houghton: I agree with the point that you are making. Taking my own borough, we currently have 27,000 people on out-of-work benefits; 17,000 are on IB, around 7,000 or 8,000 on JSA and a couple of thousand on lone parent benefit. What we are being told is they are going to be moved back into the labour market to get work. What I also know in my borough is that there aren't any jobs for them. So what are we going to do with them then, and what are the outcomes we are looking for when we put them on to programmes? Because history tells us, if you run people around on programmes going nowhere, they just become more disillusioned and disaffected and drop out of the system. We need destinations for them.

Q75 Stephen Lloyd: They also say, if you keep 17,000 on IB when not necessarily all of them need to be on IB, you completely wipe out the rest of their lives.

Stephen Houghton: Yes, and we need to get them off it. I come back to the point: this is not just a supply-side problem, it is a demand-side problem and we need to create some sort of employment for them to go to. Talking to the providers, if they are getting paid by results and results are jobs, how are they going to get paid? There is a huge risk for them here if they are not going to place them somewhere. Now what the providers are talking to us about is, guess what, creating a job creation programme so they can get paid. So yes, it is worthwhile for the individuals and we would want to do that. Future Jobs Fund (FJF) was one of the biggest successes we ever had, but the providers also need to put them somewhere in order to get paid, or they or their subcontractors have got a problem further down the track. Coupled to this, those 17,000 on IB—and I want to get them off; it is not our aim and objective in life to keep them there—are all going to lose their benefits as well. They are going to lose Council Tax Benefit, they are going to lose Housing Benefit, and they are not going to be very happy people if they are mandated on to a programme that is not going to give them a job. Who is picking up the consequences of that? We are as a local authority. Our problem is we are having our budgets cut hugely and the biggest budget cuts in local authorities are in the areas of highest worklessness. Someone has got to piece all of these things together and try and make it work, and we are not sure yet how this is going to play out. I come back to the fact that, at the very least, providers and local agencies are going to have to get their heads together around this to try and make some sense of it, or we are going to get some real problems in three or four years’ time.
Chair: We all have questions about the delivery of the Work Programme and we are steering into that as well.

Q76 Alex Cunningham: Just following on exactly from what you just said, Stephen, we are where we as far as the providers are concerned, that is sorted, but you are concerned about the gap between the local needs and perhaps the providers’ strategy. How do we close that gap? You talk about people talking to each other, but how do we close that gap? Do we perhaps compel the providers in some way to follow a particular system to address the issues that you raised earlier?

Stephen Houghton: The Government’s position is that the providers would be foolish not to engage local authorities and other agencies, and clearly that is right. Whether the providers will or not remains to be seen. There is a huge issue about sharing information and, in particular, performance information. Under the current system, our Working Skills Board, which is a private sector led, have written to the providers to say, “What are you spending? What is going on? How successful have you been?” They have refused to provide that information. We then wrote to DWP and said, “Can we have it?” and DWP said, “No.” We then put a Freedom of Information request in and that was refused as well. We cannot have that under the new programme. We must share performance information to see what is being done locally, where the money is being spent, and whether it is effective. That is also about localism, transparency and scrutiny of the use of public money. At the moment, we do not have that, so the first thing we have to do is break down that barrier about sharing what is going on.

Secondly, we need to share data and information more generally about the client group that is out there because, particularly where it is not the same current prime who are going to be delivering under the Work Programme, there is still an application there because, particularly where it is not the same current prime what happens to them? Will they have to go through a whole new implication as well.

Q77 Chair: Can I just ask about what is happening—

Caroline Taunt: Where are they going? Are they just dumped? Will they have to go through a whole new process before they can get on to the new programme? What happens to them?

Caroline Taunt: For us, we know that we are talking here about people who are not always particularly easy to engage.

Caroline Taunt: They have become very disengaged and yes, exactly, if they are dropped and then picked up again, that has huge implications for their motivation, their confidence and their willingness to engage in future programmes. It means the work has to start again and it takes all that much longer and more resourcing to pick up those young people again. It is not so applicable to Flexible New Deal, but I think there is still an application there because, particularly where it is not the same current prime who are going to be delivering under the Work Programme, there is a risk. Unless something happens in that period, there will be a major gap in provision. When you set that off against many of the other programmes we deliver, finishing this financial year as well, we are left with a major problem to retain, even as a medium-sized voluntary sector organisation, the level of resource that we need for the offer that we are talking about on the Work Programme. Three months down the line, that becomes a major issue in terms of premises and staffing. So it is a concern.

Q78 Chair: Are you going to have to lay people off? Presumably you do not know at this stage if you are going to win any contracts anywhere, or if you are going to go into something with a prime contractor.

Jonny Boux: There is nothing to stop the providers from following the gaps that are now there. Unless something changes and there is some form of bridging arrangement over that transition period between April and July, there is a risk that we would have to lay people off. I am speaking as an organisation with a turnover of £10 million to £11 million a year, so for smaller voluntary sector organisations, I am sure that the issue will be multiplied.

Q79 Chair: Christopher, you represent one of the smaller ones in relative size. What is your position?

Christopher Knee: Yes we do, and we have about a £4 million turnover, so we are much smaller. We are not in the position, however, of being a deliverer on the existing programmes, except for one specialist programme, which is remaining, as is some European funding. For us the transition issue has not arisen.

Q80 Glenda Jackson: Where does this gap leave the people you have been working with? What happens to them?

Glenda Jackson: For us, we know that we are talking here about people who are not always particularly easy to engage.

Glenda Jackson: They have become very disengaged and yes, exactly, if they are dropped and then picked up again, that has huge implications for their motivation, their confidence and their willingness to engage in future programmes. It means the work has to start again and it takes all that much longer and more resourcing to pick up those young people again. It is not so applicable to Flexible New Deal, but I think there is still an application there because, particularly where it is not the same current prime who are going to be delivering under the Work Programme—

It has been raised quite a lot, and we picked it up when we were looking at youth unemployment—in the gap when the existing programmes came to an end? Flexible New Deal is all right because it has got a run on but something like Pathways to Work comes to an end at the end of March and the Work Programme does not get going until the summer. You must all be in that position now. What is your take on that and is there anything that particularly concerns you in terms of your own staff?
Programme, there will be a transition period. Certainly, it was our experience last time that contracting, IT systems, all of those things, takes far longer than you would expect. Although the aspiration is very good for the Work Programme to start at the beginning of the summer, in reality there will be a longer gap than we expect. For us, that has a really profound effect on the people we are looking to support.

Q81 Chair: And is there a danger that some of the supply chain will drop away? They will not survive through that gap and so they will not be there when everything else gets fully geared up into the Work Programme?

Caroline Taunt: That is a danger, particularly obviously for smaller providers where staff will be at risk. My impression is that some prime contractors do have ideas for dealing with that and possibly that is something to ask those who are following us. Perhaps some kind of advanced funding or something like that will be provided, but where there is a gap, small organisations just do not have the cash flow to sustain themselves for a potential delivery in a few months’ time. It is just not how the finances work.

Q82 Stephen Lloyd: There is one thing where I am a bit puzzled. Obviously I have addressed this to the Government, and one of their answers, which you touched on briefly, was that the prime providers will already have in place the sub primes that they are going to be dealing with. A lot of the responsibility will be on the prime providers to ensure that they keep those sub primes, because two months later they are going to roll it out in June. Now obviously there are cost implications for the primes, but what some representatives from the DWP have said to me is that it will be to the benefit of the primes to make sure that they hold those sub primes over the next couple of months because these are going to be exactly the same people that they are going to be using as subcontractors. Are you saying that that is just nonsense?

Caroline Taunt: Not nonsense. To a certain degree I think that is true, but I suppose, for starters, the Work Programme is not exactly the same groups that we have seen, certainly not age wise. I would hope that there were new providers coming into play to deal with the younger age group. Where DWP on the Framework have selected new prime contractors who will not potentially be delivering at the moment, there is not going to be complete crossover. Where there is a concern is in those contract package areas where there is a change in prime contractor, which, given that there are two or three in most areas, will be a significant number of them.

You are absolutely right: in those areas where it is going to be the same prime contractor who has been delivering previous programmes, they will continue under the Work Programme. Again, that does come back to the financing of it, because there is such a delay in the payments under the Work Programme that, even where it is the same prime contractor dealing with the same supply chain, the payments might still not come through in time to support that supply chain remaining in the process.

Q83 Stephen Lloyd: Okay. I will take those points because they are important but then I will move on because I suspect you are all going to say the same, so that is useful. On the outcome-based payments, how do you all expect the Work Programme’s largely outcome-based payment model to affect the operation of your organisations? We touched on it briefly but now more specifically, if we start with Jonny?

Jonny Boux: The major implication for us is the capital requirements that we will need to successfully deliver the Work Programme. Even in the circumstance where primes would protect some of the risks of subs, the payment model dictates that they can only do that to a certain extent. What is coming down to us as subs is a diluted model of what the primes are receiving as their funding models. To give you an example, some of the primes have offered us a scenario where we may get some small payment for an immediate job outcome that is not reflected in their model, but they will retain some of the longer term sustainable payments to offset that. Even so, generally with the models that are being offered to us, you are looking at fairly large working capital requirements, certainly between year one and year three, which is challenging, even for an organisation of our size.

Caroline Taunt: I would echo that. I get the impression that DWP’s intention with the funding model they produced was that there would be one payment structure for prime contractors, and that they would then vary their payments to take into account their supply chain. For example, larger subcontractors might be reflective of their payment structure, whereas smaller providers might get some kind of up-front payment. That has not been our experience. Our experience is that the vast majority of prime contractors are planning to pass down exactly as they find it from DWP, and that includes the reductions towards the end of the programme and the discount that DWP is asking for on the maximum potential figures. That is where the real concern comes in for us. Even at the front-end of the programme, there are real implications obviously for cash flow—the fact that you are waiting two years for payments for something you delivered a long time ago.

Almost the hidden concern is that a lot of the financial modelling that we are doing and talking about to primes is about year one, year two; it is year three, four, five where the major concerns come in. By then, there is no attachment payments and everything is even more end-loaded on the programme. Our programmes are tried and tested over a long period. We have very limited capacity to reduce the cost of what we do, so these are just going to be getting less money for the same expenditure towards the end of the programme. When you then take into account that we are being expected to offer a further discount on that, because that is what DWP are asking prime contractors for and they are passing it down, it becomes increasingly prohibitive the longer the programme goes on.
Q84 Stephen Lloyd: But on the outcome side, for people formerly on IB or whatever, the amount paid would be higher than it is currently, so that presumably would be a positive step.

Caroline Taunt: Yes it would, and there is some differential in payment between groups. I would say, though, that for us as an organisation, we support disadvantaged young people, but even so, most of them are coming from the JSA 18 to 24 or 25-plus groups. They are young people facing multiple disadvantages and who, quite frankly, we need to spend quite a lot of money on in order to be able to support them to take on work. It is even more expensive, obviously, to be engaging those who are coming off IB or the group that has now been included this week—those who are still on IB. My feeling would be that there is not enough differential taken into account but that there is some through the programme. I think very few organisations will be considering supporting those most-hard-to-reach groups, so that is probably something to bear in mind—you cannot necessarily guarantee supporting those people into work. You cannot necessarily guarantee getting the job outcome and sustaining it for them.

Stephen Lloyd: Because of the challenges they face. Okay, thank you for that.

Christopher Knee: The financing and capital issues are obviously vitally important but as a question of principle rather than of design, I think the principle of payment by results should align the interests of the customer with the interests of the provider. If it is purely on a fee-paid basis, it is not necessarily the case that the interest of the consumer and the interest of the provider coincide. As a matter of principle, it is very positive, but the design is another issue. It comes back to an earlier question about the assessment and the characteristics of the customers coming through. Within each of these cohorts or within each of these groups there will be people, no matter what benefit they come from, who are very difficult to support. A payment by results in that environment does encourage a concentration on those who will move into work more quickly, will trigger a payment, to the disadvantage of those who are the harder-to-help. That is one of the big downsides of the payment-by-results model.

Q85 Stephen Lloyd: Right, I hear that. A couple of other things because we are coming to Stephen later on the LA, if that is all right, just to focus on the three other bodies for the minute, what proportion of the payments made to prime providers, particularly on the up-front attachment fees, do you expect to be passed to the second and third tier? What is your anticipation?

Christopher Knee: In terms of how much risk?

Stephen Lloyd: What percentage do you think the primes are going to pass down?

Christopher Knee: I think they will pass between 85% and 50%, depending on the risk that the subcontractor is prepared to take and the amount of capital that the subcontractor is prepared to put in.

Jonny Boux: We are negotiating with several primes and our general experience is that the retention of the management fee is around 20% to 25%.

Stephen Lloyd: They keep 20% to 25%?

Jonny Boux: Yes.

Q86 Stephen Lloyd: Would you broadly agree with that, Caroline?

Caroline Taunt: Yes. Probably what we are finding is the best-case scenario; DWP’s model, minus a certain percentage. Some primes have been talking to us along those lines. It does get more difficult, as my colleague said, when you are talking about a programme that does not necessarily follow that three-stage structure. We have programmes that are for young people who are not anywhere near ready to move into work. We are looking at either an up-front payment or trying to talk to primes about something that moves away from that three-stage model. There you are looking at an awful lot less. So yes, more along the lines of maybe the 50% or even more being taken by the primes. I would again emphasise that it is slightly confused by this discount point. The fact that there is the management fee and then the discount that the DWP are asking for on the job outcomes makes it hard to know the total percentage that is going from the top end of it.

Stephen Lloyd: Okay, this is clearly a key area, and I have spoken with a lot of training providers in my own constituency, including the FEs.

Q87 Glenda Jackson: To go back to the first point, the payment by results, as Councillor Houghton has already pointed out, the Government’s view is the result is the job, but we have been through the fact that there are not going to be sufficient jobs out there. To speak about your particular interest, although this applies across the board as we all know, is time going to be a factor in defining a result as far as you are aware? And the follow-on question to the one we have just heard: we are still talking, are we not, about funding for an ill-defined number of people. Does anybody know how many people you are going to have to care for? If we do not, the arguments about where the money is and the percentages that are going down the supply chain become in a sense irrelevant, don’t they?

Caroline Taunt: Yes, I think you are absolutely right. Going back to Flexible New Deal, we know that the numbers that were estimated were far higher than the referrals that actually came through. Reading between the lines, what has happened here is probably it has been underestimated to ensure that it does not happen again, which you could slightly look at as the better case scenario, because you will have more coming through rather than less and you will not have overstuffed and what have you. But it still leads to great uncertainty about who is coming through.

You are dealing also with young people, in our case, in benefits groups that you have not necessarily supported before. So yes, we have touched on this. There are cost implications and resourcing implications that we just do not have a handle on at the moment. So yes, to some degree we know in our organisation that we are not correctly costing the work
we are doing because we cannot. We do not know how to build in the amount we will need for monitoring and evaluation, even down to things like aligning IT systems, which is incredibly complicated for new players in this arena. There are real difficulties with that.

Q88 Glenda Jackson: There is a big black hole really isn’t there?  

Caroline Taunt: There is a huge black hole, yes.  

Jonny Boux: Just to echo that, one of the real challenges for us is not just the overall number but the split in benefit type. The level of support that we will have to give somebody that is coming off JSA compared with, say, a JSA customer, who is what we might call very job ready, is very different. As you say, not being able to know how many might get through with a differing need will be a challenge.

Stephen Houghton: May I make one point on this? The ratio between the easy-to-reach and the harder-to-reach needs to be right because if it isn’t then clearly people are going to take the low-hanging fruit. There is another issue here in terms of payment by results in so far as the contracts for the primes are on a regional basis, so their outcomes are on a regional basis. The tendency will be, “Let’s get people into jobs in the places we can get them into jobs,” but it is not the same across the regions. We could get huge disparities in that you may well have some success in Leeds, for example, because there are employment opportunities and we are getting unemployed people back to work there, but other parts of the region, where there aren’t the jobs, will get ignored. For me, as well as having a payment structure—that is the ratio between the easy to reach and those hard to reach, which is right—we need to have a payment structure place by place and give some incentives to work in those harder to reach areas. Otherwise, the tendency will be, and quite naturally because you will be under pressure to get a return, to take it where you can, when you can, as opposed to tackling some of these ingrained problems.

Chair: I am conscious that time is moving on so Teresa if you ask your question and then I think Andrew wants to come in and then we are coming back to Stephen.

Q89 Teresa Pearce: You are talking about outcome-based payments and the delivery chain, and it is quite clear from what you are all saying that it is the subcontractors who have to do the delivery and achieve the outcome. Yet I think you are saying that 25% to 50% of the fee is kept by the prime. What do the primes actually do?  

Caroline Taunt: One thing to mention is that some primes are doing delivery. There is a range of different prime contractors. Some will be subcontracting all of the work, and they are more managing agents, whereas others will actually be doing quite a lot of the delivery, or more of the work, depending on the terminology you want to use, and then passing the rest down to the supply chain. So there is a range. A certain management fee is usual in our experience for contracts like this. There is a certain amount of support that they can give, certainly with things like IT systems. There is some degree of overarching support, and certainly in terms of the referral process that comes through, but it is very high compared with the fact that we still have fixed costs to deliver what we do. I think it does come down, to a certain degree, to how much money is in the programme overall. If there is enough for us to be able to still deliver what we do to a high quality standard then that is one thing, but, as has been touched on previously, the nature of the programme and the way it is funded can lead to you taking the easy option or not delivering such high quality interventions, because there is quite simply not the money in it to enable you to do that. That is where the real difficulty comes in.

Christopher Knee: To be fair, to supplement that answer, I think it is only 50% where the finance is being provided, and where the risk is also being offset. I would say that if the prime provider is pushing down the financial requirement and pushing down the risk, then you would see it much less, and 17.5%, including the bid discount, is the lowest that we have seen. When I have spoken to managers within big prime providers, they have said, “Well, we have got to go to our treasury to argue that capital may be 15% within a large organisation. If they are covering that capital requirement then it is perfectly reasonable that they should charge for it. The question is, is there something in the design that could further offset the need to do that, so that more resources could be passed down to the front line?”

Q90 Andrew Bingham: Jonny mentioned the categories that clients will be put into—I think there are seven. Do you think that is about right, do you think they are the best way of dividing them up, or do you think there should be more? Less? I am interested in all of your comments really.

Jonny Boux: We have a very strong view that differential payment should be based on need, and not just benefits. There is a real danger here, and I speak from experience of delivering to large numbers of people on JSA, particularly young people—I know my colleague spoke about it as well. We deal with large numbers of people who are homeless or at risk of homelessness, and they have multiple barriers that prevent them from gaining employment. The current structure at the moment does not reflect the differing need of the huge range of people you find on JSA, for instance, particularly young people, and there is a real danger that certain groups that are a real core of what we do at Community Links will suffer from that.

Caroline Taunt: I would completely echo that. Seeing JSA as the easiest to reach group amongst a range does mask different needs. For us a really fundamental factor is that, at their most disengaged, the young people who come to us are not necessarily even claiming benefits at all. They are so disengaged from the entire system that they would not be talking to Jobcentre Plus; they would not be engaged with any kind of statutory provision. They would have been at home for the last three years, so that is masking a potentially even more needy group, which is those who just aren’t coming into contact with any kind of statutory provision at all. A real concern for us is that some of those who we would see as most in need
of support under this programme won’t be caught up through Jobcentre Plus for it.

**Q91 Andrew Bingham:** You are saying these categories could mask the real difficulties?

**Caroline Taunt:** Yes, and there is another unknown number for you; we will still be continuing our support for those young people, but obviously there won’t be any payment for it through this programme.

**Q92 Andrew Bingham:** The outcome payments for ex-IB claimants is almost three times that for JSA, and I think, Stephen, you mentioned earlier that you are not sure if that is right. What do the others think? Is that about right? I take what you said about regional variations, but just park that to one side; I am interested in the differential payments.

**Christopher Knee:** I think it is very much a proxy, because linked to the previous point, I know Employment-Related Services Association (ERSA) has made an argument that payment should be based on an assessment of the person, but the counter-argument was that the benefit from which somebody comes is a proxy for needs, and I am not sure that it is a good enough proxy, and I suspect that the overlap of need between all those groups is fairly significant, so that there will be people within the JSA 25 plus group with very significant needs, but with very few resources, so they are possibly going to be overlooked. Whereas, in the ex-IB claimant group, there may be some who are relatively well positioned, so the proxy may only work at 60% or 70%.

**Andrew Bingham:** Okay, thank you. Interesting.

**Q93 Kate Green:** I just wanted to ask about the provision of the support for the most disadvantaged claimants, and those whom you will be receiving perhaps for the first time. I think, Stephen, you alluded to the need to work with a range of agencies to provide holistic support, perhaps including health; it could be in relation to mental health, it could be addictions, it could be housing, and so on. How well prepared are those services to work with your cohort who are going to move from one benefit to the other, there are real issues there? I agree that when talking of the group on Incapacity Benefit, that is potentially more of an issue, and it is difficult to know because, again, we do not know the numbers coming through within that group. Certainly, in terms of JSA customers we work with, and the customers on some of the other benefits, then yes, the expertise is there.

**Q94 Alex Cunningham:** Is it really the same customer group that is coming through? I met Scope yesterday, and they are worried about the huge increase in the number of people coming off Incapacity Benefit coming into the system. Their complex needs and everything will be more substantial, and therefore the amount of capacity within the system to deal with those people is not there. That is a real concern to them. Are you telling us that the system will be able to cope with this new cohort? Is the expertise really there?

**Jonny Boux:** I think in our experience, in the agencies we work with, the answer is yes, to a degree. I agree that many people are going to move from one benefit to the other, and those whom you will be receiving perhaps for the first time. That is a real concern to them. Are you telling us that the system will be able to cope with this new cohort? Is the expertise really there?

**Q95 Alex Cunningham:** So, for the specific new group of people who are going to move from one benefit to the other, there are real issues there?

**Caroline Taunt:** For us that is an unknown as we work with, and the customers on some of the other benefits, then yes, the expertise is there.

**Q96 Alex Cunningham:** So Scope’s fear is well founded?

**Caroline Taunt:** I think so. I think that is a real concern.

**Christopher Knee:** As a specialist provider in the disability area, we deal with a lot of Incapacity Benefit people now, and we do run a DWP programme—residential training—and we are getting 39% of people into work—that is the average over the last four years, including the dip last year. These are hugely better resourced than this particular
programme, so the specialisms are there, they can be mobilised, but with the financing available under this programme I suspect that some will not get the attention that they need—a lot will not get the attention they need.

Chair: Presumably you won’t know the volumes of anything until migration really gets under way and you see the proportions that are coming out the other end.

Q97 Glenda Jackson: Briefly, other evidence that we have received suggests, and certainly the Government has been loud in saying, that the changes are dependent upon an individual being worked with very, very closely, and in a flexible way. The evidence that we are getting back is that it needs people who are extremely well trained and skilled and flexible. In my own direct experience, from my own constituency, I would say this is most marked in people with mental health issues. What you seem to be telling me is that those existing organisations out there, which are in the main quite small, are going to lose out under this new system. Have you intimation of whether there are organisations waiting in the wings to come in and deal with this vastly increased client group, as far as you know?

Jonny Boux: I certainly do not think there are many organisations waiting in the wings.

Glenda Jackson: Thank you.

Q98 Chair: Finally, is the Merlin Standard sufficiently robust to protect subcontractors and other supply chain partners?

Jonny Boux: I think it is a bit of an unknown for us, because we really welcome the Merlin Standard. We think it is a very positive step in the sense that, in prior programmes, we have not had a similar standard in place. However, we have not been subject to it operationally, so we will wait and see.

Q99 Chair: So you do not know how it is going to work in practice? It seems quite vague to me.

Caroline Taunt: Yes, I second that. It is difficult to know exactly. Certainly we welcome something, because in previous instances we have found that we have been mentioned at the bidding stage, but you can end up not being used once it comes to contracting. I think that certainly should cease through the Merlin Standard, which is something that we see as a really welcome development, but—I think the questions centred on conflict resolution—it is less clear to me how it would operate. Certainly it is better than not having anything there at all.

Q100 Chair: It should lead to greater transparency as well?

Caroline Taunt: Yes, I think so, and certainly, in our conversations with them, prime contractors are referring to it, and so that is a step up.

Christopher Knee: It was the process of setting up the Merlin Standard that was so positive, and I think the worst abuses have gone; they have disappeared. Whether the standard itself is robust, I do not think it is. It is motherhood and apple pie really; a statement of a lot of good intentions.

Q101 Glenda Jackson: Just very briefly, I have read the Merlin Standard, and apart from fine words, what are its constituent parts? What do you have to be, or to achieve, or to do, to qualify for it?

Christopher Knee: It is insufficiently specific, I think.

Q102 Chair: A lot of nice management speak in it. Anyway, thank you very much. We could have gone on for a lot longer, but we only did have an hour. May I thank you on behalf of the Committee for coming along this morning, and for your answers. We will now get ready for our next panel. Thanks a lot.

Examination of Witnesses

Witnesses: Kirsty McHugh, Chief Executive, and Caroline Taunt and Christopher Knee

Rob Murdoch, Chair, Employment Related Services Association, Sean Williams, Managing Director, G4S Welfare to Work, Richard Johnson, Managing Director, Serco Welfare to Work, and Laurie Russell, Chief Executive, The Wise Group, gave evidence.

Q103 Chair: Thanks very much for coming along this morning. May I again, starting with you Sean, ask you to introduce yourselves for the record?

Sean Williams: I am Sean Williams. I am the Managing Director of G4S Welfare to Work.

Kirsty McHugh: I am Kirsty McHugh. I am Chief Executive of an organisation called ERSA, the Employment Related Services Association, and, just very briefly, as I am aware many of you will not know us, we have about 75 members. We represent primes and subcontractors, and we are split fairly evenly between voluntary sector members and private sector members, with a few public sector ones thrown in as well.

Rob Murdoch: Rob Murdoch, Executive Director of A4e, but here as Chair of ERSA.

Richard Johnson: Richard Johnson, Managing Director of Welfare to Work at Serco.

Q104 Chair: Okay. Thanks very much. Just to start off with a very general question about the design of the Work Programme: what do you see as the key differences between the Work Programme and the existing contracted employment programmes? I do not know who wants to start. Do you want to jump in first, Rob? We will go to ERSA with the overview, and then we will come to the specifics.

Rob Murdoch: In relation to the Work Programme, it was the first time that we looked at a system that did not define people by the benefit they received, but looked at providing services across all those groups in unemployment. It provides longer term contracts, it provides payment by results, and it also looks towards
building on the investment to save principles. It also brings a range of differential pricing that other programmes previously had not, and looks towards the idea of personalisation. Those were the macro design issues in relation to the Work Programme that were different from previous commissioned programmes.

Richard Johnson: If I might add to that, it is also a move towards, a step towards, a different sort of prime contractor model—a different relationship between the prime contractor and the suppliers of the service. I think that what is effectively being procured through the Work Programme is an outsourcing of: a) somebody to come in and sit as an overarching commissioner of services in a locality; and b) someone in that role to take over the long-term risk of paying for results. It is this move towards the notion of paying for these services from the savings that are generated in moving individuals from long-term unemployment, long-term dependence on benefits, into long-term sustained employment.

Sean Williams: I would concur with that. I think that the previous session has shown that the services needed to support workless people into sustainable work are already in place in the UK, although they may not be the same as what is expected today. There is quite a serious attempt to include that sector. There are other issues that came up obviously in the earlier session about whether there are sufficient funds around, and issues about that, but there is a clear attempt to push those things forward from the private sector to include a greater share of third sector organisations.

Kirsty McHugh: To add two words, if I may: scale and ambition. It is a very ambitious programme.

Q105 Chair: Anything else to add Laurie?

Laurie Russell: I think the other addition is that there is now a target percentage for inclusion of the third sector, or voluntary sector, or social enterprise sector. There is quite a serious attempt to include that sector. There are other issues that came up obviously in the earlier session about whether there are sufficient funds around, and issues about that, but there is a clear attempt to push those things forward from the private sector to include a greater share of third sector organisations.

Kirsty McHugh: To add two words, if I may: scale and ambition. It is a very ambitious programme.

Q106 Karen Bradley: Keeping with the design of the programme and turning to the tendering process, do you have any comments about DWP’s assessment of the bids? Do you think it has been effective? Have you got any suggestions of how they might have had more appropriate ways of assessing bids that have come through?

Kirsty McHugh: Of course, we are only halfway through the procurement process at the moment, so you are asking us to look at where all these gentlemen at the table will be going from this meeting room, back into their organisations, and they have got until 14 February to get into those bids. To some extent, I think we need to do a bit of a mop-up exercise afterwards to look at what has gone well, and what has not gone well. I think one of the difficulties has been that the invitation to tender came out prior to Christmas, but there has been some additional information that has been thrown into the hat as we have gone along. Earlier on you were talking about the seven payment groups; it is actually eight—an additional one was added on Friday afternoon. Some additional information coming through has made the complexity of this a bit more of a challenge for some of those people putting in bids. Sean Williams: I think there are three ways that the bids are being assessed. The first is on quality, so what you are proposing to deliver and the strength and diversity of the supply chain; will it actually meet the needs of the customer groups? The second way that bids are being evaluated is a financial element, which is about how much of a job outcome discount you will give on the unit price. The third then is a risk weighting, which looks at what you have promised in the tender document; it looks then at your pricing proposals, and makes sure that everything that you have promised in the tender marries up to the costings that you have put through, to make sure that what you are putting forward is actually deliverable. That seems to me an enormously sensible way of doing the assessment, and we will see how that works in practice, but I think the design principles are absolutely right.

Q107 Karen Bradley: Does anyone else have anything to add?

Laurie Russell: I would hope that performance is taken into account; it is not part of the formal assessment, as others have described, but it seems to be strange if performance in previous programmes is not taken into account. None of us would procure anything else without looking at previous performance, and if you were performing that should be taken into account. There is a genuine feeling that infrastructure should be taken into account; if you want an organisation to set up the Work Programme quickly, they have to have the infrastructure in place. If you bring in a new organisation from outside the UK, or from a different region, then inevitably, although they may inherit staff from others, they have a longer period in setting up to build up infrastructure.

Richard Johnson: Not unrelated to that is that we have got to be careful about this transition phase from the existing contracts into the Work Programme, and I hope that the assessment is going to be able to take into account in some way the ability of organisations to migrate those services, both in moving the people delivering the services and obviously for the people that receive them.

Q108 Karen Bradley: Thank you. I have got a couple of questions on transition in a moment. Just going back, Kirsty, to your comments about changes. Since the original tendering process started, have there been many changes from the DWP in terms of what they are looking for from prime providers?

Kirsty McHugh: To some extent it has been positive, in that the Department has been listening to some of the feedback from ERSA and from the primes directly. The invitation to tender came out prior to Christmas, and the Government is moving very, very rapidly in relation to this. There has been some movement, most of it in a positive direction, reflecting what they are hearing from the primes, the subcontractors and the representative body. However, the eighth customer group is something quite new, and has come a bit out of the blue—everybody will rise to the challenge.
Rob Murdoch: Just to add to that, I mean, one of the challenges, especially for ERSA members, is the complexity of some of the price differentials and the performance that the DWP have asked for quite recently. It is very complex, and the time for those organisations to respond to those tenders has been very challenging, which has put added pressure on those organisations, ERSA members, to respond effectively to it, and especially mixed with some of the issues about transition, that has been very challenging.

Q109 Karen Bradley: Turning to the regional nature of the contracts and, first of all, on competition. We have been told that there will be at least two providers in each region, possibly three, and that they will obviously start off with a random allocation of contracts, but the contracts will start to be specifically allocated on performance has been assessed. Do you think that this is going to create competition in the region, and what are the risks for the prime providers? Laurie Russell: I do not think it creates competition. I do not think it is the way to improve quality. I think there are other ways that you can improve the quality of prime providers. I do not think there is any evidence from Flexible New Deal, certainly in the region that we work in, which is south Scotland, that having two providers creates a competition to improve quality. I think there is a duplication and potentially a waste of public money. I can take you to small towns in Scotland where we have got an office at one end of the high street, and the other provider has got an office at the other end of the high street, and an individual in that town who is seeking a service from us does not know the difference between the two. The Jobcentre may be in that town as well, and you could have the local authority, all providing similar services, and the customer that we are seeking to support does not know the difference between us, and they are all funded through public funds. It is a potential waste of public money to have two providers.

Richard Johnson: I think the question is not how many prime contractors you have but how many providers do you have delivering the front-line service. Do you have sufficient providers to deliver the wide diversity of responses to the diversity of needs of the jobseekers? We manage the Flexible New Deal at the moment in Greater Manchester. We are a single prime contractor in that area, and we have 40 providers delivering the service across that area, delivering a range of different interventions. Under the Work Programme there will be three prime contractors in Greater Manchester, there will be three different management systems, three different interfaces with those providers, and three different relationships trying to form with all of the local authorities. I think the simplicity and the strength of that single contractor, as long as you have some distance between that contractor and the provision, and a diversity of provision, is the right way to go.

Sean Williams: I would slightly disagree with Laurie and Richard. The competition does work in driving performance, but only if you lose the providers who are not performing. Over the past decade in welfare to work delivery we have seen some competition, but we have seen no transparent performance information, and we have seen no loss of providers who are unable to perform. Whereas bid teams have got much, much stronger in the welfare to work space, I do not think delivery teams have got much, much stronger. If you compare that with the situation in Australia, where there is very transparent performance in league tables and a star rating system, top performing providers did not have to re-tender for their provision, and bottom performing providers just were not allowed to keep their contracts. Competition only drives performance if you do that. If you have competition without those elements—without transparent performance, and without losing providers who cannot deliver and rewarding those who can—then, of course, competition does not work.

Rob Murdoch: It is not just the primes but it is the subcontractors as well. From ERSA’s perspective, we looked at launching the Customer Charter two years ago to understand that customers have rights, and that is the right treatment, the right result, the right time, and the right accessibility to services, and it is empowering the customer in order that they can make better demands on that service as well. I think that is a part of it. Maybe it is not so simple as having two or three competing, although we need to have regular performance updates on how they are performing, but that the customer, their rights and their satisfaction levels with the service they are receiving is going to be important. I would say that it is important we start collecting the metrics now, because we have promised this in many ways, but until we start to build up a history of customer satisfaction and the impact on them, it is going to be very difficult then to make those decisions.

Kirsty McHugh: I would just add, if I may, that the role of Government in relation to this is going to be very important. Frameworks only work if the organisation that has commissioned them and is managing the overall process is able to make the decisions and move contracts or provision around in a way that makes sense. We have to look to the commissioner and their role in relation to this as well.

Q110 Glenda Jackson: I am sorry, I am taking you back to some of the previous questions. Ms McHugh, you said that the gentlemen would be going back and examining what they have done. Can you define what you mean by “well”?

Kirsty McHugh: In terms of—

Q111 Glenda Jackson: Of examining what was the delivery of services, and what is “well” in the delivery of services?

Kirsty McHugh: What does success look like? What are the good contracts look like?

Q112 Glenda Jackson: No, what would be the actual “well” of meeting the requirements of the clients?

Kirsty McHugh: When I was speaking I was talking about the eighth group that has been inserted into this, and making sure that the bid is fit for purpose, and that it is amalgamated and within the financial envelope, and can be delivered by 14 February. That is what I was talking about in relation to this.
Generally, the customer has to be at the heart of this; if the unemployed people in the UK today are not getting something out of this, this will have failed. For ERSA members and for ERSA, that has to absolutely come first.

**Q113 Glenda Jackson:** Yes, but your client body is expanding way, way beyond unemployed people. I mean, everybody on the benefits system is going to come walking through those doors. So what is your cut-off point then? I mean, Mr Williams spoke about a tender contract. Presumably you have a figure above which you know you cannot deliver that service? Mr Johnson spoke about the increase in competition in Manchester, wasn’t it? A gain, do you know how many more people you are going to have to serve? For all of you, correct me if I am wrong here, you do not actually have to deliver those services, do you? You have to apportion money to the supply chain who will. Have you any idea of how many more clients there are going to be?

**Rob Murdoch:** Touching on that first bit about whether the people around this table deliver or not, there is a complete mix of what the prime contractor is—some do not deliver and others deliver a proportion. In direct answer to your question, this is a tender round for the Work Programme that sits within the framework, the Employment Related Support Services (ERSS) Framework, and we are being provided with volumes from the Department for Work and Pensions in relation to the customer cohorts that will come through on to that programme. We have been asked, as organisations, to submit tenders for the delivery of services according to those volumes. Those volumes have been calculated based on the Office for Budget Responsibility’s forecasts. The DWP statistics department then takes national figures—it does not take local figures in relation to Jobcentre Plus flows—and has come up with a number according to the seven cohorts. On Friday it introduced an eighth cohort. My point being that from a commercial exercise, we are submitting tenders to deliver to that number. Actually, as most of our businesses know, and especially ERSA members know, the evidence on the ground is very different from the volumes that have been predicted, and those volumes also do not show us the complexity of our customer groups, and the journeys that they need to go on in going back to work.

What you are asking is about two different things. There is a commercial process going on to bid for the 14th February, but all of us as organisations are trying to get prepared for what we best forecast the unemployment situation will be, which we all know is going to be very different from the volume figure that we have. That is one of the biggest challenges for our industry and especially for a lot of ERSA members, who know that their customer groups, the specialists that they deliver, are evident and their volumes are going to go up, but they cannot secure funding through the current envelope of volumes under the Work Programme to deliver that, and that is quite challenging.

**Sean Williams:** If I might add, the one thing that we do know is that the referral numbers as predicted may not be as accurate as we want them to be, so we know that referrals can go up, we know that referrals can go down. I think it is extremely important that we can demonstrate we have contingencies in place for both of those eventualities. I think on the prime contractor model that we have heard about that is about having reserve providers in place, that is about having very clear plans for increasing staff and increasing premises, and similar measures for if referral numbers go down. We are planning, I suspect that all five contractors are planning, on the basis of the numbers in the tender, but with very, very clear contingency plans if for numbers are higher or lower than expected.

**Q114 Glenda Jackson:** But in the main, will not the increase of clients be from people who have never walked through your doors before?

**Richard Johnson:** I think the point is very well made, and I think we are able to make predictions on the basis of our experience across a range of client groups of the numbers that we will see over the next six to 12 months. Beyond that it does become difficult, and it is important for us as an industry and for the Department to recognise that this is going to have to be a learning contract of some sort. As we go through the delivery of this, we are going to have to build an understanding of who the people are that we see, what their individual needs are, and what it is costing to deliver those services, and in order to build that understanding we have got to ensure we have got complete transparency from the outset—in terms of performance, in terms of what people deliver and how successful it is, and what they are spending their money on and how successful that spend is.

**Q115 Glenda Jackson:** But what about the client? What about the individual? What are they getting out of it? Forgive me, but we are looking at a situation at the moment where various job schemes are finishing, we have had this from previous evidence, and there is a gap, and the people who are going to suffer most from that gap are the clients. You are saying to us that you are actually hypothesising the numbers. Presumably you are hypothesising the amounts that are going to be required to deliver a service, which you say you can see only lasting, on the present definition, for a year, and then it is going to have to be recalibrated. What I want to know is, what is going to happen to those people who, for a year, have been working under this system when at the end of the year they may be told, as people are being told now, "I am sorry, this scheme is finished for you." Is that going to be part and parcel of your considerations, and your submissions?

**Rob Murdoch:** The first thing about the volumes—to touch on that bit—at ERSA we would really like to push for transparency about how that is calculated, so we can all have a look at the basis for those predictions. In relation to the transition, from ERSA’s perspective we have some really big concerns about the handling of the transition, because the volumes and the budget for the Work Programme make it very
difficult for organisations who are delivering at the front-line to plan their future.

Glenda Jackson: I understand.

Rob Murdoch: Also, there are four areas where it is very, very challenging. As we have said, on a macro level the design is really good, but at the micro level the transition has a very negative effect on: our customers in the current programmes and what is going to happen; on staff, because there are a large number of staff in all our organisations who do not know how that transition is going to work; the commercial viability of organisations who have to wait two or three months in between the end of certain programmes and the start of the Work Programme; and also on our capacity to deliver on day one of the Work Programme, because those organisations who are starved of funding in between that transition, and whose customers go back to Jobcentre Plus and then come back to that provision, might not be fit for purpose when it comes to the first day of the Work Programme. So we have got some big concerns about the transition in relation to current programmes, for our customers, for our staff, and for our organisations.

Sean Williams: Can I come straight to the question about what happens to the customer? I think it is absolutely about the customer. On the G4S Work Programme model, the customer is met in a Jobcentre, they will go for a Jobcentre referral interview, and this might be a new customer group, this might be someone on Incapacity Benefit, or Employment and Support Allowance—

Q116 Glenda Jackson: Could I just stop you there? That is not going to happen is it? The Government is arguing that these kind of contacts have to come through IT, through the web. We know Jobcentre Plus personnel are going to be reduced. That is just a point I would make.

Sean Williams: Sure, absolutely. On our model we want a warm handover in the Jobcentre, so members of our supply chain will be there, present, to meet that individual—a personal adviser. They will welcome that person on to the programme and explain the design is really good, but at the micro level the transition has a very negative effect on: our customers in the current programmes and what is going to happen; on staff, because there are a large number of staff in all our organisations who do not know how that transition is going to work; the commercial viability of organisations who have to wait two or three months in between the end of certain programmes and the start of the Work Programme; and also on our capacity to deliver on day one of the Work Programme, because those organisations who are starved of funding in between that transition, and whose customers go back to Jobcentre Plus and then come back to that provision, might not be fit for purpose when it comes to the first day of the Work Programme. So we have got some big concerns about the transition in relation to current programmes, for our customers, for our staff, and for our organisations.

Rob Murdoch: It is Incapacity Benefit clients—correct me if I am wrong—who have not gone through the Work Capability Assessment, customers on Income Support—that includes some lone parent groups—and they are all going to be volunteers, who can come through to the programme, I think, at any stage.

Kirsty McHugh: ESF, yes.

Q119 Harriett Baldwin: Right. Well, my question, leading on from Glenda’s question is, are there any regions, as far as you are aware, where the size of the...
contracts is really not allied to what you would see as being the need in that region?

Laurie Russell: I do not know. I agree with a number of the points that have been made earlier about uncertainties, and just to add to that point, if I could, one of the main uncertainties—and I wonder if this was behind some of the earlier questions—is what happens to the customer in the explanation of the journey that Sean gave you, which is very similar across all the providers, if that customer does not get a job? Because, as you heard from the earlier session, there are parts of the country, and parts of Scotland are included in that, where we are very concerned about the number of jobs, and our overall performance of getting customers into work, over the last couple of years, has dipped by around 20% of the proportion of people that come to us that we can get into jobs and sustain them there.

There is a concern about that, and there is a concern, if you work with an individual, and put them through what I would see as a very positive process about building their self-esteem—some training, and some support to get round some of the issues in their life—then you build them up, and if that job does not exist, they go back down. I think there is a concern about that proportion of people, particularly for some of the new customer groups. Because we have not worked with them in the same way in the past, we do not know what those issues might be to the same extent as we do with people on JSA. Therefore, we do not know the impact of failing to get a job; although that is not obviously what we want to do, but there is inevitably going to be a proportion who do not get a job through this process.

Q120 Karen Bradley: Leading on from that, and about the regional aspect of the design, do you feel that you can cater for all the different needs within the region? I will cite the example of my own constituency in the West Midlands, which is the most northerly constituency in the West Midlands. We do not have a prime contractor. The providers in the West Midlands are going to be covering Birmingham, the Black Country, Worcestershire, Herefordshire, etc, and then all the way up to Staffordshire. I just wonder whether you feel, as prime providers, you can give the service that is required to cover that region, given the differing needs throughout it?

Laurie Russell: We all have to prepare to do that. It means, Scotland is treated as one region, so we are bidding to run Scotland, and inevitably there are very rural parts of Scotland where we are not going to be opening an office and having a permanent member of staff on every Scottish island or the remote parts of Scotland. What I imagine we are all doing, and we are certainly doing, is thinking about how much of the one-to-one, face-to-face time do we need with customers? How much do we do on the phone basically, and how much do we do with new technology?

Allied to that, I think particularly in rural areas, and in small towns and other parts across the UK, we have got to use the existing local providers, and they will tend to be community-based and voluntary organisations. The issue for them is getting them into the system and making sure that they are moving towards a more outcome-based and results-based payment process, which many of them won’t be used to, because they will have tended to work with some of the clients on a needs-based type of approach in the past. What we are now saying is that has to change with this programme, because it is about finding somebody a job. It is getting those different relationships right, but inevitably we are not all going to be opening offices in every small town across the UK.

Richard Johnson: They are regional prime contracts, but these are localised services, and the response in each locality is completely different. The questions are not unrelated, actually, and Laurie’s response there—the big challenge is the rural areas. In Cardiff I can have a multiplicity of provision. Yesterday I visited my operations in north Wales, in Bangor and in Rhyl; you cannot have two prime contractors there. It is not viable to put two prime contractors in because of the volumes that you are working with.

Q121 Mr Heal: Just on the point that was made about this being a learning process: of course, there is nothing new in that. With Flexible New Deal we were suddenly faced with a very large increase in customers and there had to be some flexibility with the Government. Is that really the point you are making? That looking at the regional situation, looking at how many customers come through the door, over the course of the rollout of this there will need to be an element of flexibility to meet the demands that appear.

Richard Johnson: Absolutely. It goes back to a point you were making earlier on this morning around the lack of data, or the lack of information connected with some of the groups that we are going to be working with. We are accessing them for the first time, we are going to be learning what services work with them, and we need to be working closely with the Department to ensure that the right resources are thereby attached to the heads of the right individuals.

Q122 Karen Bradley: A thought that hits me is: do you know whether there is going to be assessment of results within the region or different areas in regions? As I state for the West Midlands, Birmingham versus the Black Country, versus the rural areas, versus Stoke on Trent—are we going to be able to see transparently how successful prime providers are being in each of the regions?

Richard Johnson: You ought to be able to request information at a local authority level at the very least, and we at Serco currently publish on a weekly basis the performance information for every single subcontractor, all 70 of them, delivering our service. We should see that across the country, by subcontractor, by customer group and by locality.

Sean Williams: That is one of the real advantages of the prime contractors approach; with single unified IT systems, reporting systems, you will start to get the transparency that is needed in order to drive performance, and Serco have been exemplary in this
regard in their publishing of weekly performance information.

Q123 Chair: Are the Government doing enough to prevent the potential damage to the supply chain during the transition—this gap that we keep talking about? Are the Government alert to it? Are they doing anything? Are they helping?

Kirsty McHugh: The Government are definitely alert to it. They know what the potential issues are. We were very pleased that in terms of Flexible New Deal and Employment Zones there was an announcement prior to Christmas that these would be extended. However, it does appear that Pathways to Work and New Deal for Disabled People will not be. The four issues, which my Chair outlined earlier, in terms of implications for customers, staff, commercial viability, and ability to deliver the Work Programme, are very real and very pressing. I have taken telephone calls in the last few days from both charity members of ERSA and from for-profit members of ERSA saying that they are going into 90-day consultation, they are potentially looking at Transfer of Undertakings (Protection of Employment) Regulations (TUPE) to Jobcentre Plus, potentially redundancy. There is a lot of uncertainty about this, and it is a big issue at the moment out there.

Q124 Chair: And these are the specialist providers that are working with the hardest of the hardest to reach who Gienda has been talking about?

Kirsty McHugh: It has actually been both. I have had a large commercial organisation saying, “We have recognised the unions; we need to do a 90-day consultation, etc., we are doing that now—we need to tell you about it.” I have also had small specialist disability charities ring me saying they are going into the same process.

Richard Johnson: Of course, it is not just the DWP’s funding, it is local authority funding as well. There are a lot of pressures coming down on these organisations at the same time. Government are certainly aware of it and I do not think the solution is impossible to create, but we do have to recognise the urgency of it, and get together, and start recognising who has got resources, where, doing what, and how do we ensure that they continue?

Q125 Chair: The worst thing that can happen is you start issuing redundancy notices.

Rob Murdoch: It has happened. As Kirsty pointed out, we have had a range of different reactions from large and third sector members of ERSA as well. Some are already issuing those letters to staff to give them notice; others have decided to take the hit and keep those staff on board waiting for those other contracts. The key thing is a lack of clarity from DWP exactly of the implications of that transition across the whole matrix of the different programmes, and I really do think all our members have said that they think they need to do more to clarify the position on that transition, for customers and for the capacity of the market.

Chair: I hope they listen to you.

Q126 Teresa Pearce: The payments to primes seem to be sort of three stages: there is the walk through the door stage, there is the outcome of the job, and then there is the sustainability of the job. We have heard from subcontractors about the risk they feel from where they get their funding paid through. Where have primes identified that their risk lies? What risk management have you looked at to see where your risk in this payment pattern lies?

Sean Williams: If I can take that on, there is clearly performance risk, and I think that is absolutely right. To make more money than we spent from this contract, we are going to have to significantly improve performance levels. There is risk on referral levels, so the number of people coming through the door—there is obviously financial risk about that. Obviously prime contractors have an extreme responsibility to make sure that our supply chain is properly financed, and their financial health and well-being—obviously they will be the core deliverers of these services. I would identify those as the three core areas.

Q127 Teresa Pearce: So low unemployment is a risk?

Kirsty McHugh: There are no minimum volumes guaranteed.

Laurie Russell: The other risk is jobs—that the economy does not pick up and there aren’t jobs available for the customers that we have. There are two different models at the table, in a sense. Serco and G4S do not deliver any of the programme; if we win the Scottish contract, The Wise Group will deliver between 45% and 50%. The risk is slightly different in the subcontractor/supply chain issue, because we are doing some of the delivery, and if one of the supply chain members pulls out for some reason, then we can provide that delivery ourselves or find a backup. There is risk about some of the organisations in any bid that is coming in that may be new to this or that we may not have worked with before, about reaching performance targets or being able to cope with the volumes that they have for whatever reason, because it is a new supply chain. Inevitably there is a bit of a risk around that.

Richard Johnson: Right now, or certainly as we move forward and learn how these contracts work, we need to recognise that the prime contractor takes on a different sort of risk to their supply chain. That long-term sustained employment risk needs to sit up here, and they need to flow more money up front to purchase different steps on that path back to employment. If I might just move the question slightly, the biggest risk is getting the right relationship between risk and reward. It goes back to the differential pricing model, and it is ensuring that sufficient incentive is attached to those individuals who are furthest from the labour market, so that both the primes and the supply chain are willing to invest in the risks of delivering up front to those groups with potentially very expensive interventions, because they are likely to deliver a high return for them longer term. We have got to drive these services from those people who are closest to work out into those individuals and communities that have been excluded so far.
Q128 Teresa Pearce: One of the phenomena over the last five years in work has been temporary contracts. How does this sustainment payment stack up with temporary contracts? Is it a disincentive for somebody to take a six-month contract?

Richard Johnson: It is a good question, and many organisations delivering welfare to work have long argued that a temporary outcome is good, because at least it is giving somebody work experience, and they can build on that; it gives them something to put in the CV. What the Work Programme is going to ensure, of course, is that those temporary work placements are joined up, and have to become a genuine sustained outcome.

Q129 Teresa Pearce: So it is going to be like an over-arching contract—

Richard Johnson: Exactly, yes.

Sean Williams: Absolutely. So multiple temporary jobs would be fine in terms of helping someone sustain—

Q130 Teresa Pearce: There is no disincentive in this to placing someone somewhere for six months?

Sean Williams: There is, because you would not then get the sustainment payments if they had been in work for seven months, eight months, nine months and out through to, potentially, two years. This is absolutely focused on long-term sustainable employment. If a temporary job is a stepping-stone to that temporary employment, then you have always got the incentive to make sure that it is genuinely sustainable employment, and this is not a low pay, no pay cycle—that it is actually genuinely transforming someone's chances of remaining in sustained employment, as I say, for some client groups for up to two, three years.

Laurie Russell: There are different kinds of temporary jobs. There are seasonal jobs in more rural areas, where that is just the way of life; there are certain jobs that happen in the winter and some in the summer. There is also a trend by some large retailers, for example, to have zero-hour contracts, so they can draw people in when they need them.

Q131 Teresa Pearce: And pay for them.

Laurie Russell: Now that might suit some people, but there is the issue about benefits and whether that is a full-time job or not a full-time job. It suits the employer. It sometimes suits the employee, but certainly it suits the employer.

Q132 Teresa Pearce: One of the things that concerns me greatly is, where you have got a prime, is there any sort of underwriting? If that prime collapsed, what would happen to the supply chain? If you have got a group of companies where they have set up a sub-company to be a prime, will the group underwrite any risk? It is a big risk.

Richard Johnson: There will be protection in the contracts that we sign in terms of termination, which will include protection relating to the continuation of the service. I think the longer term strategic answer is that—it goes back to this prime contractor here, supply chain there—this supply chain in some way needs some co-ownership with the Department; they need to be co-guardians of the fact that a rich, diverse supply chain exists, even if the prime contractor were to be in trouble.

Q133 Teresa Pearce: Well, that brings me on to my next point, which is about the Merlin Standard. Obviously to have a standard is a big step forward, but having read through it, it is a lot of management speak and it is a lot about consulting and being all nice to each other. But where is the penalty in this?

Sean Williams: I think the penalty is not in the Merlin Standard, and I think the Merlin Standard is a very good framework for how primes and their subcontractors ought to behave with one another, but it is no substitute for a proper commercial contract. With everyone in our supply chain we will have a commercial contract; which sets out what people can expect, what payment terms they can expect, and what they can expect from us as a prime contractor. I tend to agree that the Merlin Standard is a good framework, but it is no replacement for a proper contractual relationship between organisations.

Q134 Teresa Pearce: This is all about relationships—as you say, it is not contracts or penalties. It is about relationships and about best practice, but the people who aren't in here are the customers. Where would they sit? Where would the workers sit?

Rob Murdoch: As I mentioned before, from ERSA's perspective we are very supportive of the Merlin Standard, and have been for a long time—from all our organisations. The work that we focused on was the Customer Charter, as well as looking at professionalisation in our industry. I think the Merlin Standard is important. I do not think there are any teeth to it. I do believe that contracting should cover quite a lot of those relationships, but within a code of conduct within our industry, as our industry matures, we need to make sure we have an effective system that looks at the relationships between primes and subcontractors. I think, from ERSA's perspective, we are really keen to work with the DWP to look at how the Merlin Standard can be adopted by those in the industry, because, without adoption by all of us across the industry, it is not going to be that enforceable.

Richard Johnson: I think it is the beginning of starting to set out some standards for positive relationships between both the Department as the ultimate commissioner, and the primes and the subs. I agree with your comments on it. I have sat on the advisory group for a couple of years now, and there is a considerable appetite in the industry, at all levels, for this to have significant teeth. Potentially for there to be an ombudsman, a regulator, for that regulator potentially to look at price setting, as we learn what needs to be paid for in the delivery of these services, to sit also in the whole procurement process, from start to finish, to ensure that we are getting the right rewards attached to the right risks, to tailor the right individuals, and the Merlin is a step in the right direction, but we do have some distance to go.

Kirsty McHugh: Richard and I are both on the Merlin Working Group, and there is a consensus in the Working Group that it is getting there, but it is not a
finished product yet, but it needs to be fairly rapidly, given that the Work Programme is coming in the summer.

Chair: We’ll move to Kate, we are getting close to time, and she has got some more questions on the delivery of the Work Programme.

Q135 Kate Green: I want to ask about the minimum service levels for job outcomes that DWP is imposing into these new contracts. Learning the lesson from Pathways, where it was perceived that a lot was spent on funding support that did not lead to extra job outcomes, it has been suggested to us that the minimum performance standards that are being put into the new Work Programme are unrealistically high. Do you agree with that, and, if you do, what do you think are the rightful consequences?

Rob Murdoch: I think we have heard in previous evidence sessions that the minimum performance levels, based on past performance, are very very challenging— you heard that from Dave Simmonds as well— and I think that ERSA’s members would agree. What we would really like to see is transparency about the logic behind those minimum performance levels, because through transparency and understanding the starting point, a lot of our members can start to share their data as well about local areas, regional variations, working with specific client groups. ERSA submitted a study to DWP before these performance figures came out, which was blind across all our members, from a whole range of different performance levels and working with different client groups, to try to get engagement about discussion about performance.

We have to learn. If we enter a contract, again, with high expectations but we are not meeting those performance figures, all of us, and most importantly our customers, are not going to get the right service. We need to make these into learning contracts; we need to understand what performance looks like. What is good performance? How do we make sure that we get the lowest performer to the highest performer? We do have concerns about how we have got to the logic of those performance figures.

Q136 Kate Green: How is that reconciled with not getting into a situation where people are just parked?

Rob Murdoch: Sorry?

Kate Green: Well, effectively what I think you are saying is, if it proves difficult to meet the standards, the standards would need to be changed—that would be intrinsic to a learning contract—but wouldn’t that leave people therefore left behind, not given support to move into work at all, because it was perceived that you could not get them to that point?

Rob Murdoch: Sure. There are some fantastic features of this contract in relation to differential pricing and the investment in those different customer groups. One of the concerns we have is about their performance figures in relation to a contractual process about bidding. When you look at the work that a lot of our members do, it is quite clear that with the support they put into all of their customer groups, it is highly unlikely that any of the customers they are going to have are parked. The issue is going to be about whether there is funding for their services in the first place, rather than parking.

Richard Johnson: I think it is right, Kate, for there to have been high performance expectations set. Some of the services that have been delivered in the past have not met the needs of the individuals accessing those services. One of the challenges that we have is shifting an industry that in large part has no experience of outcome-based contracts, that has been delivering services with front service fees, to this far more performance-focused environment. That is going to require quite a lot of change.

You are quite right to highlight parking. We have to be absolutely clear that we cannot allow creaming and parking to be the response to challenging targets. I think the response to it comes back to this whole notion of a black box, which for me is often misapplied. The black box for me means that the procurer—the Department in this case—does not set out at the outset some sort of prescribed programme that every individual must go through irrespective of who they are; they leave it up to the contractor to determine and define the service that they are going to deliver—if you like, to populate the machinery in the black box so you have here five different machines on offer. The Department decide which machine they are going to buy and then they hold us to the delivery of that machine. As part of that machinery, we define a set of minimum service levels. It is not unrelated to the Merlin question really; we have to commit to seeing each of the job seekers a certain number of times every week or every month, and every time we see them to do a certain number of things. The contractor who offers that commitment in their machinery has to be held to deliver it. If they are held to that delivery, then we mitigate some of this creaming and parking risk. The other mitigation, of course, is learning when we need to attach the right payment fees.

Q137 Chair: If one of your providers thinks that the person they have got who has come through the Work Capability Assessment has been wrongly assessed, should there be a mechanism to re-refer them to the system? Would that be a useful thing?

Kirsty McHugh: The Work Capability Assessment?

Chair: Yes. A nectodally we have heard of people declared ready for work—or fully ready for work—and actually clearly when they get to the employment provider they are not.

Kirsty McHugh: Absolutely. We support the Work Capability Assessment. However, we know there are concerns about the way that it is being implemented. We support the Professor Harrington review, etc. There are particular issues about people with mental health and fluctuating conditions; that is quite clear. One of the concerns is that people who have been through that process and may, because of the nature of their barriers to the workplace, because of the nature of their mental health or whatever else it may be, have been quite damaged by something that has not gone well. Passing them to a Work Programme provider could be quite a difficult process and there needs to be a mechanism to re-refer.
Q138 Harriett Baldwin: Three times difference between the lowest level of payment and the highest level of payment. Is that going to be a correct proportion?

Richard Johnson: I am afraid that is a misunderstanding of the way the payments will work. That is the maximum amount that could be paid for the individual achieving their long-term sustained outcome, but then that total maximum has to be divided by the number of people who actually achieve that outcome and the number of people you deliver the service to. In effect what is being paid on that basis, for each individual coming from IB on to JSA it is a little bit less than that, because the total amount that is payable—three times the amount—is only paid for the outcomes and you are going to achieve a much lower level of outcome rate for that client group.

Q139 Harriett Baldwin: So does that differential correctly measure the differential in terms of how difficult they are to place?

Richard Johnson: At the moment, I think we have to very closely monitor this. We have to have absolute transparency around the performance and the cost of that performance and we have to revisit the pricing mechanisms as we go along, because that may need to be reset.

Sean Williams: I think that is exactly the point. In absence of having really worked with these customer groups before, it is very difficult to say whether it is the right price or not. At the moment it looks like a good starting price, but we have to look at this again through open accounting and dialogue going forward. If we have got that too high or too low, you will need to readjust it.

Laurie Russell: I think the earlier point this morning was correct, that we need to be looking at the needs of the individual and not necessarily the benefit they have previously been on, because the needs can vary. We do not know, but I think a lot of us suspect, the benefit is not necessarily only going to be the assessment of the needs and therefore the price at the end.

Rob Murdoch: Just to back up what Laurie said, it is really positive that we look at those differential pricing mechanisms at the start of the DELAME, but the way that we have used to regroup customers is based on the old system of benefit. We need to start to learn that a JSA customer could have just as many multiple challenging needs as an Incapacity Benefit customer. We definitely need to learn exactly the better way of profiling and putting the investment needed into those customer groups as we deliver the programme. It has to be iterative.

Q140 Harriett Baldwin: As primes, are you passing on the same ratio to subcontractors or are you able to vary those if you think that is more sensible?

Sean Williams: We vary the amount that we pass through, depending on the size of the organisation and the service that they are delivering. So for larger organisations, we pass through 80% of the attachment fee; for smaller charities we pass through 100% of the attachment fee; and for some organisations delivering specialist services, we will pay them exclusively. We have a variety of funding models.

Q141 Harriett Baldwin: How do you see the payments evolving in the future? Do you think the categories are likely to shift or the differentials are likely to shift? What about this regional difference that we have heard about today?

Richard Johnson: Good questions. I hope and I think we will have to move towards some sort of not regional variation but local variation, because we are going to see very different challenges in different parts of the country. I am sure we will continue with some sort of differential pricing but I think you have also heard this morning a clear indication that we think individuals are not necessarily best categorised by the type of benefit that they are on. My recommendation would be to move towards payments increasing as performance increases, recognising that as you reach further into the group of unemployed people and enable them to achieve long-term outcomes that meet their needs, that costs you more.

Q142 Chair: Are we still going to see the revolving door that was always a feature of previous programmes? When a person comes out the other end in two years and still does not have a job. The Government planning assumption for those who are coming off the IB route is that large numbers of them will not get jobs at the end of that process. What happens to these individuals?

Rob Murdoch: Well I think there is a fundamental question about partnership between Jobcentre Plus and the providers, which we have touched on in a few points today in relation to information, data and performance. If we do not have the right partnerships at a local level with Jobcentre Plus and the providers, we could get into a position where the customer does not get the best service again. There was another point brought up this morning very well by Stephen Houghton about local authority partnerships and developing those partnerships at a local level. It is not just that local authority commissioning is fantastic and there are a lot of prime providers and welfare providers do not listen to them; actually, there are some real challenges about commissioning at a local level as well as at a central level. Both local authorities and providers in the welfare market do have to look at co-investment—co-investment with Jobcentre Plus and co-investment with local authorities around the customer. That is where we have to get to and stop the revolving door and address the barriers that our customers face.

Kirsty McHugh: I think the Work Programme has the potential to be able to minimise the amount of revolving door. However, one of the big unknowns is the economy. We know that in some parts of the country the job market does not promise to be extremely buoyant for the next period, and in those areas it is going to be quite demanding, I think, in terms of Work Programme delivery.

Sean Williams: I would say three things on that. One is that the longer length of the Work Programme starts to take away some of the dangers of the revolving
I said I can predict the volumes.

Chair: That is where the mandatory work activity might come in.

Q143 Glenda Jackson: I have two points. One is a statement: people on JSA do not have two years. If they have not got a job at the end of 12 months, 10% is knocked off their Housing Benefit. But the central question that I really want to ask—Mr Williams gave a wonderful definition of what is best for the providers in this scheme and we have had the evidence that that is dependent on highly skilled, highly trained, expert, flexible individuals who are the first contact with the person attempting to find work. Where are they coming from? Who is paying them? Who is training them? A question for all of you. We are looking as a nation at a vast increase in people who are going to have to go through the process of getting off benefit and into work and that will automatically mean an expanding work force of the kind of experts that you look for in those individuals, the types of people you recruit, the skills that they have—there is a great deal of learning that has happened in the past decade of welfare to work delivery, both in the UK and internationally. I absolutely agree with the need for proper training and adequate induction, shadowing top-performing advisers. Again, in our selection of which subcontractors we have in our supply chain, organisations have had to demonstrate that they have that robust training and that robust induction. Indeed, we are in a time where there are a lot of people looking for work—a lot of graduates looking for work. So I am reasonably confident that the base of potential new personal advisers does exist, that we understand the sort of training and induction that we need to make those people experts so that they can deliver the tailored intervention, but I absolutely 100% agree this is dependent on having well-trained personal advisers who are able to manage that customer journey for individuals. It is absolutely critical.

Q144 Glenda Jackson: I am already getting anecdotal evidence from some of the specialist smaller providers in my own constituency, most markedly in the delivery of services to people with mental health problems, that their programmes are going. They have gone. It may well be that part of the funding was coming from a local authority or from a PCT. That is scary, but I reiterate: who is going to train these people?

Kirsty Mchugh: Three things, if I may, in terms of the skills. You are right, it is absolutely essential. If the front-line personal adviser gets it wrong, all the rest of it will not follow. First of all, there is an industry-wide push around professionalisation of skills, from the front-line adviser to the top-level managers. So we are all involved in that in some shape or form. I understand Jobcentre Plus has been doing something quite similar but separate. Their model going forward—what they have been testing—is around giving their personal advisers more freedom and flexibility. Rather than a tick-box approach, they have to make more decisions about the individual. It is absolutely essential the Jobcentre Plus staff are able to do that. Those two exercises are going on at the moment but they are not connected in the way they should be. Given it is the same skill set and the same industry in the widest sense, they need to be connected.

The third point I think is around transition. The end of the current contracts mean the potential staff are going to be lost to the industry because they do not know whether they are going to have a job in a few months' time and they could go off and get something else. At the same time, you are right, there are a lot of smaller, specialist organisations who have lost local authority funding, do not know whether they are going to be part of a supply chain in terms of Work Programme, etc, and they also may lose some of their specialist staff. So I think industry-wide it is going in the right direction. However, I think the next few months do have quite a big pitfall in terms of transition and public sector retrenchment, which may have a negative effect in terms of maintaining staff in the industry.

Q145 Glenda Jackson: But is the industry going to cough up the money to train these people? Your client base is going to increase by hundreds of thousands of people. Is it the industry that is going to take on board the training to the level that Mr Williams very graphically defined for every single client? How much is that going to cost?

Kirsty McHugh: They absolutely have to. The long-term contracts actually provide more incentive to do that.

Q146 Glenda Jackson: But with respect, Mr Johnson said that he can envisage no further than the first 12 months of this programme.

Richard Johnson: I said I can predict the volumes with some accuracy for six to 12 months, because I can look back at how many people have signed on in
the last 12 months and that gives me a very good set of data to say how many people are going to flow on to JSA particularly, which remains the principal customer group for this. Any predictions three to five years down the line require assumptions around the performance of the economy. The answer to your question, about whether we will take this on, is: absolutely. These are performance-based contracts. We only get paid if we enable people to secure and sustain employment. That means we have to invest in the capacity of our supply chain. We have to ensure that they have the right skills deployed in the right places and in the right numbers.

Laurie Russell: As an organisation that delivers and a social enterprise—I would make that point—we do not have a problem recruiting. There are lots of people who want to work for social enterprises because they understand the ethics and the values of a social enterprise. We, like any other employer, want to recruit people who are motivated by the business that we are in and there are a huge number of people who want to make a difference to people’s lives. We particularly target people who have had experience of unemployment or ex-offenders or have been through the issues that the customers who we are dealing with have been through, because that gives them a certain kind of empathy and an ability to relate to people, I think, that gives them an edge over simply a professional training.

I think we need to get better at training the people we recruit in the culture of what we are doing. It is not something where you are recruiting people in a technical way about how they deal with people. This is about people’s lives. The staff who we have at the front line have to be able to relate to somebody’s life, to understand that and then to cope with that and to bring them through a programme that will help change that life. It is a difficult one, but we have to train our own staff and we do it. We are investing increasing amounts—percentages of our turnover, if you like—in our staff training. Part of that is about self-esteem and self-development for staff, not necessarily technical skills about—

Q147 Glenda Jackson: But you still have not answered my question. Where is the money coming from?

Chair: Glenda, I think it is obviously part of the contract. On that actually positive note, I think we are going to have to leave it there. There is obviously this issue about the transition, and I think as a Committee we will write to Chris Grayling to get some clarity on that for you, because obviously that is the urgent thing. But may I thank you very much for coming along this morning? I suspect there are still quite a lot of other questions with regard to this and we will see as it develops. But my thanks on behalf of the Committee for your appearance this morning.
Monday 14 March 2011

Members present:
Dame Anne Begg (Chair)
Harriet Baldwin
Andrew Bingham
Karen Bradley
Alex Cunningham

Kate Green
Mr Oliver Heald
Teresa Pearce

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Examination of Witnesses

Witnesses: Rt Hon Chris Grayling MP, Minister for Employment, Mark Fisher, Jobseekers and Skills Director, DWP, and Alan Cave, Delivery Director, DWP, gave evidence.

Q148 Chair: Thanks very much for appearing before us this afternoon, Minister. Perhaps you could introduce your colleagues on either side for the record. I do not think you need to introduce yourself.

Chris Grayling: It is a great pleasure to be here. On my left is Alan Cave, who is overseeing the contracting of the Work Programme. On my right is Mark Fisher, who is responsible for policy development for the Work Programme. You have the full range of activity within the preparation here today.

Q149 Chair: It is a pleasure you are here. This is obviously our last evidence session before we agree the Report on the Work Programme, which we hope to publish sometime after the Easter recess. Can I just begin by asking a few questions about the transitional arrangements, and then we will get into the meat of how the Work Programme will actually operate? We have had some correspondence based on some of the concerns raised to us by ERSA. The answers that you gave us were trying to make sure that there was no gap for the client group, but their concern was particularly about what is going to happen with regards to the staff, particularly those who are presently delivering Pathways to Work and New Deal for Disabled People, where there will be a gap.

Already some organisations are having to issue redundancy notices to their staff, but these might be the very staff who will be required, once contracts are let, to deliver some of the specialist provision. Can I just ask very quickly: for those staff with that gap, will TUPE apply to them or not?

Chris Grayling: We do not think TUPE applies to Pathways staff. Pathways is coming to an end anyway. It was due to be ended by the previous Government. It has been given a pretty heavy thumbs-down by the NAO and by the Public Accounts Committee. In terms of the support that is provided to people effectively with a lower level of intensity, those who are not on the Work Programme, who might previously have gone through Pathways, will continue to receive support, but, according to our new flexible approach, what we have done is devolved funding to the front line—there will not be a simple one-size-fits-all model in future. There is a genuine change in provision at this point.

In terms of the continuity of contracts, if you look at what we have actually contracted for from the organisations that are delivering Pathways to Work, it effectively involves delivering six work-focused interviews over a period of time. We will be referring people to Pathways to Work up until eight weeks before the end of the Pathways contract. Previously, the support that would have been provided to those people would have taken place over many months. The organisations involved have received through the service fees a payment for each person who is referred to them. They have not given anybody any indication to that effect. Clearly, I cannot control what employers may say but, from our perspective, there is no TUPE implication at the end of Pathways.

Q150 Chair: Certainly, individuals are already facing that redundancy. I have had an email from a lady who said they were originally under the assumption they would be transferred under TUPE to the Department for Work and Pensions until the new Work Programme is awarded.

Chris Grayling: We have not given anybody any indication to that effect. Clearly, I cannot control what employers may say but, from our perspective, there is no TUPE implication at the end of Pathways.

Q151 Chair: Why not? Although Pathways is coming to an end, the actual work or similar work to what Pathways is delivering, even within the Work Programme in the definition you have just given, will still be the same kind of work, so why would TUPE not apply? It has applied up until now to all of the other work programmes that have taken the decision—some of which have been quite different from their predecessors.

Chris Grayling: I gave you my view and my colleagues may wish to come in on that, but I think what Pathways has been providing is very different from what the Work Programme will be providing, and will be different in terms of flexibility and
tailoring of support to individuals for those who are supported by Jobcentre Plus. There will not be a one-size-fits-all model in future, which is what there has been through Pathways. I do not know if either of you wants to come in.

**Alan Cave:** Just to add a very brief point: the Pathways model is very defined and quite specific in terms of the activities. It is limited, but it is work-focused interviews defined in a particular way, and that is just not the service that is going to be undertaken inside Jobcentre Plus. Our position has been clear; we have been in correspondence with ERSA and with individual providers about this, and we have made it clear all the way through that we do not believe this is a case of continuity of service or even continuity of service that is sufficiently like the previous one to justify the TUPE transfer into Jobcentre Plus.

**Chris Grayling:** I would reiterate the point that we pay an upfront payment to Pathways providers that amounts to 60% of the fee they can earn in total if somebody eventually ends up in work. We will have been referring people to Pathways providers pretty much right up till now for a programme that has normally lasted a year. They are the ones who are choosing to bring the shutters down on 20-whatever-it-is of April. There is no obvious reason to me why they should not continue, given the fact that we have paid them a service fee for that particular piece of work, to provide at least part of it for the relatively short period of time, six to eight weeks, before the Work Programme starts. It is their decision to let the staff go. Only they will know whether that it is a wise decision or not, whether they are likely to get a Work Programme contract or whether their staff are appropriate to take on the new roles that they envisage.

From my point of view, we have paid them to deliver a service that they will not have delivered in full. They can continue to earn outcome payments for six weeks after the end of the contract date. It is absolutely not apparent to me why they should just pull the shutters down on the final date of the formal contract period.

**Q152 Chair:** You make your case for why you are taking the decision that you have with Pathways. What about the New Deal for Disabled People and the New Deal for Lone Parents, which will also experience that same kind of gap? Will the people who are working on those New Deals be TUPE’d into the new Work Programme if their organisation wins a contract?

**Chris Grayling:** The New Deal for Disabled People is, in delivery terms, very similar to Pathways, so the situation applies to both New Deal for Disabled People and for Pathways. Of course the situation for lone parents has changed pretty dramatically now because lone parents are moving at a much earlier child age than was the case previously to Jobseeker’s Allowance, and will be going into Jobcentre Plus and then receiving support subsequently through the Work Programme. That area is going through a big transition. Lone parents with a youngest child under the age of seven (five from next year) will continue to get access to the Work Programme on a voluntary basis using European Social Fund money, but lone parents with children over the age of seven (five from next year) will now go into the conventional stream which would take them through Jobcentre Plus and then into the Work Programme after 12 months.

**Q153 Chair:** The difficulty I have is you are talking about the contracts, the way the payments are structured and everything, but actually, for the individuals who are delivering the service—the frontline personal advisers or condition management—will actually be doing the same job in the Work Programme that they are presently doing. It is going to be very hard for them to understand why the job they are doing today will be so much more different from the job they could be doing once they are delivering the Work Programme, and why TUPE won’t apply because, as far as they are concerned, they are doing the same job.

**Chris Grayling:** I think you need to wait to see the final shape of the bids. I have to say I have not seen the final shape of the bids; officials have, but clearly Ministers are not shown contractual submissions until the point a decision has been reached—until they have been fully evaluated. I do not think you can assume that the Work Programme business model will be the same as applied under previous programmes. You may find a very different approach being taken by companies. Instead of providing the traditional model, for example in a back-to-work centre, I know one or two overseas firms have in the past had their own restaurant. One of the Flexible New Deal providers has already established a dummy call centre in Scotland. We may see a completely different model to try to move people into work, and I do not think you can assume that the nature of the jobs will be the same.

We are talking about contracts that come to an end in late April. The start date for the Work Programme is from June onwards. We are talking about big organisations with big capital bases that will be taking on the Work Programme. I do not think that there needs to be a major transitional hiccup in the staffing.

We have covered, in most cases, the transition through the existing New Deals. We have taken the view with Pathways that Pathways can peter out and come to an end, but there is no reason for the shutters to just come down. I personally think that the arguments about redundancies are misplaced, and TUPE will depend very much on what the chosen model for the Work Programme is. Good people with a role will undoubtedly find a place in the Work Programme.

**Q154 Chair:** You would agree, I am sure, it would be a shame if those good people end up with a gap in their service and go off and do something else, because very often the good people are providing the specialist help at the moment.

**Chris Grayling:** It would be a shame but there is no reason for it to happen. It will have been a conscious decision, in the case of Pathways, by providers not to complete the job they have been paid for. Contractually, they can do that. Whether morally they should is quite another question.
Chair: We will move on now to the design of the Work Programme.

Q155 Harriett Baldwin: Do we know what date the announcement is going to be made?

 Chris Grayling: It will be in early April, but we have not absolutely finalised the date. It will be in the first part of April.

Q156 Harriett Baldwin: The requirement on prime providers is that they do need extensive access to capital in order to be prime providers. We did have testimony from several witnesses who said that the ability to handle these large outcomes-based contracts prevented voluntary sector organisations from being prime providers. Was there a reason why the Government decided to create a prime provider model so that voluntary organisations were unable to access the scheme as primes?

 Chris Grayling: That was not our intention and it is not in reality what has happened. I think either 10 or 11 of the companies, organisations or collections of organisations that were appointed to the Framework in November were either entirely or partially voluntary-sector organisations. Was it 10 or 11?

 Alan Cave: 12 actually.

 Chris Grayling: 12—right. We were always aware that there was a legal difficulty for some voluntary-sector organisations to raise capital for commercial purposes to take a risk. One of the things that we sought to do very early on was to encourage investors to form partnerships with voluntary-sector organisations so that they could combine financial and delivery skills together in the same group. That is certainly what seems to have happened. We actually had a lot of bids from voluntary-sector organisations. I think we have a good mix of participation in the Framework. Obviously I cannot prejudge the outcome of the actual bidding process itself, but I hope we will see some voluntary sector participation in the prime contractor list, when it emerges in April.

 The real strength of the voluntary sector is not in organisations of the scale able to carry a payment-by-results regime. It is the smaller charities that have the flexibility to manage on doing things differently. The Merlin Standard says, “If you duff up the little guys, we will duff up you.” That can include us withdrawing their contracts. What we have sought to do with both of those, the clear message about participation and the Merlin Standard, was to strengthen the hand of the voluntary sector when it came to actually negotiating terms with big organisations that might hold the prime contracts. I am very confident we will have good participation from the voluntary sector come the announcement in April.

Q157 Harriett Baldwin: I know colleagues have questions on the Merlin Standard later, but I wanted to go back to the regional model for the contracts. Typically there are two prime providers per region. We have had some evidence that says it would be better to have one, because that would be better value for money for the taxpayer. We have had some evidence that says that actually you need to have at least three, because then there will be more competition to drive up standards. Could you comment a little bit on that?

 Alan Cave: As you will know, the geography of this is the regional lots, which the Framework is divided into, where typically we have seven, eight or more providers who are pre-qualified. With the exception of Scotland and Wales, we have divided each of those regional lots into sub-regions—typically two or three—so that we end up with 18 contract package areas, we call them.

 We are very keen to ensure that there is proper competition in each of those contract package areas. As you say, there are two or, in the case of the bigger conurbations, three prime providers there from day one. The rationale for that is that we just believe that the potential value-for-money loss of having duplicate infrastructure will be more than outweighed by the competitive tension involved in having prunes always competing for business, always needing to do better than the organisation alongside them, if they are to win more of a share in that contract package area.

 We have also had an eye to making sure that the whole system gives us contingency in the case of a provider underperforming or, indeed, underperforming to the point that we need to take the contract away from them. It gives us the strength and depth to be able to do that.

Q158 Harriett Baldwin: Are contractors limited to a maximum of seven regions?

 Alan Cave: No member of the Framework is on more than seven regional lots and they can bid, therefore, for as many contracts as are in that regional lot. It is complicated. Given that some of the regions are subdivided, you could be on seven regional lots and be able to compete for more than seven contracts.

Q159 Harriett Baldwin: What was the rationale behind the seven, because some organisations felt that a national footprint would have been even better in terms of delivery?

 Alan Cave: It was mostly driven by our assessment of the capacity of the organisations who bid for us to
deliver quality service across a range of different areas. It was a very careful analysis of both the financial and management capacity of all the organisations that bid to get on the Framework, and our conclusion from that was that that seemed to be a sensible and prudent ceiling to set.

**Chris Grayling:** We have consciously tried to push the envelope to get the best possible deal for the taxpayer, as you would expect, whilst still having a contracting model that we believe is profitable, and I believe it is potentially very profitable if the organisations concerned, and only if the organisations concerned, are very successful at getting the hardest to help into work. I do not mind providers doing well commercially if they are delivering the kind of results we really need.

Now, we may have had some within the industry say we push them too far; we had five of the organisations on the Framework drop out of the Work Programme bidding, and so we have taken an intentionally cautious approach. What we cannot afford to have is a situation where we are too exposed to individual organisations and the possibility that they might have got things wrong. One of the instructions I have given to officials all the way through, without interfering with any of the detail, is to say we have to be mindful of the warnings we have been given from outside and, therefore, act in a way that spreads the load in the interest of the taxpayer. What you do not want to do is to have two organisations for the whole lot, and they both go bust. Then you have a problem.

**Q160 Harriett Baldwin:** The idea behind a black-box approach has been welcomed by me think all the evidence that we have received, but there was comment from the RNID that it would prevent very good examples of practice being learnt from and replicated across the country quickly. I just wondered what steps the DWP would take to disseminate good ideas.

**Chris Grayling:** I do not think that is right, to be honest. We live in a pretty transparent world and I expect, if somebody is doing really well, there will soon be lots of people sniffing around and finding out how they are doing it and what they are doing differently. We certainly intend, as soon as we practically can, to make public relative information about the performance of providers to demonstrate who is doing well and who is not. I confidently expect us to see the chatter go around what is a fairly small industry, relative to the size of some, and people to be well aware of where there are good things happening and to be desperately trying to learn those lessons. Indeed, the nature of the payment by results regime almost requires you—if you have shareholders tapping on your shoulders saying, “How come that guy is doing better than you are? Find out”—to be chasing that best practice.

**Mark Fisher:** If I may add, I think there will be a burgeoning market for great ideas about how to get people back to work. In a sense, what we have not built here is an employment programme; what we have built is a set of financial incentives to help people get people back into work. Out there in the country, I think there should be a growing market in great ways of getting people back into work.

**Q161 Chair:** Will the Government resist the temptation to meddle, because Governments always meddle?

**Chris Grayling:** Yes, we will.

**Q162 Chair:** Absolutely?

**Chris Grayling:** It is so fundamentally important that we do not, the moment we start saying, “You need to do it this way, not that way,” is the moment we undermine the whole principle of the Work Programme.

**Q163 Kate Green:** I just wanted to ask about the corollary of the spread of best practice, which is what happens if you are aware of bad practice going on within the black box, and how in particular claimants’ rights and interests would be protected.

**Chris Grayling:** There are two aspects to this. First of all, if there was a genuine individual problem, which is not resolvable within the relationship between that individual and the provider, they can appeal; they can take their issue to the independent case examiner. More particularly, for bad practice on a commercial basis, we have the ability within the contract to manage market share. If we are dissatisfied by the performance of a provider, we can shift market share away from them. If they have performed very badly, they will be in breach of contract. Within the mix, we have set minimum performance standards, so that effectively they cannot just sink down and cruise along at a very low level. They will be in breach of contract then and we will remove them.

The whole payment-by-results approach makes it very difficult for people to underperform without working hard to do something about it, because they will lose money and be in severe jeopardy if they do. We have the mechanisms to move others into their place if they really are doing that, but the whole focus of the way the Work Programme is structured is to make it very difficult for people to sit there underperforming without huge internal pressure to do things better.

**Alan Cave:** Can I just add one thing to that, which is that there is a lot of transparency around it? It is a black box, but that does not mean to say that stuff is hidden away. Each of the bids will contain a very explicit statement of what the provider is prepared to publicly set out as their minimum set of standards—their minimum offer to customers, if you like. That will be turned into leaflets, which everybody going into the Work Programme will get. We will agree with providers what the key performance indicators are around those minimum service offers, and they will be contractual terms.

This is trying to get a balance. We are not prescribing but, if a provider sets out what they themselves agree is an acceptable level of service provision, we will hold them to it and we will make sure every customer going into the Work Programme knows both what to expect and how to complain if they feel they are not getting it.
**Q164 Mr Heald:** Of course, it is right that you should be able to manage these contracts effectively and ensure good performance, and if necessary remove a prime. Equally, it is important that a prime is able properly to manage its subcontractors and, if there is poor performance, remove a subcontractor. To what extent do you respect that and is the Merlin Standard going to interfere with it in any way?

**Alan Cave:** I think you have summed it up very accurately. What we have made very clear is that we won’t let a provider who sets out their consortium, their supply chain arrangements, to simply and unilaterally change that, so they would need to have any changes agreed with us. We have been very clear, and I have been very clear and the Minister has been very clear, with the subcontractor community that, if the case is that that would lead to an increase in performance, then of course we would accept that, because this is not designed to lead to inefficiency in the supply chains. Again, I think the issue is about transparency and doing this in an open way. The Merlin Standard simply in this respect ensures that this is done properly and in a way that is open, above board, and in line with what was agreed at the beginning of the process.

**Q165 Mr Heald:** The reason I ask is that, when we were in New York, we met some primes or the equivalent. Two of the risks that they felt they had were, first of all, the risk that the state, in your case the Minister, would interfere in the subcontractor and the other was that they would not be able or they should be able to very closely and effectively manage their subcontractors, because they are reliant on these subcontractors to get the job done, in order to get their money.

**Alan Cave:** Absolutely, and this is why we have been clear. Once the thing is up and running, it is about performance; it is about proper behaviour and it is about performance. Those two should be mutually reinforcing.

**Chris Grayling:** There is no way we would stop a prime contractor sacking a subcontractor if there was a clear performance issue. There have been tales in the past of bids coming in with nice supply chains attached to them, and the next day the whole supply chain gets sacked. That is clearly not acceptable; that would be a breach of contract, and the prime contractor that did that would be out on their ear. Equally, if we discovered that a prime contractor was just not paying a subcontractor for example, again we would seek to intervene, but, if somebody is not performing, then somebody is not performing.

**Q166 Harriett Baldwin:** The funding for the Work Programme comes out of future savings on benefits effectively, so funding is dependent on taking people off benefits rather than necessarily finding people jobs. I just wondered if that is going to lead to any perverse incentives, such as people being discouraged from going into self-employment or part-time work, where they might take a bit longer to come out of benefits?

**Chris Grayling:** No, it should not do, because, from the point of view of the providers, what we are looking at is clear employment or self-employment outcomes. I would not have a problem with that at all. In fact, I would be actively encouraging providers to pursue self-employment options. Indeed, there will be different aspects of support for self-employment available across Government. I am very clear that self-employment is a valid job outcome and apprenticeship is a valid job outcome. No, it is not about saying there is any particular model that has to be the case. What we certainly would be doing is paying a provider if somebody turns up at the door of the Work Programme and says, “That is not for me; I’m out of here,” and signs off benefits.

**Q167 Chair:** Can you explain something about the AME/DEL switch, which has been puzzling me? As I understood it, the Work Programme is going to be paid for because of the future savings in benefit. Of course, not everybody who is out of work actually receives benefit. Once they have run out of the contributory element, whether it is JSA or, under the Welfare Reform Bill, ESA after a year, it is then down to household income and large numbers of the people who we have started on contributory benefit end up not getting any money from the state at all. There cannot be any future savings by getting them into work, so will they just be ignored? Where is their role in the Work Programme? You have no sanctions on them because they are not getting any money. You cannot take their sanctions away; you cannot say, “I am going to take your benefit away if you do not work, and you cannot get any more money from the state at all.” That is not going to be the case. What we certainly won’t be doing is about saying there is any particular model that has to be the case. What we are looking at is self-employment options. Indeed, there will be different aspects of support for self-employment available across Government. I am very clear that different aspects of support for self-employment will be the case. What we certainly won’t be doing is saying self-employment is a valid job outcome and apprenticeship is a valid job outcome.

**Chris Grayling:** In terms of the contributory people, you are absolutely right that we cannot mandate anyone who is not receiving benefits to go the Work Programme. First and foremost, the people on the Work Programme will be those in receipt of Jobseeker’s Allowance and that will be income-based Jobseeker’s Allowance. At the moment, neither Jobcentre Plus nor any other part of Government offers somebody on contributory JSA more support than provided through the Jobcentre in that first six-month period, and we will obviously have some clear offers for that group—routes to self-employment, routes to work experience, and so on and so forth. No past programme has provided support for that particular group of jobseekers. Where we will provide support is for people who are on contributory ESA. One of the concerns I had was that people migrating off incapacity benefit on to ESA who are only eligible to receive contributory ESA would fall through the cracks. Even though they had been on incapacity benefit for a long period of time and might therefore struggle to get back into employment, we would not be providing them with support. What we have done within the planning for the Work Programme is we have specifically provided for those people to be able to receive Work Programme support if they want it. We cannot force them, because they are not receiving benefits, but they will be able to voluntarily enter the Work Programme and receive the same support as everybody else.

**Q168 Chair:** We have questions about the ESA cohort coming up later but, if we stick with the JSA
cohort, in other words the contributory element that will have run out before they would ever qualify for the Work Programme, there are two things. It would appear that those who have worked all their life, have made their contributions and have a working partner at home are actually going to get less help to get back into work than those who have been out of work for a long time. In fact, they are the ones who could end up being parked; they could be the new stock, if you like. They are going to be parked because there is no intervention to help them get into work. They are very much going to be left to their own devices. There is a group of people who are actually going to feel that, at the very point that the welfare state was meant to act as a safety net for them, they have discovered there is no welfare state.

**Chris Grayling**: That has always been the case. Those people have always received support through Jobcentre Plus for a limited period of time and then, after that, the state does not provide them with support. Now, there are a number of alternative things the state could do to support that group in particular, but of course those all carry a funding issue with them and, obviously, to have level of employment support into that particular area, where, in the past, we have never provided support.

**Q 169 Chair**: Surely the Government is also missing a trick because, if you can get these people into work, then the Government would get money back in terms of income tax and National Insurance contributions, which they are not getting because they are not getting any help. It will be exactly the same type of people as the ones who are on income-based JSA; it is just they happen to have a working partner. They still have the same barriers to work, surely. Are they not going to be left behind?

**Chris Grayling**: We are offering some support that will be eligible to those people—the growth of the Work Club network, for example. But to be clear: the one group we do not have money to provide for are those who have worked all their life, have made their contributions and have a working partner. They are going to be parked because there is no intervention to help them get into work. They are very much going to be left to their own devices. There is a group of people who are actually going to feel that, at the very point that the welfare state was meant to act as a safety net for them, they have discovered there is no welfare state.

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**Q 170 Chair**: From a question that you answered last week: quantify how big that group is. You do not seem to know the numbers who will not qualify for benefit once the contributory element has run out. It seems that about half of the cohort might get something contributory and income-related, but actually that is the whole half that does not get anything. Most people out of work and looking for work do not receive benefit. What is that not the lesson from some of this?

**Chris Grayling**: It is not most but there is a fair number. One of the reasons it is difficult to be precise is because they do not receive benefit. What we do not have are data about how long those people who are unemployed but do not receive benefit take to move into work. We have a remote idea that we clearly have within Jobcentre Plus and for those who are in receipt of income-related benefits.

**Q 171 Teresa Pearce**: The DWP was criticised by the National Audit Office in its procurement with the Pathways to Work programme and accepting bids that were unrealistic. What lessons has the DWP learnt from that with this procurement process? Are you confident that that won’t happen again?

**Chris Grayling**: We work very hard to try to get this right. We modelled the Work Programme in fine detail. What we did is we recruited a number of elements of outside advice as well. We recruited KPMG to effectively be shadow bidders to build a shadow business model for a putative provider to identify what the cost base of that putative provider would be, and to work out from that provider’s perspective what level of revenue they would need per placement to be profitable. We recruited the former head of corporate finance at Powergen to work internally with the team to look at our own modelling, and the way in which we were shaping the Work Programme business plan over a seven-year contract period—five years plus the two years when the last people who are referred are on the Programme. We also had input from UBS, because one of the things I was very sensitive about, as I was advising a bidder, how would I structure a bid in order to try to extract the maximum possible value from the Government. On their side of the fence, that is what they are after. Basically we brought in UBS and said to them, “Work out how you would get lots of money out of this, and we will close the loopholes.” We went through this all very systematically and came up with an model. I should say in terms of UBS, another factor in the current climate is, is this proposition investable? Was it realistic to believe that people would come forward with capital to support the bidders? We wrapped all of that together in a package that we believe is respectably profitable but not stupidly so,
that enables providers to do very well commercially if they are really excellent at placing people in jobs. What that means is that excess profits across the course of the contract and also requires an acceleration in performance. What I did not want to have happen was for a provider to be able to achieve a certain level and then just cruise there for the whole contract. The price falls as the contract goes on. In order to achieve the same level of profitability, they have to increase performance as time goes by.

It would theoretically have been possible for a provider to say, “Right, what we will do is we will pick the brightest 20%. We will send everybody else down the pub and we will just work with that 20%. We will scale for that 20%, and just make money out of them.” Therefore, one other thing we did was set a minimum performance level that was higher than the deadweight level, so they could not possibly predict who the best people to work with were. We said to them, “If you fall below that level, you will be in breach of contract.” What we are doing at each stage is to try to drive performance above where they have been in the past, keep performance accelerating, allow them to do well if they do well at the things we want them to do, but to make a sensible profit otherwise.

All the external advice we had suggested we got it about right. The fact we had five organisations drop out because they said it was too tough, but 30 who bid and have submitted 180 bids across the whole of the country, suggests to me—touch wood—we got it about right.

Q172 Teresa Pearce: Is there anything in that process that you have looked at in depth to stop a prime from setting up, say, an employment agency and feeding their own people through and getting a double-cut? Do you see what I mean?

Chris Grayling: I do. If they can create a model that does that, they are smarter than I am. Basically the structure of the payments means that, for a JSA client, you cannot earn the maximum fee until that person has been in employment for 18 months. For an ESA client, the maximum is two years, three months. I think that would be an issue. However, if they wanted to create employment for somebody for that length of time, they will have done the job anyway. We do not think it is possible to do that.

We may well see some form of temporary employment measure set up by them in order to try to help people make the move into work, but I do not believe it is impossible to do what has been done in the past. It has undoubtedly been the case in the past that some providers, where the outcome payment was simply based on a one-off job outcome, would set up an agency, hire them for a week, then sack them and take the job-outcome payment. You cannot do that in this structure.

Mark Fisher: I was with a Flexible New Deal provider the other day that had a cleaning business as a separate company. Essentially, you can view this model as subsidising. If somebody genuinely gives somebody a cleaning job for two or three years, then there could be a form of subsidy going towards that. It is quite legitimate under the black box if they can make money with that, but, as the Minister says, what you cannot do is simply put somebody in employment for a week and claim a payment. You have to have someone in sustained employment within that constraint. That is a degree of employment subsidy.

Chris Grayling: If you look at one of the hardest-to-help groups, the ESA ex-IB group, for whom we are planning a maximum fee of £14,000, if a provider formed a partnership with a local employer that genuinely gave people two years and three months of employment, and they gave three quarters of their fee for doing that as a subsidy to that employer to take that person on, I am completely relaxed about that sort of approach because clearly it gets that person into work over an extended period of time and helps change their lives. We should not rule out the use of the fee in part to subsidise it, as long as it is a real job. The reason it has to be a real job and the reason it will be a real job, of course, is because, if you just shove somebody in the wrong job for them, they will drop out. The whole point about this is you cannot earn the maximum money unless they stay in work for that extended period. Putting them into the wrong job just gets you nowhere, because they will not stay.

Q173 Teresa Pearce: Just to go back to something you touched on earlier, one of the issues that has been raised with us is the voluntary sector is concerned that they may be used as what they call window dressing in bids. You seemed to imply earlier that, if a bid came to you from a prime with a group of third sectors that was going to be worked with, and then none of them were, that would be a breach of contract. Is that correct?

Chris Grayling: It is and, if it was a blatant example like that, we would just remove the prime contractor from their contract. I am not having that.

Q174 Teresa Pearce: That is a concern; that they have been used as bid candy, as they call it.

Chris Grayling: We are absolutely clear: if that happens, the prime contractor will be toast, frankly. I am just not having that.

Q175 Teresa Pearce: The last point I wanted to raise is that the timescale is very ambitious. You are looking at the Work Programme to be rolled out nationally from June, when it is only April when the bids are finalised. Are you confident that you will be able to hit the ground running on that?

Chris Grayling: You have looked at certain bids, so you can talk a bit more about this than me.

Alan Cave: Yes, we asked each bidder to be quite precise in specifying when they would be able to start, for each of the bids that were sent in. All of those, taking those together, are completely consistent with being able to start on time.

Q176 Teresa Pearce: So you are confident?

Alan Cave: Yes. Teresa Pearce: Good.

Q177 Chair: The job subsidy thing, does that not come up against State Aid rules, which was one of the
problems with the Future Jobs Fund? Do you get around that by saying this is somebody who is disadvantaged in the workplace, and therefore it is alright to give them a job subsidy?

Chris Grayling: The truth is it will depend on the model they bring forward, and it will be for them to sort out the legality of it. In some circumstances, there certainly could be State Aid rules applying but, equally, because we are dealing with people with disabilities, there are different rules that apply. Certainly we are able to provide extra support to employers who take on people with disabilities, so it will be very much down to them and their legal advice to decide and to find an appropriate model, but we certainly would not stand in their way if they found something that worked.

Q178 Mr Heald: Starting with contract variation, clearly there are provisions for contracts to be varied where economic change, changes in volumes and policy changes apply. Is this something that would be a consensual variation or would it simply be a question of the DWP saying, “Right, we are changing the contract”? In what circumstances do you envisage this happening? One of the risks we have been told about by prime contractors, and this was mentioned again in New York, is that they need an enormous amount of capital to be invested in this. Say there was a major economic change and, heaven forbid, we had a worse economic situation come upon us, are those the sorts of circumstances where you might change the contract and look at providing different payment levels?

Chris Grayling: If there was a very substantial change in the labour market, one way or the other, frankly, that is the kind of circumstance in which we might need to revisit some of the assumptions. Clearly we are working to the OBR recommendations and forecasts for the next four years. Those have been available to providers to make their assessments. If there was some massive economic hiccup, inevitably that is the kind of circumstance in which one might reopen discussion, but it is not something we would do lightly.

Alan Cave: I think I would draw a distinction between almost the letter of the contract and the spirit of it. It is right for protection of public money the terms and conditions, which we have set out in the contract documentation, retain our right to control any future variation of terms. As the Minister says, the circumstances in which that would happen would be very limited. That is the way you have to write contractual terms but, in practice, you want there to be from the very beginning very open dialogue between ourselves and providers about what is working, what is not working so well, what we can do to improve performance and what aspects of that fall into our power, because of the way we operate the referrals process or something like that. Indeed, at the moment we are exploring ways in which we can institutionalise that a bit, so that we have that dialogue going on. I would hope that the fact that we necessarily have the controls very much on the taxpayer’s behalf vested with the Department’s

contracts does not mean that we are simply going to avoid contact and dialogue with providers.

Q179 Mr Heald: As you may know, one of the problems in Wisconsin with the Wisconsin work scheme, which was a way-back-when model of this sort of scheme but slightly different, was excessive profits—that they just got the contract wrong, in effect, and some companies made a fortune. Say you discovered that actually this was just going really well for the primes and more profits. Would you have any power in those circumstances to trim that back using the variations?

Chris Grayling: We should not get into that position, because essentially the contractors can only make money by getting people into work and them staying there. As they do that, there is a corresponding saving to the taxpayer in terms of benefit. The hardcore of deadweight would not vary by contractor performance. In an extreme situation, it would have been possible to make money by doing very little—to take on a very small number of people in a room, get them all into work and do jolly nicely, thank you very much. By setting a minimum performance standard, which is 33% for the conventional adult jobseeker, the provider has to achieve above that level, which is higher than the performance of previous programmes before they are even not in breach of contract.

We have been through this inside and out, and we think the only way you can make very substantial profits is to do really well at getting people into work and keeping them there. Clearly if that happens, it is generating more and more savings. The Work Programme is uncapped in that the more successful it is, the more AME savings can be drawn down to pay for it. There should not be a situation where we get caught in that trap. It is difficult to see how you could do that, because of the payment-by-results regime. I do not think anyone has used payment-by-results anywhere in the world quite the way we are doing it for the Work Programme.

Q180 Mr Heald: In terms of the outcomes, say you were to see that there were strong outcomes for some groups but poor for others, is that a situation in which you might seek to vary the contract to change the performance and payment levels?

Chris Grayling: We can move market share in that situation. We have the ability to give fewer of a group to one organisation and more to another, so we would manage market share between different providers if one was performing much better than another.

Q181 Mr Heald: As far as the minimum performance levels you mentioned are concerned, of course they are at higher levels than previously achieved, even when the economy was booming, which is a rigorous challenge that you are setting. When it comes to the minimum outcome rates, you are only really setting them in three categories out of the eight. What are your mechanisms for dealing with the other groups out of the eight? You are tackling the JSA 18–24s, the JSA 25+ and the ESA in the WRAG group, but how are you going to manage the rest?
Chris Grayling: One of the reasons we did not go for minimum performance standards with the others is because it is very much unknown territory. A significant proportion of the rest are people moving off Incapacity Benefit, where the deadweight levels that have been achieved up to now are almost non-existent. There has been virtually no flow of people into work, so there was no sensible comparator to use to say that is the amount you have got to achieve. Almost getting anybody into work is a benefit.

It is also the place in which you can make the highest returns, if you are successful. I think there is a great incentive to perform, particularly in the £14,000 group, which is the one where I really want to see the providers do well; the benefit to society of taking this group of people, who are either temporarily or permanently disabled but with limited capability for work, and helping them back into employment is such for society that extremely high levels of performance are very attractive. Saying to the provider, “If you do not achieve more than what has been up until now a tiny proportion of deadweight, you are in breach of contract,” just seemed to me an unnecessary step.

The risk to us was not in the performance level in those groups; the risk was in the performance level of conventional jobseekers. Let us suppose you are in a situation where the labour market is improving; things are going fine; you concentrate on 25%; you park the rest; you make a jolly good return on 25%. It was about those groups in particular we wanted to say, “It is simply not acceptable to perform at lower than past standards.”

Q182 Mr Heald: How would you tell whether they were performing well with those groups that are not subject to minimum outcome rates? If you are looking at, I agree, very hard cases to judge, isn’t it something where you will have to develop the performance standard and try to find some way of benchmarking it? If all the primes just say, “It is hopeless; we are getting very tiny rates of success, and yes, we are doing well on those three other groups,” that could be a sign of creaming and parking. It may not be an entirely genuine reflection.

Chris Grayling: The reason we have gone for the differential payment structure is to make this group attractive. One of the problems we have always had in the past, I think—if you look back at past programmes—is everybody has always sat in that financial box that was somewhere around £1,000 to £1,500 per placement, and a £3,000 outcome payment, and there was loads of creaming and parking, because they concentrated on easy people, and nobody has ever really broken out of that box. By going much higher than £6,000 for some of the harder-to-help groups and £14,000 for the hardest-to-help groups, for the first time there is a real financial incentive to chase after those people properly. We think that will significantly reduce creaming and parking, because suddenly that becomes an attractive part of the audience to work with.

Q183 Mr Heald: What you hope is that competition achieves the result where one of the prime contractors does well, and that benchmarks it. You then have a choice: you can either move the flow to them, or you can say to the other contractor, “Pull your socks up or we will do that.”

Chris Grayling: Having been through these business plans exhaustively over months, I can tell you, if I were running a provider, the way I would try to make lots of money is to concentrate on the £14,000 group, the hardest to help, and really work to get them into work. Of course, if that happens, it is a great benefit to us, because these are people who would never otherwise have been in work. What we have tried to do is create a situation where our interests and the interests of providers are really aligned. They can make shed-loads of money by doing the things we would absolutely love them to do.

Q184 Mr Heald: Are you going to be showing us at some point what the level of detail will be for the key performance indicators for each client group?

Chris Grayling: Yes, it is all intended to be transparent.

Alan Cave: Yes, absolutely.

Q185 Mr Heald: What is the idea behind this bonus for reaching 30% over the non-intervention level?

Alan Cave: This is really the first time that we have let contracts for anything like as long as this, and it seems that a mark of success for that contractual decision would be that providers get better as you go through. We have five years; some of these groups, as you say, have not worked with before. It seemed right to make sure that, as you go through the contract period, essentially that efficiency gain is shared between the taxpayer and the market. The way in which we have done that is to say that the set maximum for outcome payments goes down from the middle of the contract period onwards, so you have to work harder, frankly, to keep the same payment level. If you really do succeed through that, it seemed to us to be right to say that there is a bit of ceiling available, so those who go way beyond the previous levels of performance can earn a significant amount more, as if we had not reduced that payment.

Chris Grayling: There is another factor that we took into account as well. If you think of the way that, for example, the rail franchises work, the typical franchisee will make most of their money back-ended in the contract. They will make their upfront investment in their premium paid to Government; they will recoup that say, over five or six years of a seven-year period, and then they make their money in the last year or two. The pattern of a seven-year, five-year-plus-two, contract, the Work Programme, is not dissimilar, because they are making an investment up front; they are recouping money as time goes by; they are reaching profitability then they are reaching cumulative breakeven; then they are generating cash surpluses.

One of the things we took into account was the need in what is a relatively difficult investment climate still to ensure that the cumulative breakeven point was not too late to attract investors. We formed the view that...
Mr Heald: It is interesting the international observers we met on our visit felt that you were learning a lot of lessons from their mistakes. Let’s hope they are right.

Q186 Karen Bradley: You have talked about breach of contract and the possible need to remove a provider. Could you tell the Committee what plans you would have for the event of having to remove a provider and finding a replacement?

Alan Cave: This is why the creation of the Framework is so important. If I think back to previous episodes, we have always felt in a difficult position because, in those eventualities of a chronically underperforming provider, firstly, we have not in the past had the competing primes situation and, secondly, because we did not have the Framework, we would have had to have gone through up to an 18-month procurement process in order to find a replacement.

Here we have in effect three lines of defence. Firstly, if we had to get rid of a provider in a particular area, immediately we have another provider to refer business to, so there is no break in customer service anywhere from removing a provider. Secondly, we can see whether one of the existing providers in an adjacent area could give us a bid immediately, which would be satisfactory in order to replace that one. If that is not satisfactory, we can go to the Framework and, because they are pre-qualified, we do not have to go through a lengthy procurement process. We can, in a matter of a few weeks, ask for competing bids for the whole Framework, if need be—evaluate those and replace that one. It really does transform the position, and puts us in a much stronger position with a lot more contingency than ever before.

Q187 Andrew Bingham: The payments made to primes, what proportion, particularly upfront attachments, do you envision being passed down to the second and third tier?

Chris Grayling: That is very much going to be a matter for the first and the second tiers to negotiate between them. We have been very clear. As you will imagine, I have been approached by a lot of voluntary-sector organisations in the last few months, and what I have said to them is: “Look, we have done two things for you. The first is we have said to the providers, ‘If you are not at the table, then you cannot win,’ and the second we have said is, ‘The Merlin Standard provides you protection against them treating you commercially in a way that is unsustainable and unfair.’” If you take that situation and ask what then happens, I do not think we could possibly have been in a position where we sought to dictate terms to other parties as to what agreement they reached.

What I was seeking to do is to put the little guys into a position that, when they went in and talked to the big guys, they could say, “You need us, so this time we are going to talk terms that work for both of us,” rather than, as has sometimes been the case in the past, that we have had the big guys squeezing the little guys out of sight. What we have done is our best to strengthen their hand. At the end of the day, we cannot shape the nature of the contracts that are agreed between them. Of course, a voluntary-sector organisation that does not get some cash up front cannot survive. One of the reasons they need capital behind them is not simply to bankroll the prime contractor teams; it is also to bankroll the network. I would fully expect to see sensible payment terms, an element of the capital available for the network being used to support the subcontractors and that being the vehicle to keep the subcontractor chain intact and working well.

Q188 Andrew Bingham: So you have made a robust assessment of the potential risk to the small second and third tier providers on the outcome-based model?

Chris Grayling: Yes, because if they all disappear, then the prime contractor is up the gum tree. If the providers are all coming to us saying, “We are now being squeezed so much we cannot survive,” that would put them straight in breach of the Merlin Standard.

Q189 Andrew Bingham: We have had witnesses who suggested that the Merlin Standard does not have sufficient teeth to protect the supply chain. Have you any thoughts or comments on that? Maybe you need to strengthen it.

Chris Grayling: As a bottom line, the Merlin Standard enables us to terminate the contract with the prime contractor. I am not quite sure how many more teeth than that you can have.

Alan Cave: I completely agree with that. We would also add that one of the positives of the Merlin Standard is not just the teeth side or the stick side; there are carrots as well. It puts a lot of transparency into the system. There is a special portal in which people can advertise themselves and make connections in which the results of all the accreditations of the primes will be public. A gain, the evidence that is amassed about the extent to which the primes do keep to the terms they have agreed with subcontractors will be there, and all that stuff will be taken into account in future procurement rounds as well. This is just a massive advance on anywhere we have been beforehand, and it has been recognised in a lot of other Government departments that this is the way they want to go as well, because they see it as...
something that has potential to set standards across Government.

Q190 Andrew Bingham: You are fairly confident then that the primes will be as beholden to the second and third tier as the other way around?

Alan Cave: That is indeed it, yes.

Q191 Chair: ERSA has expressed some concerns that it may be difficult to have access to working capital in order to fund the payment by results. Another reason why it might be difficult for some of the contractors to get access to capital is because capital is invested in the Flexible New Deal and it has gone—a change of Government and away it went—and therefore there might be a bit of lack of confidence that the Work Programme will be around for some time. Therefore, it might make it more difficult to get that access. Certainly all the big contractors will have to have quite a lot of capital up front.

Chris Grayling: I think I would make two points. First of all, one of the flaws in the way the Flexible New Deal was finally put together is we ended up actually investing quite a lot of money into the provider community for not the most healthy return. The whole point about the way we have approached the Work Programme contracting is that the availability of capital to support this has been literally an absolute sine qua non. Nobody would have got anywhere if they could not demonstrate that they had the capital base to deliver this, and we have ended up with 174 bids. The proof of the pudding is in the eating.

Q192 Chair: Is it not the case that their whole future is gone if they are not—this is the only game in town for them? They have to be there if they are serious about delivering any kind of employability. They have to be in the Work Programme.

Chris Grayling: I would accept that if it was just the usual suspects doing it, but actually one of the interesting challenges we have with the bidding process is a lot of very attractive new participants, who have come in really looking to get into this business for the first time, with some serious capital behind them. That is enormously encouraging.

The thing I would say to the Committee in terms of this inquiry is there has been a lot of chatter around. For example, the Association of Learning Providers was quoted a few weeks ago as saying it is all awfully difficult and people won’t bid, but we have had 180 bids. We had five organisations that dropped out—one of them was quoted a few weeks ago as saying it is all awfully difficult and people won’t bid, but we have had 180 bids. We had five organisations that dropped out saying it was too tough, but an awful lot who did not and are there at the table. While I emphasise I have not had anything to do with them, my colleagues here assure me that they are pleased by the quality of bids we have received.

The proof of the pudding is always in the eating and, so far, we have set clear quality thresholds; we have set clear capital availability thresholds; we have set thresholds around the availability of good voluntary-sector networks to make bids credible. Up until now, and we have the bids on the table, organisations both new and old in this sector have come forward wanting to be part of it.

Q193 Karen Bradley: One of the concerns that has been raised with us is that the client groups go into the Work Programme, and the payment structure is based on the benefits they are currently receiving, and the degree of variation within those benefit types. I just wonder if you could tell the Committee about what evidence you have to support the payment structure being based on current benefits.

Chris Grayling: I think the answer to that, very simply, was we needed to find something that was simple to administer that was likely to be reasonably reflective. This is not an exact science; it is never going to be. You could either set up a complicated triage system that had every individual sitting down for an interview and somebody forming a judgment over which box they should sit in, or you could come up with a very simple mechanism. We formed a view that, if we looked at the groups we particularly wanted to help, you have the conventional jobseekers, relatively straightforward—the under-25s, the over-25s. We looked at the deadweight element of those; we looked at the benefit cost of those; and we came up with simple brackets for each of those.

We then looked at the rest. We wanted to move some JSA recipients from the hardest-to-help groups—those who are ex-offenders, those coming from the most difficult backgrounds—into the Work Programme sooner, but we also recognised the fact that they, of necessity, would be a greater challenge. Again, we looked for a payment that was reflective of the amount of money that we felt, based on the work we did with KPMG, would be necessary to provide proper incentives within that group. Then we looked at the hardest-to-help group, the ESA ex-IB group, and formed the view that this would be by far the most difficult. Again, we mapped out what were likely success rates, the likely amounts of money that would need to be invested in those, and came up with a number. In all cases, we looked at the comparator between the amount of money we were paying out and the amount of benefits that would be saved for the period of time we were asking them to be kept in work.

It is not an exact science. In some cases, we are paying out a bit less in benefit terms; in other cases, it is a bit more, but there is a reasonable parallel across the whole spread. It was out of a desire to create something that was simple, easy to understand, where there was no scope for debate and discussion. You are absolutely right, there will be variations within each group. That is inevitable but, we think, as a broad average it gives the providers a sensible basis to work with.

Q194 Karen Bradley: What happens if an individual’s circumstances change while they are in the Work Programme?

Chris Grayling: What kind of thing are you thinking of?

Karen Bradley: Perhaps they become disabled in some way and, therefore, are claiming a different benefit during the period they have entered the Work
Programme. What happens to the payment structure in that case?

Chris Grayling: Circumstances1 would probably mean, if somebody moved on to ESA, that they would not remain within the Work Programme, because their health condition would not necessarily permit it.

Alan Cave: I think that is right.

Q195 Karen Bradley: They would come out of the Work Programme at that stage, and then they would go back in later on, if they needed to. One of the issues with the regional structure is that there are going to be different employment needs and issues across the region. How does the payment model address that?

Chris Grayling: We have not really sought to. If we had sought to create a differential payment structure region by region, it would have created a system that was so complicated it would have been very difficult to manage. We formed the view that it was best to apply a single model and not to try to vary it regionally.

Alan Cave: Although it is open for bidders to give their estimates regionally, they are likely to bid on the price side of the competition. If a bidder really felt that a particular contract package area was likely to be easier to find work for, they would come in at a lower price. I think that is the one corrective in the system.

Q196 Karen Bradley: How will you stop prime providers from focussing on the regional area where it is easiest to place people into work? I think of the West Midlands, which is my own area. I am at the very top of the West Midlands; I am a long way from Birmingham. If my prime providers are based in Birmingham, is there any incentive for them to focus on this area that is two hours’ drive away?

Chris Grayling: Yes, I think so. What we have seen emerge in previous contracts, and I think is quite likely to be what happens with the Work Programme, is that you will see a major organisation sitting in the middle of Birmingham providing support services to jobseekers within Birmingham. It is more likely the delivery for your area, for Harriett’s area, would be through one of the larger organisations in the region who are really focused on the geographical spread. That is what I think will happen.

Alan Cave: Although it is open for bidders to give their estimates regionally, they are likely to bid on the price side of the competition. If a bidder really felt that a particular contract package area was likely to be easier to find work for, they would come in at a lower price. I think that is the one corrective in the system.

Q197 Karen Bradley: How would you deal with a situation where there is perhaps only one subcontractor in a smaller town, but there are two or three prime providers, all of whom are feeding clients into that subcontractor?

Alan Cave: That is an unlikely pattern actually. Looking at the bids, between them they contain hundreds of subcontractor organisations. I read this as saying that bidders have heard us loud and clear, and they are coming to us with relatively complete supply chains. Therefore, they will be able to say they have complete coverage. One of the bits of evaluation that we have done also is to get a number of views from the front line, from the ground upwards, sharing with them, on an anonymised basis, key aspects of each bid, the qualitative parts of it—the description of the service, if you like—because we did not want to evaluate those in a darkened room; we wanted a sense check on those. That is very much fed into the evaluation. Putting those things together, I am confident that we will have quite robust and diverse approaches.

Chris Grayling: The irony is my worry is the opposite. It is something we should all expect to hear from the time we announce the winning consortia in April. The truth is there are a lot of organisations involved in this area, a lot of very good organisations, and there is not a place for all of them. I wish there was, but there is not. There will be winners and there will be losers. We will find across the country a number of organisations coming forward and saying, “It is not fair; we are not in the Work Programme.” It will not be because we have not done the right thing to try to get the right mix of organisations. It is just that there are a lot of them out there, and there is not space for all of them.

Q198 Chair: Is it not the case that the differential payments are not quite as generous as might appear? You say getting someone from the hardest-to-reach group into a job gets three times as much as the straightforward JSA claimant, but your own minimum performance levels are suggesting that you are actually only expecting the contractors to get one of 10 from that group into a job, whereas it will be four out of 10 with regards to the JSA claimants. In fact, it is still better or easier for the contractor to go down the route of getting the easier-to-place into jobs, and that will still give them more of a return than the one out of 10, even though they are getting three times as much.

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1 If a customer moves to a benefit with no conditionality, their participation is no longer required but they would remain on the programme, the only exception being if they are referred to Work Choice.
Chris Grayling: That does not have to be the case. If you look at Pathways, for example, it has by all assessments added no value at all. The NAO verdict was that it did not increase employment outcomes at all. For Pathways, we were paying providers a couple of thousand pounds in total per placement. Here, the sky is the limit. You are right: if you take a very conservative pessimistic view, then you may not generate a particular return out of that group. The point is you have potential to do that. If you set about, as a provider, really doing the right thing for that group, you can do very well because the price is much higher.

Q199 Chair: That is assuming that it costs the same amount of money to get that individual a job as it would to get a JSA claimant a job. Now, all the indication is that it is going to cost a great deal more, simply because they will need a lot more intervention and it will take a lot longer. By the time you have actually got the person a job, you have already spent a great deal more but, actually, the attachment of the fee that was on each head, because of the on-flows, is less for the easier-to-reach group than it is per head for the easier-to-reach group. Even in the difficult group, you are bound to have creaming and parking; they are bound to do a really rigorous triage of the 10 people to spot the one or possibly the two—they will make big money if they get two in rather than one—that will get them lots of money. They will put all their money on to those two and ignore the other eight.

Chris Grayling: I suppose the point is, if you look at young NEETs, for example, under New Deal for Young People we were paying a fee of £1,300 to £1,400 per placement. The typical job outcome was £3,500. Inevitably in a structure like that you will have creaming and parking because, if the maximum amount you are likely to earn is about £3,500, then you are going to concentrate on the people you are most likely to get into work. If the harder-to-help person costs twice as much as the easier-to-help person, then you will concentrate on the easier-to-help person. At least by paying £6,000 for that NEET, it suddenly becomes worth investing that bit more money in that person, if you believe with that bit of extra help you can get them into work. The point about this is we are breaking out of the box that programmes have always sat in of paying £1,000, £2,000 or £3,000 for the job outcome. They are suddenly saying, “Yes, actually we recognise the fact that, if you are really going to put a lot of effort into trying to get this hard-to-help group into work, it is going to cost you twice as much as the other group. Therefore, there is a commensurate reward.” I think that is a big step forward.

I cannot give you a guarantee that every single person will be treated in the same way, because the Work Programme is specifically designed so that the organisations adapt what they do to meet the needs of each individual. By requiring them to put into the bids their own minimum service standards, so that every individual who enters the programme knows the minimum amount they can expect from the provider, I think we have both guaranteed that minimum level of support, whatever it may be, and we have put in place the opportunity to earn a substantial amount of extra money by getting the hardest-to-help into work. I think that will take us a lot further down the road towards ensuring fair access of all to proper support than we have ever had before.

Q200 Chair: I think you have just made the best defence of the Future Jobs Fund that I have ever heard, because that is exactly what it was made to do, but the Government has got rid of that. Maybe it will come back in some other form.

Chris Grayling: The point about the Future Jobs Fund is we is paid £6,000 per head up front for it, whereas with this, we will pay when somebody is in work and has been sustained in work.

Chair: Good.

Q201 Alex Cunningham: Minister, there is real anxiety out there amongst people on Incapacity Benefit, who are going to be finding their way into the Work Programme. Is there really sufficient capacity and expertise within the Programme to respond appropriately to their needs, the very high numbers of former I8 claimants, for whom provision will have to be made?

Chris Grayling: I think so, yes. The industry has geared up for this. We have been quite conservative in the numbers we have put into the tendering document, because one of the past criticisms of the Department has been it had overestimated numbers. This time we have tried to be quite conservative so that the providers can plan accordingly, but the providers are keen to take people on and are keen to get volumes. I have a real sense that this is an industry that is keen to get as many people as possible to work with. I am not worried about a lack of support.

It is also important to say that we are not simply going to thrust everyone into the back-to-work channel. I am really concerned that the way in which the migration is seen is as an attempt to identify those who can benefit from the support provided through the Work Programme, to deliver that support for them at the right time, but not to try to force into work those who are not ready or cannot make the step into work. I think we will see a mix of outcomes. We have already seen that from Burnley and Aberdeen, and the mix between the fit-for-work group, the WRAG and the support group. We are certainly not looking to push all of the WRAG into the Work Programme in one go; we are looking to move those who are nearing the point at which their prognosis says they may be able to return to work. We are providing voluntary access to everyone in the WRAG, so that those who feel they want to get enhanced support can access it. For those who do not yet feel ready and for whom the prognosis is not yet right, there will be flexible support provided through Jobcentre Plus to keep them in the work loop. We are trying to get the right mix for them, but I am very confident that the Work Programme providers can deal with the volumes we have set out.

Q202 Alex Cunningham: So their anxieties are not well founded at all?
Chris Grayling: My message to anybody who is going through the IB/ESA migration is that, if you are found fit for work or if you are in a position where you can soon make a return to work, you will be able to access specialist support. That support will be there for you; it will be there close to where you live, and it will be designed to help you take a step back into work. There is nothing to fear; we are not about trying to force people into work who are not able to be helped back into the workplace.

Q203 Kate Green: I just wanted to ask particularly about the group that is quite likely to end up in the support group, and that is people with learning disabilities. It is certainly the impression of a number of the organisations that work with those people that that is a likely destination for many of them. Obviously they could choose to access the Work Programme, but there is concern that the funding that supports them, for example to get education and training, will not be available to them. I wonder if you could comment on that.

Chris Grayling: We will be providing collectively through bids training for JSA and ESA customers in the WRAG who are looking to get back into work. There will be training available. I think most particularly it is going to depend very much on the needs of the individual, on the circumstances, on what they need, on the scale of what is provided. For somebody who is entering the Work Programme, I certainly expect one of things they will be doing is receiving short-term guidance, support, training and coaching where appropriate. With that group, as much as anything else it is about finding an employer who will give them the opportunity to get into the workplace, develop them and support them.

I was very impressed when I went—Dame Anne was there—to the meeting we had when I visited Aberdeen, and the young man we met who had been in work for a few months now and was clearly doing quite well. I thought he was an inspiration, but I thought the employer was a model of somebody who had given the opportunity to a young person with challenges in life to get into the workplace for the first time. Therefore, it is less about the training; it is much more about whether we have providers with the expertise to match an individual to a willing employer to find the right kind of role, and to give them the opportunity therefore to get into work. That to me is the big win, the big challenge.

Q204 Kate Green: I must say, in my own constituency we have a substantial number, some several hundred, of learning-disabled people who are currently going through courses at the local further education college, and a reasonable number of them do move into at least some form of employment. I know the college is worried that it will be simply unable to continue to provide courses for those young people in the future, because the funding that they are currently accessing is not going to be available if they are on a support programme.

Chris Grayling: I am happy to talk to you but, as you know, FE college funding is not in my remit.

Kate Green: I understand. I have actually written to the Minister around that.

Chris Grayling: If you want to collar John Hayes and ask him about that.

Q205 Kate Green: The recent issue that has been raised with me is many of them have ultimately moved into admittedly often supported employment or very-short-hours employment, but there is a real concern that this group of people is potentially going to lose out because of what is happening in the FE sector, which I appreciate is not your concern. Your offer to them that they could enter the Work Programme may be something that they are not really in a position to do, because they are not getting that preparation.

Chris Grayling: We work very closely with John Hayes and the team at BIS, and we have been looking to create a matching offer that provides people who are looking to get back into work with the opportunity to access training modules that will help them develop themselves and make themselves better prepared to get into the workplace. I will certainly take that away and perhaps we could have a chat offline about that because that is not what we would want to happen and it is clearly of great importance that we do help those people move into the workplace.

Q206 Chair: There is also concern because a lot of that group would end up on Work Choice, but it is capped at £23,000, and there just won’t be the places for them. That is another concern for that particular group.

Chris Grayling: We will do as much as we can to provide people with opportunities. Obviously, as you know, we are financially constrained because of the circumstances we are dealing with at the moment. Across the piece, notwithstanding the financial challenge, we are still making some major investments in training and development. We are making major investments in supporting people back into the workplace. In thinking about the mix of employment programmes, we were very careful to protect programmes like Work Choice that are aimed at people with disabilities, people in the support group, because I felt it was important that we did have the kind of specialist support that they need.

I should also say that that group will benefit particularly from the arrival of the universal credit, because one of the best ways of helping people in that position to the workplace is to get them somewhere where they can do a small number of hours each week and take steady steps upwards. They have a journey back into the workplace rather than simply getting a job. Of course, the universal credit enables them to do that very simply and very flexibly, without some of the disincentive points you get at the moment, around for example the 16-hours rule.

Q207 Alex Cunningham: Some clients of the WRAG group will be assessed as not likely to be fit for work, maybe for three months, maybe for six months. It is not clear how frequently they will actually be reassessed. It also appears that they will only receive ESA WRAG payments for a year, despite
One of the reasons that I asked is that new information, I will start with how we dealt with for example, the Citizens Advice Bureau that said that, when we arrived in office and I looked at the Chris Grayling: should not actually be there? not fit for purpose. Is that where the real risk is— Q208 Alex Cunningham: they do something different with those people. interviews, that they have done in the past, or whether use the conventional form of WFIs, work-focussed it to Jobcentre Plus advisers to decide whether they dictate a set model from the centre. We would leave support through Jobcentre Plus, but we would not everybody else in the WRAG—so anybody who has prognosis, and then we offered voluntary access to return. We felt that, if we went for the three-month in something from which they may not get much of a difficulty commercial position because you are asking view of the providers, you are putting them in a is more than six months, the advice that we had was that you will have people who are actively resistant. They will say, “I am nowhere near to returning to work. The prognosis is more than six months. Why are you doing this?” Also, frankly from the point of view of the providers, you are putting them in a difficult commercial position because you are asking them to work with people who are not expected to be able to make a return to the workplace soon; there is no conditionality attached. They are investing money in something from which they may not get much of a return. We felt that, if we went for the three-month prognosis, and then we offered voluntary access to everybody else in the WRAG—so anybody who has access to it and, indeed, anybody in the support group who wishes to have access to the Work Programme— we would back that up by providing ongoing tailored support through Jobcentre Plus, but we would not dictate a set model from the centre. We would leave it to Jobcentre Plus advisers to decide whether they use the conventional form of WFIs, work focussed interviews, that they have done in the past, or whether they do something different with those people. Q208 Alex Cunningham: Is it quite possible then that the real risk of the whole lot of this is what is considered as the Work Capability Assessment not being fit for purpose? Lots of people are saying it is not fit for purpose. Is that where the real risk is—that people will come into the Work Programme who should not actually be there? Chris Grayling: One of the reasons that I asked Professor Malcolm Harrington to carry out his investigation into the whole process last summer was that, when we arrived in office and I looked at the initial bits of feedback that were coming into us from, for example, the Citizens Advice Bureau that said there is a problem here, it was clearly something that I felt we needed to take a careful look at. We had, from that point, about a year before the first of the IB/ESA migrants would be taking their assessments. I wanted to use that year to good effect to really look at the nature of the process—what was right, what was wrong and what needed to be done to make sure we dealt with some of the issues. Malcolm Harrington, as you know, carried out his investigation last autumn and he made a series of recommendations to us in November. We then looked at those recommendations very carefully and, based on the work that we did at that time, we formed a view that we could have and we will have all of the Harrington recommendations in place in time for the assessment phase to begin in or around June. As you know, there is about an eight to 10-week period between the letter going out and the assessments taking place.

Q209 Alex Cunningham: Is that new information, Minister, because I thought there was going to be some sort of delay on the Harrington stuff coming out?

Chris Grayling: No, it will all be there. Of the key recommendations, some have started already. We took on board very quickly and very early on the advice over telephone calls rather than just letters, so people will get a human explanation. Professor Harrington’s first recommendation was to make the process more human. We have already started that; we did a lot of that in Burnley and Aberdeen. People now get a phone call at the start of the process and if the assessment is carried out. He made recommendations about mental health champions; they will be in place for April. He made recommendations about other aspects of the process—the personalised statement—that will be in place by the end of May. We are now confident we can have all of his recommendations in place by the end of May. He also made a number of suggestions for phase two of his work, the second annual review, which as you know we have brought forward and we are moving ahead with as rapidly as we can.

If I could just touch, if I might, since the question has been raised—if I might just divert very momentarily, Dame Ann—on the issue of the Work Capability Assessment and the internal review that we inherited from the previous Government. I know that this is a matter of concern at the moment. I thought quite long and hard. As you will not be surprised to learn, I did not feel a particular compulsion to adopt anything that had been done by the previous administration, but I thought quite long and hard about it.

What the internal review does is this: it moves people who are between courses of chemotherapy into the place by the end of May. He also made a number of recommendations, some have started already. We took on board very quickly and very early on the advice over telephone calls rather than just letters, so people will get a human explanation. Professor Harrington’s first recommendation was to make the process more human. We have already started that; we did a lot of that in Burnley and Aberdeen. People now get a phone call at the start of the process and if the assessment is carried out. He made recommendations about mental health champions; they will be in place for April. He made recommendations about other aspects of the process—the personalised statement—that will be in place by the end of May. We are now confident we can have all of his recommendations in place by the end of May. He also made a number of suggestions for phase two of his work, the second annual review, which as you know we have brought forward and we are moving ahead with as rapidly as we can.

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What the internal review does is this: it moves people who are between courses of chemotherapy into the support group. That seemed to me to be a good thing. It moves people who are in residential rehab into the support group, which also seemed to me a good thing. The Department also did a lot of modelling on the impact of the review on mental health cases—people with mental health problems. It basically put the revised descriptors to an expert panel with a sample of people, a sample of real cases, and found that it actually increased the number of mental health patients in the support group, which seemed to me to
be a good thing as well. The fourth thing it does is it allows us to take into account how well people have adapted to their condition. We are in the situation at the moment where, to take an extreme example—I accept it as an extreme example—a Paralympic athlete with a university degree would have no obligation to look for a job. I think it is quite important to factor in the degree of adaptation.

The one thing I have been very clear about all along is I do not believe we should say anything about any condition that basically you have to fit everyone with a particular condition into one particular box, and so the adaptation provision seemed to me to be sensible. That is why all of those things made sense to me and that is why we decided to go ahead with implementing the internal review. There was no other purpose beyond that. All of those recommendations made sense to me.

Chair: I am assuming that must be a division, but it does not appear to be coming up. Oh, it is. We will stand suspended for 15 minutes and then we will come back, if that is alright, or 10 minutes if people are back.

Sitting suspended for a Division in the House.

On resuming—

Chair: I think we will just get started, if that is alright. I was going to say—you obviously do not know this, because we will be drawing up terms of reference on Wednesday—in light of our visit to Burnley, we thought that we would do a short inquiry into the IB/ESA migration. Of course the WCA will feature large in that, so we will have you back to do all the detail, because it is certainly one thing. I think Harriett maybe wants to ask a very short question on that.

Q210 Harriett Baldwin: Yes, it is more topical, based on the visit to Burnley, as to whether you would consider “rebranding” the Work Capability Assessment into something more like the “work support assessment” based on the feedback from the previous period and also the fact that significant changes are taking place.

Chris Grayling: I think it is a very good idea. I think I am very open to that. The moment we should do that is probably over time, we are talking in a few months’ time anyway—if we do the next project, which is the work that is now being done on whether we can improve the mental health descriptors. That is the next phase of Professor Harrington’s work, but it is something I have already had suggested to me. I think it is a good idea, and we are looking at what the right moment to do it might be. There is an interesting case for doing that.

Q211 Alex Cunningham: Will clients receiving the contributory ESA lose these payments after a year—you mentioned it earlier on—even if they have been assessed as not ready to join the Work Programme?

Chris Grayling: The answer to that is yes, but they will be very eligible. Everyone who falls into the contributory bracket for ESA will be able to access the Work Programme, even though they may not be drawing a benefit. One of the things I was concerned about was we identified that this was a group that could fall through the cracks: those who had been on IB for a long period of time and, because of the nature of their household income, might not receive Work Programme support. We have made specific provision in the Work Programme budgeting for that group to be able to volunteer to participate in the Work Programme anyway, so they will not fall through the cracks.

Q212 Chair: In terms of the proportions of the WRAG group, there are two bits of the WRAG group—the ones who are ready to undertake work now and the bigger group, those who are not ready, as it were. I am saying there is a bigger group; I do not know. That is my question: what are the proportions of those two? My concern, which fits in with what Alex said about the contributory, is that people could have lost their contributory element before they are well enough to get anywhere near the Work Programme. A lot of that group will have fallen out of work fairly recently, and possibly because of that they may not even have got a diagnosis a year down the line. People do have those various long-term health conditions that will take more than a year to get back. What proportion will be on the WRAG? You must have the figures from Aberdeen and Burnley by now. What proportion are ready to go into the Work Programme? What proportion are three months down the line, and what proportion can you see won’t be ready after a year?

Chris Grayling: The truth is I do not know yet, because we were, at the last consultation with the team doing it, just finishing off the last few assessments. They have not been back to look at the three-month prognosis numbers. I hope to have those shortly, and by the time you do your short inquiry we will certainly have those.

Q213 Chair: I am not clear then who does the next assessment. Is it the Jobcentre Plus personal adviser, or does the person have to go through another WCA three months down the line?

Chris Grayling: It is very much down to their choice. They have the right to go back to another WCA. They cannot be required to look for a job until they have been found fit for work by a WCA. My hope is that those who go back and take part in work preparation activity, which they can be required to do, will enter the Work Programme, find the experience positive and actually will take the step straight back into work. They do have the right to turn around and say, “I am not well enough. I insist on going to a WCA”, and to be found not fit for work, and if their condition has worsened they would move back out of the Work Programme. The whole point about putting them in at the three-month point is to start to get people ready for a return to work, give them a sense that there is decent support there for them, and to help them to begin to take the step that we hope they will subsequently take.

Q214 Chair: You could find some individuals coming for a WCA every three months because the personal adviser thinks they are perfectly fit to work, but they are saying, “No, I am not and my doctor is saying I am not,” so they are signed off. Would it not
be better to keep the WFHRA, rather than having to have the WCA every three months?

Chris Grayling: Ultimately the point about the WCA is that it is the tool; WCA processes bring in mandatory job search. What we are not doing is imposing mandatory job search—I do not think we should do—on people in the WRAG. What we are able to do is to require them to take steps to prepare for work and, effectively, the three-month prognosis point for entry into the work group is that it is about stepping up the preparation for a return to work, but it does not carry with it job search conditionality until they have been found fit for work by the WCA. We thought about this quite hard: what is the fairest way of doing it that actually builds up to the point where they are actually going through job search? This seemed to be the most sensible way of doing it.

Q215 Kate Green: The BBC recently reported that the Work Programme is estimated to support a quarter of a million fewer clients each year than the previous Government’s employment programmes, and I think, when that was raised with you in the Chamber, you said that we should not believe everything that we hear on the telly. I wonder if you could tell me what your estimates are for client flows through the Work Programme and how they compare with the number of clients supported by the previous Government’s employment programmes.

Chris Grayling: The BBC comparison really was comparing apples and pears. There are a number of ways of looking at this. Let’s start with the basic contracting-out process—simply contracting out support to external providers. The figures for previous programmes in 2009-10 were about 550,000. The projection for the start of the Work Programme is about 610,000. That is in itself a conservative estimate. We actually reduced our estimates by 15% so that we did not make the mistake we have made before of over-promising volumes to the Work Programme providers.

I think that is a slightly artificial comparison. I think you need to look at it this way. We are providing two types of support to people; we are providing intensive support to jobseekers who pass the threshold and to people who come from the WRAG either at that three-month prognosis point or who are volunteers. They are getting a programme that is up two years long with proper intensive back-to-work support. In addition to that, we are providing a lower level of support to those who are in the WRAG but have not fallen in to either of those two categories. That is going to be done by Jobcentre Plus; it will be tailored more to the needs of the individual than it has been in the past.

That model is to some extent—although I have to say in detailed terms it is different—bears comparison with what was done in the previous Government, where you had around 400,000 people receiving support through substantial contracted-out employment programmes like the New Deals, and around another 400,000 who received low-level support through Pathways to Work, which is basically six interviews. If you look at the comparison with what we are doing, we will be providing intensive support to about 600,000 people and then the lower-level support to about 400,000. By either comparator, actually the numbers are higher.

It is a numbers game. The simplest, most straightforward way of explaining it is that, if you are on JSA and you come to the thresholds of three months, nine months or 12 months, or if you are on ESA, every single one of those people has access to the Work Programme. There are no limits, no restriction. Nobody is denied access to the Work Programme. Every single one of those people can access it. If the numbers go up or the numbers go down, everyone gets access to the Work Programme and everyone gets access to that intensive support. I think that is the key point.

Q216 Kate Green: Given that there will be potentially substantially more people coming through the new Work Programme, what are the implications for the Programme if job opportunities in the labour market do not meet the Government’s projections?

Chris Grayling: The key thing to remember is that, even in the depths of recession, there are hundreds of thousands of people each year moving into work. The statistic I always remember—I have not done it for the last recession—is that in 1993, which was the peak year in unemployment terms of our last recession, something like 700,000 people who had been out of work for more than three months got into employment. The key is to make sure that, as and when opportunities arise, the people who are moving into those opportunities are those who are on benefits. The big failing of the employment programmes we have had in this country over the past 10 to 15 years is that has not happened. We have consistently seen this total number of the best part of 5 million people on out-of-work benefits.

In the last few months, in those periods when employment has been rising, there has been very little change in the JSA count, so I think we are not doing a good job at getting people off benefits and into work. Far too many jobs have gone to people who have come into the UK from overseas or who have moved from economic inactivity to activity. Far too few have gone to people moving off benefits. I see the crucial challenge facing the Work Programme is to make sure that we are actually moving some of these people into the flow that is always happening, in all economic circumstances, of people who are getting into work.

Clearly, if there is a material change to the labour markets, a sudden big surge in unemployment, it makes life more difficult. If there is a big surge in employment, it makes life easier. A bove all, what we must not do is get into the paradigm that says, because the labour market is tougher, these people cannot get into work, because a constant flow of people get into work and we have to make sure, this time, these people are part of that flow.

Q217 Kate Green: For the payment mechanism, in which over the 18 months that people are required to be in employment, if somebody had a series of stop-go jobs, would there be intermittent payment patterns for the provider over that 18-month period?
Chris Grayling: Yes, they can earn for the periods in employment. It is cumulative; it builds. If you do go through intermittent patterns of employment, it accumulates to the full 26 weeks, 39 weeks, 52 weeks or whatever it is. Your payment will be interrupted if you come out of employment at the wrong period.

Q218 Kate Green: That could facilitate quite a lot of churn for an individual, and the provider would still be picking up some reward.

Alan Cave: We think it is better than the previous process in which you paid a provider for a job that did not last, and then you have the revolving-door syndrome. This time, it creates more of an incentive for the provider to keep working with the customer in those circumstances to keep them in a job and, if they do fall out, to get them back into work quickly.

Chris Grayling: If I could just pick up on that point, the Work Programme is a two-year process. An individual is on the Work Programme for two years and so, over that two years, there is quite a long period of time for that to happen and they would simply revert to the provider only if the job did not work out. It is also worth saying, for your numbers comparison that, because it is a two-year programme, if you are looking at the number of people who are on the Work Programme at any one time, it will be two years added together less the number who are in work.

If you look at the first two years of the Work Programme, we are projecting about 600,000 to go into the Work Programme each year. Obviously we will have some that get into work, but you will find that within 18 months to two years you will have 1,000,000 people in the Work Programme at any one time, less than 200,000 or 300,000 who have got into work on top of that taken into account, which does make it a lot bigger than it has been before.

Q219 Kate Green: On the point you are making about one of the roles for providers being sustaining people in work over a much longer period of time, it was suggested to us from one witness that that actually required a different set of skills from personal advisers and if you were simply getting people into a job. What reassurance can you give us that providers’ staff will be sufficiently well trained to deal with that sort of variation in role and also the complex and wide range of needs that they will meet on the Work Programme?

Alan Cave: I think there are two parts in answer to that, Kate. One is it is not just skills but processes as well. What we are seeing in some of the bids that we started to look through are some quite interesting bits of innovation about how providers keep in touch with people who have gone into work and how they organise those relationships. The signs are good that providers are thinking about that. The second part of the answer is that is the way the incentive structure is set up. If a provider wants to really earn the maximum amount of money that is available for that programme, they will find ways of doing that.

Chris Grayling: Can I just take very quickly the point that Dame Anne made about the WFHRA? One of the things that we felt about the WFHRA was effectively the first interview that the Work Programme provider would go through with somebody who was referred to the Work Programme effectively replicates the objectives of the WFHRA anyway, so we felt there was a degree of duplication there, which was one of the reasons why we decided not to go ahead with it.

Q220 Chair: But some of them will get into the Work Programme. That is the problem. There is no WFHRA to help judge whether they are fit for work.

Chris Grayling: All those who are found fit to work would go through this process and would enter the Work Programme quickly. The JSA people have three months of Jobcentre Plus and will go through the same kind of triage process with them, sitting down with them and working through what they can do.

Q221 Alex Cunningham: Minister, there will be regional variations in the availability of work. If we look at the North East, for example, there has been a shift from public- to private-sector jobs in recent times, but there is still this huge dependency on the public sector, where we are expecting to see considerable job losses in a region like the North East.

How is the Programme going to respond to that? If you are expecting a variable performance across regions depending on the opportunities available to people?

Chris Grayling: Let me pick that very specific example. Over the course of the last summer quarter, when we saw quite substantial rises in employment around the country, there was a 17,000 rise in private-sector employment in the North East but the JSA rate barely changed. That to my mind is the nub of the problem. I do not believe it is impossible for the private sector in any part of the country to create jobs; the challenge is how we make sure that people who are on benefits actually are the ones who take advantage of those jobs, and that is the bit that has not really been working.

You are right; we are very clear that there are parts of the country that face bigger challenges than others. The North East is one of them. It has a high dependency on public-sector jobs. The private sector is smaller than many other parts of the country relatively. That is why we have the Regional Growth Fund. It is why we have put in place tax incentives for small businesses in those areas. It is why we are targeting the New Enterprise Allowance in those areas. I would be very surprised, although I am not privy to all the details of the budget, if the budget did not contain more measures that are designed to stimulate the growth of business in those areas. I am very clear in believing that only if we have new successful organisations, companies working in those parts of the country, making profits, investing, creating jobs, will we really deal with the unemployment problems there.

Q222 Alex Cunningham: You do not think organisations in areas like the North East of England will have a different level of incentive for getting people into work? That won’t be necessary?

Chris Grayling: I think that the incentive structure we have is sufficient to enable them to do what it takes to get people into work. What we have to do alongside that is to create an environment where business is
thriving and jobs are being created to get those people into.

**Q223 Mr Heald:** If I could just ask one question arising out of that, of course if a provider feels this is a more difficult challenge and “I might need to spend more money in order to get people into work,” they can put in a bid at a higher level, in terms of what they are expecting to be paid in that area.

**Chris Grayling:** Yes, exactly.

**Q224 Kate Green:** The last thing I wanted to ask about was the process for sanctioning clients, where that becomes necessary, and particularly how Jobcentre Plus and Work Programme providers will work to ensure that is a seamless experience for the client, and that the client is clear about what is going on.

**Chris Grayling:** We thought about whether to move sanctioning to providers and decided against it. We have left the job of sanctioning a claimant with Jobcentre Plus, and we have also left the fortnightly interview with signing on with Jobcentre Plus. Both of those are important because, at the end of the two-year period if that person is not in work, Jobcentre Plus will have to take responsibility again for them for a period. I would expect what would happen, and certainly what we envisage would happen, is that the provider would notify Jobcentre Plus of non-participation; Jobcentre Plus would then seek an explanation and implement a sanction if it is appropriate. The sanctions regime we have put in place basically discontinues benefit payments until the person re-engage.

**Mark Fisher:** We have not changed the sanction regime on behalf of the Work Programme. The sanction regime is the one that is going to be implemented in the Bill and in other measures. It will require, as you imply, close relationships between providers and Jobcentre Plus, but that is essential for the whole system to work. Clearly Jobcentre Plus is absolutely a key part of our delivery system, and a key part of the project we are putting in place to deliver the whole Work Programme.

**Q225 Kate Green:** I guess it is important because there is a lot of evidence that sanctions are often misunderstood. People do not why they have received them and do not even know that they have received them. In terms of the purpose of sanctioning, which is re-engagement, as you have said, Minister, it seems to me that there will need to be very clear communications between Jobcentre Plus and the provider about the circumstances that are leading to a referral back to Jobcentre Plus. I think that is something we will be interested to see in practice.

**Chris Grayling:** I would be very happy to return to that as we get the systems bedded down.

**Q226 Chair:** I have one last question. I think this will be the last question unless my colleagues tell me otherwise. At the moment, with the way the benefit system works, we know that over 16 hours is a full-time job, but that will go with the universal credit. Under either the present definition or a new definition, what will count as a job outcome? Will it be 16 hours or 32 hours that would count before the providers get their full pay?

**Mark Fisher:** We are still working through how universal credit will affect the systems, including the Work Programme, because clearly it will change the nature of the different segments of customers going into the Programme. The outcome definition may or may not have to be changed. We are working through these issues at the moment.

**Chris Grayling:** In order for the model to be sustainable, let’s be clear: it is perfectly acceptable for a part-time job to be a job outcome, but what a part-time job cannot be, in its entirety, is kind of one or two hours a week. It has to be a genuine part-time job that lifts somebody out of basic JSA provision. In order to be an acceptable Work Programme outcome, that does not stop the provider giving somebody short-term work experience in short bursts, and that will become easier when the universal credit is in place. Certainly we do not envisage a four- or five-hour-week job being a satisfactory job outcome in the Work Programme.

**Q227 Chair:** So we might see a 16- or 20-hour rule still there in the universal credit?

**Chris Grayling:** There will have to be a threshold, yes.

**Chair:** Thank you very much, Minister, for coming along this afternoon. You had a wee bit of a break in the middle of it. Obviously from now on we will write our report, which we hope to publish some time after Easter. Thank you, and thank your colleagues for coming along this afternoon.

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2 We have already removed the threshold. An outcome is defined as customer finding employment (for the specified number of weeks) of such a level that it takes the customer off out of work benefit.

3 There will have to be a level of employment that is acceptable as an outcome, but we have already removed the hours threshold. An outcome is defined as customer finding employment (for the specified number of weeks) of such a level that it takes the customer off out of work benefit. This may be revisited before the introduction of Universal Credit.
Written evidence

Written evidence submitted by St Loye’s Foundation

1. Summary

(a) The changes to the Work Programme contracting procedures should have a number of positive results, but problems remain:

— Payment by results should align customer and provider interests;
— Efficient supply chains are essential—three tiers may prove be too expensive;
— Prime providers should be asked to report the volume of funds passed down to sub-contractors, along with the number of sub-contractors;
— Specialist organisations should be recruited to meet the needs of the harder-to-help—the experience of generalists delivering Pathways to Work has been less than ideal;
— Smaller, VCS organisations may have to accept payment net of financing and management costs, and risk premia, of just 50% of total payment—this may be too low to generate the results required; there are partial solutions to this problem, however;
— Differential payments for the harder-to-help are a major step forward;
— The EOI and PQQ procedure for sub-contractors remains an enormous burden, for very little benefit—new approaches are required.

2. The Relationship Between Primes and Sub-contractors, and DWP’s Role

(a) The formation of relationships between prime providers and sub-contractors (and between sub-contractors and third-tier providers) are determined largely by commercial interests. When programme payment is through regular, pre-determined fee payments, primes can take both a strategic view of sub-contracting (with which organisations do we wish to have a longer term relationship?) and a risk minimisation view of sub-contracting (with which organisations can we back-to-back sub-contract in order to ensure a certain volume of business?). In other words, the sub-contracting relationship is not necessarily established in order to maximise contract outcomes for the customer, but to suit provider interests. The task for DWP is to ensure that provider commercial interests align with customer interests.

(b) In principle, the approach of payment by results over an extended period of time should achieve such an alignment. If the customer is found and kept in work, then the provider (and sub-contractor) is remunerated. Our conversations with potential prime providers in respect of the Work Programme, however, suggest that the established sub-contracting approach may be maintained in many cases. This has a number of consequences:

— For those prime providers who will not deliver, but act as contract managers, a three tier supply chain is likely to emerge; this is likely to involve a higher overhead cost that a two-tier supply chain, reduce front-line expenditure and lead to sub-optimal results.
— For primes who also deliver, back-to-back subcontracting with similar organisations will reduce the risk of not winning business across regions but, due to the necessity of each having to further sub-contract to smaller, local front-line providers, will again result in higher aggregate overheads and reduced front-line expenditure.

(c) St. Loye’s Foundation believes that a two-tier delivery model between primes, whether delivering directly or not, will maximise front-line spend and bring the best results. This implies, however, the formation of networks or delivery consortia in each of the regions. This is happening only sporadically, we believe.

(d) We do not believe that there are any longer major issues between primes and sub-contractors in respect of contract management, following pressure from DWP and the introduction of the Merlin Standard. The procedures which primes have adopted in order to demonstrate compliance and objectivity in the selection of sub-contractors, however, are extremely onerous for sub-contractors (see Section 6, below).

(e) We do believe, however, that DWP might ask for primes to report the volumes of funds passed through to second tier and third tier providers on a quarterly basis. This is both to have a better idea of the percentage of resources being passed to the front-line and secondly to prevent primes from gaining commercial advantage by “window dressing” their technical proposals to DWP with an array of, in the main, VCS providers who are then used sparingly, if at all, to deliver.

3. The Implications of the Change of Profile of JSA Claimants Arising from Migration from IB/ESA

(a) The bigger DWP programmes have, to date, been largely delivered by national “end-to-end” job broking organisations. This has been the case with FND 1 and Pathways to Work. We have seen, however, and in particular within the Pathways to Work programme, that such generalist providers are not always geared up to providing specialist services to harder-to-help groups. Appropriate skills are to be found, however, with many of the organisations which have previously delivered WORKSTEP and continue to deliver the DWP Residential
Training programme. Both of these programmes were designed to offer services to harder-to-help customers, and specifically those with disabilities. It is too early to comment on the performance of organisations delivering Work Choice.

(b) Prime providers should therefore be looking to include specialist organisations within their delivery partners. St Loe’s Foundation thinks that such organisations should provide “end-to-end” services for harder-to-help groups, rather than simply being available to the larger, generalist providers to offer occasional, call-down inputs. The size of the harder-to-help group should not be underestimated.

4. The Implications for Providers of “Payment by Results”

(a) As already mentioned, payment by results should, in principle, have the effect of aligning commercial and customer interests. From that point of view it is positive. The payment system does, of course, increase provider risk (risk is effectively transferred from DWP to the provider) and put pressure on cash flows. Each of these implications has a cost to the prime provider and, to the extent that risk and cash flow pressures are passed down the line, to sub-contractors. Providers in general will, therefore, be looking for higher percentage margins to offset these costs. Moreover, even if primes remove outcome risk and cover cash flow for sub-contractors, this will come at a price.

(b) We have not yet received specific offers from prime providers. However, I do not expect to see cash flow cover to be passed down to sub-contractors at the interest rate at which it is borrowed by the prime. If not applied to the Work Programme, capital may be applied elsewhere and primes will be looking to charge the opportunity cost of capital, which could be as high as 20%.

(c) The size of the risk premium requested of sub-contractors for assured payments is yet to be seen, but will certainly be in double figures. If sub-contractors are obliged by a weak balance sheet to accept assured payments from the prime provider, and accept cash flow cover, then, after bona fide management costs of, say, 15–20%, I would expect sub-contractors to have to accept an overall charge of around 50% of gross payments from DWP to the prime provider. This risks insufficient resource being passed to the front line, customers not receiving the service they need, and job outcomes not being generated as expected.

(d) The above implies that government may receive higher benefits from reduced unemployment by reducing the cash flow hit on prime providers. This may be done in two principal ways, without compromising the payment by results principle.

— Provide “advances” against a percentage of expected outcomes, to be re-couped upon eventual provider proof of employment and invoice;
— Provide pro-rata payments after, say, six months of employment and at six-monthly intervals thereafter, rather than waiting for a record of 24 months’ employment.

(e) The impact on the voluntary and social enterprise sector. Much of the sector comprises small organisations, which are not in a position to offer region-wide sub-contracting services. Many are, therefore, obliged to accept the offer from primes of providing occasional, specialist inputs on a call-down basis. Moreover, the Work Programme, combined with Work Choice, the majority of which is being delivered by one large charity (Shaw Trust), will comprise the majority of welfare to work funding by DWP in the coming parliament. This means that many voluntary and social enterprise bodies will see a reduction in their welfare to work income, and will have to diversify or merge to survive.

(f) The sector should not be immune from commercial pressure, of course, and it may be that the merger route is a sensible one for many organisations. The risk is that merger will remove the community connections of smaller organisations, many of which have a high, local reputation.

(g) The second potential impact on the sector results from a lack of full understanding of the commercial drivers within the Work Programme. It is likely that either:

— Organisations will accept a job broker role but will over-estimate their ability to deliver job outcomes. They will feel obliged to accept prime provider offers, however, as the Work Programme is perceived as the “only game in town”.
— Organisations will accept a specialist, call-down role, but find that their services are not called upon to the extent expected as prime providers and larger, job broking sub-contractors wish to maximise their own turnover.

5. The Effectiveness of Differential Payments on Support to the Harder-to-help

(a) I expect differential payments according to the complexity of the customer situation to be overwhelmingly positive. There will always be issues of where, exactly, to pitch the payment, but any differentiation will be an improvement. Similarly, there will always be a range of customer profiles within any one customer group, and there may still, therefore, be an element of “cream and park” within customer groups. The extent of this should be much less under a differential payment scenario than previously, however.
6. Other Issues

(a) St Loye’s Foundation would like to comment on the approach of prime providers to the selection of sub-contractors. With a handful of honourable exceptions, most prime providers have adopted a hugely complicated process of selecting sub-contractors. Some have adopted both an EOI and a PQQ stage, and some EOI run to well over 30 pages before responses are inserted and evidence is attached! There is great scepticism within the sub-contractor community that prime providers do, in fact, read and carry out an objective selection based on evidence presented. Rather, it is felt that the process is one to which to refer should there be any appeal by a non-selected sub-contractor under the Merlin Standard. In fact, the prime provider should not be tied to written submissions and should be able to use commercial discretion to select partners. As the intangible is often as important as the tangible. This being so, the formal EOI/PQQ stage should be much less onerous.

(b) The effect of using the current EOI and PQQ approach, however, is that sub-contractors have a huge, pre-tender work load, 80–90% of which will prove to have been unnecessary because primes do not reach the tender stage or do not retain the sub-contractor. In our own case, we have completed as of 18 November 2010, 38 EOI and 3 PQQ. I estimate the staff cost of this exercise to be around £10,000.

(c) DWP, to its credit, has proposed a standard EOI form to minimise sub-contractor work load, but very few prime providers have adopted it. Further thought and direction is required!

November 2010

Written evidence submitted by The Prince’s Trust

Summary

The Prince’s Trust supports the introduction of the Work Programme, which offers the potential to help the most vulnerable in society to move into sustainable work and training. We strongly welcome the current calls for evidence, and hope this may help to ensure fair and effective sub-contracting, especially for voluntary sector providers, as well as reducing the risk the programme runs of marginalising the most vulnerable client groups.

Introduction

The Prince’s Trust is the UK’s leading youth charity, helping to change young lives. We support young people aged 14–30 to develop their confidence and skills, and progress into education, training and employment. Founded in 1976, we have deep experience in effective delivery: last year alone we supported over 42,000 disadvantaged young people. Our programmes offer personal development opportunities that bring tangible and lasting benefits both to our young clients, and the communities in which they live.

The Prince’s Trust engages disadvantaged young people who face the greatest economic and social disadvantage. We measure ourselves by our ability to engage four priority target groups:

— Unemployed young people.
— Educational underachievers.
— Offenders and ex-offenders.
— Young people who are in or leaving care.

The Prince’s Trust engages young people thorough a range of programmes of intervention. These range from initial “hooks” for young people furthest from the job market and in-school support for young people to remain in education, through to employment and self-employment programmes for those looking to overcome the last hurdles to entering sustainable work.

Responses

1. The steps the Department for Work and Pensions needs to take to ensure that a procurement programme of this size and complexity is managed effectively and delivers high quality outcomes

The Prince’s Trust recognises the need for investment in high quality programmes to support those clients furthest from the labour market. These clients often face multiple barriers and need intensive support. As a result, achieving high quality outcomes can be expensive. A payment by results model may lead to Contractors ignoring those clients in most need of support as they are less profitable. Securing quality outcomes for these clients, however, is essential to breaking the cycle of worklessness and the procurement exercise must accept and reflect this.

In addition, as a Voluntary & Community Sector (VCS) provider, The Prince’s Trust needs to ensure payments meet full cost recovery models— as this is the only means to ensure sustainability in achievement of quality outcomes. Prime Contractors are understandably concerned about their margins, but procurement models must ensure sufficient funds are passed to sub-contractors. This should be monitored to ensure funds are available on the front line to deliver high quality outcomes.
Finally, with a contract of such size and complexity, monitoring systems must be simplified as much as possible. Monitoring such contracts can often be very resource intensive, removing funds from the delivery of programmes. It must be ensured that sub-contractors are not forced to duplicate monitoring arrangements—having to implement different systems for both the Prime Contractor and DWP.

2. The extent to which the Work Programme will differ from existing contracted employment programmes

Clearly the Work Programme will involve significantly increased flows of clients through its programmes compared with the fragmented nature of current provision. Within these economies of scale there still needs to be flexibility for programmes to meet local demand, tackle local issues and respond to changing local labour markets.

The Work Programme also poses a significant risk to many VCS providers. At present there is a range of provision offered through the VCS, meeting local need and delivering specialist support. There is a risk, however, that the Work programme will put these vital services at risk. Local Authorities and other providers of employment and engagement programme must be able to continue to commission delivery which is not Work Programme accredited. Without this, VCS provision will be subject to an organisation’s ability to negotiate with Prime Contractors rather than its ability to deliver quality programmes and achieve sustainable outcomes.

3. The relationship between prime contractors and sub-contractors and DWP’s role in overseeing this relationship

The Prince’s Trust is keen for the Work Programme to be an opportunity for genuine partnership working, rather than basic sub-contracting. In addition, the financial relationship between Primes and sub-contractors will be crucial. If smaller and VCS organisations are to be engaged in delivery of the Work Programme, they cannot be asked to carry the same level of financial risk as primes. There would need to be a different payment structure for the VCS to engage effectively with the programme, involving more of the payment upfront. This will achieve savings in the long run as we have a strong track record in delivering outcomes. DWP should build upfront payments into their payment structure, and require this to be offered to sub-contractors, as well as continuing to emphasise VCS involvement in the programme.

4. The role of Jobcentre Plus in delivering the Work Programme, including the lessons learned from the Delegated Flexibility Pilots

The Prince’s Trust has a Memorandum of Understanding with the Jobcentre Plus. This has been in place for a number of years and ensures our clients are able to complete our programmes whilst still continuing to receive their benefits. Unfortunately, despite this many of our clients and staff continue to face significant difficulties in dealing with Jobcentres—often resulting in very vulnerable young people losing benefits key to their wellbeing. As such, Jobcentre Advisers need to be very clear on what programmes young people are eligible for and the referral routes for these. A difficulty often faced by The Prince’s Trust is the high turnover of Jobcentre Plus staff. Effective measures need to be put in place to ensure all staff have the most up to date information and give the correct advice through these major changes.

5. The implications for providers of the increase in volume and the change in profile of Jobseeker’s Allowance claimants arising from the migration from Incapacity Benefit and Employment and Support Allowance

The change in profile of claimants will dramatically increase the number of clients with increased needs or those who are the furthest from the labour market moving onto the Work Programme. As outlined in response to Question One, The Prince’s Trust recognises the need for investment in these clients to break the cycle of worklessness. However, tackling the multiple barriers and achieving successful outcomes will be expensive and intensive. A payment by results model may lead to Contractors ignoring these clients as they are less profitable, further deepening their culture of worklessness. The procurement exercise must therefore ensure reward for intensive support for clients furthest from the labour market. Profiling of clients to include issues such as mental health problems, drug dependency and housing issues should also be considered alongside length of time unemployed, educational qualifications and employment experience.

Outcome targets for these groups also need to be realistic. Many of these clients will need multiple interventions to progress to employment. As such, there should be recognition and payment for achieving steps along that journey. Progression and achievement rates must be not be uniform but need to reflect the increased barriers certain groups of clients will face.

6. The implications for providers of “payments by results” arrangements, with particular reference to the voluntary and social enterprise sector

This is an essential factor in the degree to which the VCS will be able to engage in delivery of the Work Programme. The Prince’s Trust support the most at-risk young adults, many of whom need sustained intervention before being in a position to take on work. Payment on sustained outcomes therefore has major cash-flow implications. Prime Contractors need more flexibility to be able to pay more to VCS organisations upfront, or the sector will be under-represented in delivering the Work Programme, thereby weakening its...
impact. In addition, many of the vulnerable young adults we support lack the initial skills to take on work, and require further education or training, and the payment structure should have the flexibility to take this into account. Finally, we are still waiting to hear from DWP on the length of sustained outcomes that will be required. Tracking the young people The Prince’s Trust works with for two years will significantly increase the cost of delivery: again, if this is required, the payment structure should be able to reflect this.

7. The likely effectiveness of a differential payment scheme in encouraging providers to support harder to help groups

The Prince's Trust views a differential payment scheme as essential to the running of the programme, although it is hard to say how successful it will be without more detail of what it would look like and how it would be administered. We are concerned that without differential payment schemes, providers will work with the easier to help clients, and the most vulnerable in society, such as those The Prince’s Trust supports, will be ignored. Our clients face multiple barriers to work and require sustained and intensive support, which is most costly. If the DWP is looking to move clients from all levels of claim and all groups in society into work, there will have to be higher payments attached to the more challenging customers.

8. The implications of regional variations in the labour market, and whether these will be reflected in the differential payment arrangements

Targets will need to be aligned to job growth forecasts in regions. This is not a job creation programme so will rely on there being jobs for people to progress into once they have been through the programme. The Prince’s Trust Get into programme responds to employer needs and market conditions by supporting young people into work in industries where there are local entry level vacancies. A model of this type would help with taking regional variations into account. In addition, in regions with fewer available jobs, making payments available for other successful interventions, such as further training, that move customers nearer to the job market, would be helpful.

9. How providers will be encouraged to work effectively with local authorities and other local agencies

The Prince’s Trust currently works extremely closely with a large proportion of Local Authorities—delivering results to support young people in Employment, Education and Training. Our partnerships deliver multiple benefits, reducing NEET figures, tackling anti-social behaviour, improving health and wellbeing and encouraging civic engagement. As outlined above The Work Programme must retain flexibility to respond to local needs and labour markets. Local Authorities and Local Enterprise Partnerships are best placed to assess their locality and know the specialised support needed and what employment opportunities lie within their area. The Work Programme is not a job creation programme, but to be a success, local strategies for economic growth must be aligned with skills and employment training. Without this alignment, Local Authorities and other relevant bodies will not offer their essential support.

Finally, whilst the Work Programme will be an essential element to support clients into employment, Local Authorities, VCS organisations and other agencies will still have a vital role to play in supporting unemployed clients through other means. This will ensure clients with specific needs are continued to be supported and no client “slips through the net”. However, agreements must be in place to ensure clients are eligible to access this support and Local Authorities do not cut current employment support provision in respect of the Work Programme.

November 2010

Written evidence submitted by G4S

Background

1. G4S has spent the last three years building a reputation and presence within the welfare-to-work industry. We believe that we have the ideas, skills and experience to revolutionise welfare-to-work delivery in this country, making a significant and lasting difference to people out of work and claiming benefits. As the world’s second biggest private employer, we have a strong track record in managing complex programmes and making sure that others perform. In addition, we bring financial strength and the ability to raise capital.

2. We already work in partnership with 150 voluntary, community and training organisations to provide a wide range of support programmes for over 100,000 disadvantaged people each year. We believe that we are uniquely placed to deliver welfare-to-work programmes as a credible and stable potential prime contractor.

3. The Work Programme represents a unique opportunity to transform lives and communities across the country: an opportunity not only to support millions of people into secure and lasting employment, but to make enormous inroads into eradicating child poverty and kick-starting social mobility. This is why we are working closely with policy makers and employers to ensure that the Work Programme maximises its potential to support as many people into lasting jobs as possible.
Summary

1. The Work Programme is one of the boldest and most ambitious programmes ever seen in the employment sector, and G4S wholeheartedly supports this ambition. Payment by results is the right approach for the Work Programme. G4S believes that paying for welfare-to-work services out of future benefit savings is the best model for employment services.

2. In the absence of reliable performance and pricing data, it will be difficult for organisations to finance the Work Programme without some guaranteed revenue in the first years of the contract. Prime contractors should carry a significant proportion of the financial risk. In the first three years of the Work Programme, if this risk is too great then prudent organisations may decline to be a part of the scheme.

3. Positive and constructive relationships between prime contractors and subcontractors are crucial to the long-term success of the Work Programme. Subcontractors should flourish in a way that has not been seen before in other employment schemes, given the bargaining power that high-performing organisations will command. The Department for Work and Pensions can use the Merlin Standard to promote strong relationships between partners.

4. The scale of the Work Programme and the breadth of client groups that it will support is encouraging. The necessary funding will need to be put in place to ensure that the hardest to help receive the support and guidance that they require. This is achievable, even within current fiscal constraints, under an AME/DEL model.

5. Differential payments are both realistic and commendable. They will help address longstanding concerns over “creaming” and “parking” that previous programmes have suffered from. Inevitably, any form of differential payments will require careful implementation but that is no reason not to factor these payments into the financial model being devised for the Work Programme.

The extent to which the Work Programme will differ from existing contracted employment programmes

6. The recent welfare reforms represent an enormous change in the scope and ambition of the welfare-to-work industry. The Government is absolutely right when they say that simply doing things the same way in future is not tenable. Some people within the industry are still suggesting that the Work Programme will just be “more of the same” ie it will merely be “Flexible New Deal—Phase 3”. This is not a fair reflection of what the Work Programme represents and how it should be delivered.

7. The most significant difference created by these reforms is the sheer size of the Work Programme in relation to previous and existing employment programmes. Previously, employment programmes have concentrated primarily on JSA claimants, despite this group representing just a quarter of the 5.7 million people on benefits in this country. In contrast, a large number of additional customers will be brought onto the Work Programme. Both the Work Capability Assessments for Incapacity Benefit (IB) claimants and the inclusion of Employment Support Allowance (ESA) claimants will considerably increase the number of customers able to benefit from the Work Programme’s services.

8. The financial arrangements for the Work Programme are distinct from previous offers. The emphasis on “payment by results”, the desire to introduce differential payments and the utilisation of the AME/DEL switch are central to the Government’s plans. There is also an increased emphasis on subcontracting, with the majority of service delivery likely to be subcontracted to smaller organisations. Correspondingly, the reduced number of prime contractors represents a considerable shift in their role and responsibilities.

9. The Government is attempting to learn the lessons from past experience of welfare-to-work provision. The report on “Pathways To Work” released by the Work and Pensions Committee in September 2010 listed a string of failures by current providers of employment services. Other programmes such as the Flexible New Deal have also performed below expectations. The welfare reforms introduced by the current Government have the potential to deal with these failures and revolutionise the welfare-to-work industry. G4S believes that paying for welfare-to-work services out of future benefit savings is the best model for employment services.

The relationship between prime contractors and subcontractors and DWP’s role in overseeing this relationship

10. The relationships between prime contractors and subcontractors are an integral element of the Work Programme. We believe these relationships should be based on mutual reliance. G4S spends £250 million with subcontractors each year and are aware of the importance of building trust and confidence with our partners. It is in both the prime and subcontractors’ interest to develop a positive relationship from the outset. Such a positive relationship will be more akin to a partnership, where both parties derive considerable benefit from high performance throughout the supply chain. Arguably, the top-performing subcontractors could become just as influential, if not more so, than prime contractors as the contracts are delivered. This is because prime contractors are dependent on the performance on their subcontractors and will be paid on the basis of how well they deliver services under the “payment by results” system.

11. Ultimately, the best relationships will involve prime contractors managing, supporting and financing the subcontractors in a way that clearly promotes the objectives of the Work Programme; namely, to get more people into lasting work. That said, it should be acknowledged that the prime and subcontractor relationship has greater significance than in previous employment programmes because more delivery is likely to be subcontracted in the Work Programme. Indeed, the model developed by G4S will involve subcontracting 100% of our employment services as we believe that delivering high-quality services at a local, regional and national level through specialist providers will achieve the best results. Previous schemes have encountered problems when the subcontracting has been limited. For example, conflicts of interest developed between prime contractors and subcontractors delivering Pathways to Work, resulting in a mere 12% of customers being passed onto subcontractors.2

12. Prime contractors should be given the freedom and flexibility to identify and partner with the very best subcontractors to deliver the Work Programme. The Merlin Standard will ensure the process for selecting partners is transparent in addition to promoting “best practice” and explaining to partners what is expected of them. DWP’s role in overseeing the relationships between prime contractors and subcontractors will also be facilitated through the introduction of the Merlin Standard. G4S welcomes this standard and believes it reflects our existing commitment to exceptional supply chain management. The Merlin Standard also echoes our belief that the relationship should be one of mutual reliance that will create a sustainable partnership.

13. In order for the Work Programme to be a success, G4S believes the best relationships will be dependent upon prime contractors and subcontractors dealing with each other fairly. Nonetheless, this does not mean that poor performance from either party should be acceptable within the Work Programme. G4S will collect performance data on all of our partners through our innovative IT system and will subsequently use this data to identify poorly-performing organisations.

14. Prime contractors should give under-performing organisations the necessary support, management and guidance to facilitate improvement. However, if an organisation consistently falls below the standards necessary to help jobseekers back into work, despite being given additional support by a prime contractor, G4S believes it has both a moral and economic duty to remove them from the supply chain. Ultimately, this is necessary to ensure that jobseekers are given the best possible service by prime contractors and subcontractors alike.

15. Greater flexibility for prime contractors also presents the opportunity to create competition throughout the supply chain. G4S’s model will encourage competition between subcontractors as an incentive for them to boost performance. A competitive atmosphere will allow us to compare subcontractors on the basis of their outcomes and learn from their strengths and weaknesses. This in turn will allow us to consistently improve our overall supply chain.

16. G4S knows that DWP have a vital role to play in terms of setting the boundaries and structures (including conflict resolution procedures) within which partners must operate. The positive nature of the relationship between prime contractors and subcontractors, backed by strong mutually supportive contracts, should largely remove the need for DWP to become involved in arbitration and dispute resolution.

The role of Jobcentre Plus in delivering the Work Programme, including the lessons learned from the Delegated Flexibility Pilots

17. Jobcentre Plus (JCP) has a critical role in referring jobseekers onto the Work Programme, ensuring a smooth transition in every case. This transition can play a significant part in shaping each customer’s attitude towards the employment services that they receive through the Work Programme. JCP should introduce the process in a positive light and encourage jobseekers to maximise any resulting opportunities in their journey to lasting work. Both the number and character of these referrals will shape the performance of the Work Programme, which is why JCP will play a vital role in its success.

18. JCP is also responsible for regulating the benefits received by each individual enrolled on the Work Programme. Once a customer has been placed into employment, or if they fail to attend the requisite meetings, JCP must ensure the correct benefits are promptly reduced or removed whenever necessary. At the same time, any benefits for which the customer remains eligible must continue.

19. G4S recognises the important work that JCP delivers. On the basis of past employment programmes, there are several ways in which JCP can help foster positive relationships between themselves and both prime contractors and subcontractors. First, open communication channels between providers and JCP are always beneficial. A dedicated point of contact within JCP for providers has proved useful in previous schemes and is therefore worth considering as part of the Work Programme. Second, providers should work with JCP to create an efficient system for relaying information about jobseekers regarding their attendance and progress. Ideally, this system would minimise bureaucracy while maximising the fast and accurate flow of information.

The implications for providers of the increase in volume and the change in profile of jobseeker’s Allowance claimants arising from the migration from Incapacity Benefit and Employment and Support Allowance

20. The migration from IB and ESA onto JSA poses a significant challenge to the Work Programme. The increase in volume has clear implications for the financing of the Work Programme as it will represent a stern
It is certainly possible for 4, but even this is unlikely to plug the enormous data gap.

22. G4S has designed a Work Programme delivery model with these issues in mind. We know that job brokerage is sometimes not enough to place customers into meaningful and lasting employment: As a result, G4S has developed a “Knowledge Bank” of specialist support that gives job brokers access to a variety of additional tailored services for each customer group. Our Knowledge Bank will provide job brokers with access to specialist support for different customer needs, including: debt advice; childcare; mental health support; assistance with housing; and tackling basic skills shortages such as literacy and numeracy. As a result, changes in the profile of JSA claimants should create few problems for our job brokers. The Knowledge Bank allows us to design the most appropriate support package for each individual customer. Such additional localised support must be effectively harnessed if we are to move more people into sustainable jobs.

The implications for providers of “payments by results” arrangements, with particular reference to the voluntary and social enterprise sector

23. G4S welcomes the introduction of a “payment by results” model as this is the best way to help more people into sustainable work. “Payment by results” presents an opportunity to revolutionise the industry and directly tackle many of its past failures. Moreover, there is considerable international evidence supporting its potential for success from countries such as Australia. However, the Work Programme will be hard to finance if it is based solely on outcome-related payments from day one.

24. Currently, the data needed to estimate how much it costs to help particular customers into work does not exist. This creates considerable uncertainty for prime contractors, as they will have to allocate and distribute funds for the delivery of specialised employment services several months or years before they receive any payment. Bearing in mind the enormous range of client groups who will be supported through the Work Programme, it is vital that the costs of providing the right service to the relevant people are understood—regrettably, this is not currently the case.

25. In fairness, the paucity of data on the costs of training and supporting the long-term unemployed has not gone entirely unnoticed. The Work and Pensions Select Committee rightly noted, following the Pathways To Work scheme, that DWP “should collect data so that it understands the costs and benefits of the different types of support for incapacity benefits claimants [and] it should use this knowledge in designing and testing the contracting model it develops to deliver the Work Programme”. This is a sensible suggestion, but it is hard to see how any testing can take place before Work Programme begins.

26. From mid-November 2010 onwards the Government will be publishing data on job outcomes for organisations involved in the Flexible New Deal, but even this is unlikely to plug the enormous data gap. While the publication of this data is welcome in the name of transparency, the data only refers to JSA claimants and does not cover the potentially more challenging IB and ESA claimants. In short, the dearth of data means that the scope for misjudgement and misallocation of precious funds within a “payment by results” model remains considerable.

27. If the Government chooses to introduce 100% “payment by results” from day one of the Work Programme, prime contractors would need to financially support their own operations and those of all of their sub-contractors until the first outcome payments are received potentially 12–24 months later. This will create an enormous working capital requirement reaching hundreds of millions of pounds.

28. DWP have stated that they expect prime contractors to “be able to demonstrate the capital strength to take on the risks inherent in an exclusively or heavily outcome-based approach”. It is certainly possible for large prime contractors to raise funds in financial markets. That said, providers (and their financiers) will not take large risks on 100% outcome-funded contracts when they have no reliable data on their expected return.

29. All this uncertainty is likely to result in a greater level of risk for the prime contractors. The likelihood of securing funds from financial markets will therefore be drastically reduced and the cost of raising working capital could rise significantly—reducing the amount of money available for delivering frontline services to the very jobseekers that the Work Programme seeks to help.

30. The Flexible New Deal is scheduled to wind down in March/April 2011 but the Work Programme is only set to begin in the summer of 2011. Even if prime contractors and larger sub-contractors are able to
support themselves in the intervening period, smaller organisations— particularly those in the voluntary and social enterprise sectors— could be forced to downsize or even close once their revenue stream dries up (anecdotally, this process is already underway in some areas). G4S are concerned that this could damage the regional and local capacity for providing the work-related services that the Work Programme will rely on.

31. In response to these concerns, DWP have said that “until the Work Programme is implemented, we will ensure support is in place. Where necessary, we will ensure that arrangements are in place so that there is no gap in provision and people can receive help and support to get back into work”. Laudable as this is, the Government may struggle to bridge the gap between March 2011 and July 2012 when the first outcome payments are likely to emerge. Furthermore, no details have been released as to how the Government would be able to prevent gaps in provision from appearing.

32. 100% “payment by results” is absolutely the right objective for the long-term financing of the Work Programme. However, introducing this system immediately in an uncertain landscape could result in prime contractors facing such a high level of risk that they are simply unable or unwilling to secure the necessary funds to participate.

33. There are two ways in which this could be addressed. First, DWP could guarantee future receivables (income) for a set amount of time once a Work Programme contract has begun. Second, DWP could offer some small “start-up” payments for an initial “discovery phase” period of the contract— moving to a fully-fledged AME/DEL model once more data is available.

The likely effectiveness of a differential payment scheme in encouraging providers to support harder to help groups

34. G4S believes that a differential payment system has the potential to combat prevalent issues such as creaming and parking. It will act as a significant incentive to supporting the “hardest to help”. G4S sees much value in such incentives if the implementation is managed correctly. The main challenge with differential payments lies in constructing some form of classification system that is efficient and easy to process.

35. The danger is that a classification system for “grouping” jobseekers in order to fund differential payments may either be too broad (reducing its usefulness), too narrow (making it more time-consuming to administer) or simply inappropriate (by using a classification that does not necessarily reflect individual needs e.g., self-assessment questionnaires). Evidence from Australia also suggests that there is potential for inaccuracy, misdiagnosis and fraud in classification systems. This could be compounded by the lack of data on how much it costs to meet the needs of different groups of jobseekers (as discussed earlier in this submission) because the data that DWP needs to make the necessary judgements about the relative costs of certain “groups” of jobseekers is simply not there at present.

36. A balance should be struck between a highly personalised classification system able to account for the huge diversity of barriers facing jobseekers and a practically viable system that places jobseekers into clear and identifiable groups without being too time-consuming or impractical. If the Work Programme is to use such a system from the outset, G4S believes the best proxy at present is the type of benefit that each customer has been receiving and how long they have been receiving it. Those who are harder to help often receive higher benefits for longer periods of time relative to other jobseekers. Therefore, any resulting payment to the prime contractors could be increased to reflect the greater benefit savings from these individuals returning to work.

The implications of regional variations in the labour market, and whether these will be reflected in the differential payment arrangements

37. It is little more than common sense to suggest that the Work Programme will be delivered differently across the country. For example, London is characterised by dense urban areas while Scotland is characterised by vast rural areas such as the Highlands. Variations in the cost of living, infrastructure quality, skill levels and economic potential are also likely to impact on each region. Consequently, the decision to break the delivery of the Work Programme into 11 “lots” covering England, Wales and Scotland makes sense because it encourages a regional rather than national focus when allocating resources and designing supply chains.

38. However, the introduction of regionally differentiated payments could lead to a number of problems— many of which are similar to the issues for differentiated payments in general. Deciding which particular obstacles, challenges or deficits that a region must possess to be considered for higher payments may be problematic.

39. The cost of delivering employment services is the most important factor in determining the resources available for frontline assistance to jobseekers. Delivery costs are typically higher in regions facing particular issues. For example, spatial/geographical obstacles may be a possible justification for increased funding in certain regions as it might cost more for job brokers to establish a base in remote areas.

40. Ibid
40. Alternatively, the cost of living in each region might be a suitable basis for classification. For example, London traditionally has more job vacancies than other regions but often produces poorer job outcomes because the costs of delivering services (including salary costs) are much higher.

How providers will be encouraged to work effectively with local authorities and other local agencies

41. One of the intended consequences of “payment by results” is that prime contractors and sub-contractors have a powerful incentive to deliver the best possible employment services. There is no single way of achieving this, but it is reasonable to assume that many of the organisations who can deliver better outcomes will be local organisations armed with knowledge about their local customers, the local economic situation and local opportunities.

42. Consequently, prime contractors and sub-contractors will be working extensively with such organisations at a local level. Prime contractors will have a strong financial imperative to work with local authorities and local agencies in order to help the most people back into sustainable work.

November 2010

Written evidence submitted by the Department for Work and Pensions

Summary

— The Work Programme is the centrepiece of the Government’s plans to reform welfare to work provision in the UK and will ensure that people have the right support as the economy moves out of recession and into recovery. It is designed to contribute to the Government’s key aims of fighting poverty, supporting the most vulnerable, and helping people break the cycle of benefit dependency.

— Through the Work Programme, the Government wants to do away with the array of existing programmes for unemployed people which are too inflexible and expensive, and which too often fail to reach the hardest to help customers.

— The Work Programme will be an effective programme designed to support the Department for Work and Pensions broad customer base back into sustained employment, including claimants of Jobseeker’s Allowance and those claiming Employment Support Allowance who are close to being fit for work. The Department will give providers the flexibility to design support based on customer need, and structure payments to incentivise sustained job outcomes and discourage the parking of harder to help customers.

— The Department is confident that the design of the Work Programme will avoid many of the failings of previous employment programmes which were inflexible, short term, too expensive, and failed to support the hardest to reach customers.

1. Introduction

1.1 The Work Programme will provide more personalised back to work support for long-term unemployed people and for those with more significant barriers to employment. It forms part of the Government’s wider plans to reduce the number of people claiming out of work benefits and the burden this places on the public finances. Over the last decade the number of people claiming benefits due to ill health or disability has remained stubbornly high, at over 2.5 million. The number of long-term claimants has continued to rise and for many the existing system does not provide the help they need to be able to move back into work. The recession has also led to a sharp increase in unemployment since 2008 and the Work Programme will help to ensure that this does not develop into a problem of long-term dependence on benefits.

1.2 The Work Programme is an integrated package of back to work support for a range of customers. It will replace much of the complex range of provision currently offered by the Department for Work and Pensions, including the Flexible New Deal (introduced for part of the UK in October 2008), New Deals (18-24, 25 plus, New Deal for Disabled People) Employment Zones, and Pathways to Work. Lone parents in receipt of Income Support will be supported by the new, flexible Jobcentre Plus offer and the Get Britain Working measures. However, once they start to receive Jobseeker’s Allowance they will, at the appropriate point, be referred to the Work Programme.

1.3 The Department for Work and Pensions is designing a coherent package of support, not just a single programme. Supported by a lighter touch performance management framework focusing on outcomes rather than processes, Jobcentre Plus will maximise flexibility in delivery, offering personalised support for individuals.

1.4 All customers will be referred to Jobcentre Plus in the first instance and receive appropriate support before either being referred to the Work Programme or receiving ongoing support from Jobcentre Plus. The support on offer will be steered locally taking account of the needs in that labour market. A range of measures will be available to help people volunteer, undertake work experience, or take advantage of peer to peer support. For example, the Department has already launched Work Clubs, which encourage people who are out of work to exchange skills and share experiences, and Work Together, which allows people to develop work skills through volunteering. The Department is working with the Department for Business, Innovation and
Skills to ensure that training provided to Jobcentre Plus customers will be work-focused. The Department is also looking at post Work Programme support for the first time designing an end to end process that is coherent and minimises duplication.

1.5 The Universal Credit is a fundamental reform of the benefits system and part of the wider welfare to work agenda. It aims to help end the cycle of benefit dependency by ensuring that work pays. It is likely that Universal Credit will be introduced part way through the Work Programme contracts. Together the Work Programme and Universal Credit will deliver a flexible and innovative regime to support people back into work.

1.6 Delivery partners for the Work Programme will be sought from the private and voluntary sectors. The Department has used private and voluntary sector expertise in the delivery of employment programmes for many years to complement the service offered by Jobcentre Plus. Providers will be free to design support based on the needs of individuals and target the right support at the right time. The Department will offer providers higher rewards for supporting harder to help customers to ensure that it is worthwhile for them to offer appropriate employment support for all customer groups.

1.7 The Department undertook a major programme of engagement with providers over the summer months in order to maximise interest in the project and promote as wide and effective competition as possible. Positive steps were taken to encourage organisations of all sizes from the public, private and voluntary sectors to consider getting involved and to encourage voluntary sector organisations and potential prime providers to work together. Activity has included: events in London, Bristol, Port Talbot and Glasgow for voluntary sector organisations to hear about the Work Programme and how they can get involved; an event hosted by the Centre for Economic and Social Inclusion, supported by the Department, which provided potential sub-contractors, particularly those from the voluntary sector or smaller organisations, with information on what being a sub-contractor would mean for them; joint working with Indus Delta to enable potential Work Programme prime providers and sub-contractors to communicate through the Indus Delta website; a round table event with key voluntary sector groups to ensure that they are fully informed on plans for the Work Programme; and an online discussion forum around themes already raised by providers. Further activities are planned once the Work Programme tendering opportunity is launched.

1.8 In addition, between the 10 September and the 20 October, the Department sought views on the Government’s proposal for the Work Programme via an online forum and face to face meetings. This resulted in around 300 online comments and meetings with 72 representatives from over 50 organisations.

1.9 The Department is using a two stage procurement process for the Work Programme and is introducing a new procurement framework for potential providers, the Department for Work and Pensions Framework for Provision of Employment Related Services (known as The Framework). This will enable work to be moved quickly to the best performing providers so delivering improved performance and value for money.

1.10 The Work Programme will be in place nationally from the summer of 2011.

1.11 The Department will shortly issue the Work Programme prospectus which includes more detail on the Work Programme including the payment model.

2. How the Work Programme Differs from Existing Contracted Employment Programmes

2.1 The Work Programme represents a step-change in the Department’s approach to contracted employment programmes. It will be an integrated programme providing employment support to the Department’s broad customer base.

2.2 Previous programmes could be overly prescriptive with support based on benefit type and duration of unemployment. Providers will be given the freedom to use their experience and local knowledge to devise the most effective support for each customer referred. Innovation and efficiencies will be rewarded through a black-box specification whereby providers can design a personalised support programme to meet the varied needs of the customers, regardless of benefit they are on.

2.3 Under the Work Programme, individuals in the customer groups will spend longer with providers, up to 24 months rather than the mandatory 12 months on Flexible New Deal or six months on Pathways to Work. This means there is more time to overcome the most serious challenges to employment and more chance of seeing a return on the investment required to do so. In the past, where providers have only had a year or less with customers, there has been less incentive to work with the hardest to help.

2.4 The Work Programme will support a range of customer groups, from Jobseeker’s Allowance recipients who have been out of work for some time, to customers new to Jobseeker’s Allowance who may previously have been receiving incapacity benefits for many years. The Department has established a range of measures to ensure that providers work with all customer groups. These are set out in the prospectus.

3. Procurement of the Work Programme

3.1 The Department is adopting a new approach to delivering employment related support services offering integrated support to those who most need it. This will be delivered through a new procurement framework for potential providers, the Department for Work and Pensions Framework for Provision of Employment
Related Services (known as the Framework). This Framework will enable the movement of packages of work quickly to the best performing providers so delivering improved performance and better value for money. The Government is striving for a more coherent delivery of a range of publicly commissioned services that bear on overall worklessness issues. The Framework will be used to procure contracts to deliver the Work Programme, and may be used by both the Department for Work and Pensions and other publicly funded bodies to deliver other future employment related support services. The expectation is that many contracts let under the Framework will be long-term and may be up to seven years if justified.

3.2 Interest in the Framework has been high with 102 bidders submitting 437 proposals across the 11 framework lots (South East, South West, London, East of England, East Midlands, West Midlands, North West, Yorkshire and Humberside, North East, Scotland, Wales) by the deadline of 27 September. The number of bidders is significantly higher than for previous employment programme procurements. Bids have been submitted from single organisations with whom the Department already has contracts. Others have come from new partnerships and consortia, some bringing in new, strong potential players, others putting existing capability together in stronger and innovative combinations. The Government expects to announce who has been successful by the end of November.

3.3 The Department will begin the Work Programme procurement mini-competition in December 2010 when organisations successful in the framework competition will be invited to tender for the Work Programme contracts with implementation by summer 2011. When the Invitation to Tender is issued for the Work Programme the Department will include as much information as possible, including on forthcoming changes such as The Universal Credit.

3.4 The Department’s intended timetable for implementation is as follows:

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<tr>
<th>Date</th>
<th>Action</th>
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<tbody>
<tr>
<td>June 2010</td>
<td>Start Framework competition</td>
</tr>
<tr>
<td>End November 2010</td>
<td>Framework Organisations identified</td>
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<tr>
<td>December 2010</td>
<td>Work Programme competition starts</td>
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<tr>
<td>Spring 2011</td>
<td>Work Programme tendering process completed</td>
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<tr>
<td>Spring 2011</td>
<td>Work Programme delivery commences in some areas</td>
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<tr>
<td>Summer 2011</td>
<td>Work Programme delivery in all areas</td>
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4. TRANSITIONAL ARRANGEMENTS

4.1 During the transition from current provision to the Work Programme, nobody will be left unsupported. Customers will continue to receive support by Jobcentre Plus, including via the Support Contract, the Flexible Fund, and other support that may be available locally such as Work Together and Work Clubs. The Department is in the process of winding down a substantial proportion of the confusing array of programmes that were available to jobseekers in the past in order to replace them with the Work Programme.

4.2 The Work Programme will be more tailored, more flexible, and ultimately more responsive to the needs of individuals. The Department’s priority is to ensure that as many people benefit from it as soon as possible, and in order to achieve this there will inevitably be some disruption.

4.3 Negotiations on this basis are underway with providers with most contracts due to end by the end of the 2010–11 financial year. The exceptions are Provider Led Pathways to Work Phase Two contracts which will end in April 2011 and Flexible New Deal contracts which will end by June 2011.

5. JOBCENTRE PLUS INVOLVEMENT IN DELIVERY

Lessons learned from the Delegated Flexibility Pilots

5.1 Drawing on lessons from the Delegated Flexibility Pilots,7 Jobcentre Plus will enable staff to respond to the needs of individuals and the labour market in each area by focusing on outcomes and giving front-line advisers more discretion to draw down from a locally determined menu of back to work help. Through effective networking and partnership working Jobcentre Plus will identify and leverage local solutions to deliver employment results. To support this the Department is also enhancing the support Jobcentre Plus provides for new benefit claimants.

5.2 Supported by a range of tools and guidance advisers will focus on effective diagnosis and assessment of people’s needs and on enabling a return to work as early as possible. This will include identifying and encouraging eligible customers to take up Work Programme earlier. Effective partnership working is central to delivery success.

Jobcentre Plus and the customer journey

5.3 All customers will be referred to Jobcentre Plus support in the first instance. Customers at the start of a claim will have an in-depth discussion with a personal adviser to determine what steps are needed to help

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7 The four districts involved in this are Glasgow, Greater Manchester Central, Gloucester, Swindon and Wiltshire, and South West Wales.
progress the customer towards or into work, including the amount of adviser intervention they are likely to need and whether they would benefit from the menu of additional support on offer.

5.4 All Jobseekers will also attend fortnightly for a jobsearch review. This will be an opportunity for Jobcentre Plus to monitor the progression of the customer, reporting back to contract managers any concerns about the performance or delivery of the Work Programme provider. Jobcentre Plus will also make decisions on whether a customer should be sanctioned if the provider states that they are not fulfilling their obligations.

5.5 For the small number of customers who require further support as they reach the end of the Work Programme without moving into sustained employment, the Department is developing proposals for a programme of post Work Programme support. This will ensure that these customers remain engaged in meaningful activity and continue to move closer to the labour market.

6. RELATIONSHIP BETWEEN PRIME CONTRACTOR AND SUB-CONTRACTORS

6.1 The Department’s commissioning approach is to offer high value contracts of a length sufficient to give providers the opportunity for real flexibility including greater investment in its staff and infra-structure. The focus is on strong linkages with local partnerships, improved performance management and outcome based funding. This in turn will allow them to deliver support for all their customers including the harder to help and those with specialist needs. A key objective in developing the prime provider model has been to strengthen supply chain management and encourage greater innovation.

6.2 The relationship between the prime provider and its sub-contractors is of great importance to the Department. A healthy, high performing supply chain helps support the excellent delivery of welfare to work provision to the Department’s customers. This is why the Department for Work and Pensions Code of Conduct\(^6\) was developed, to ensure that a framework was in place to facilitate future healthy working relationships between prime and sub-contractors, and give further guarantees that providers act with integrity.

Merlin

6.3 The Department for Work and Pensions undertook a lessons learnt review of Flexible New Deal Phase One procurement which included the Code of Conduct. It sought to gain insight into the position the Department should take going forward to encourage healthy and high performing supply chains. As a direct response to this, the Department proposed that a two year pilot should be developed, the Merlin Standard, to produce an industry supported accreditation process specifically designed to address the Code of Conduct, taking into account and dovetailing with existing standards and internal processes.

6.4 The Department is committed to stewardship of the supply chain through the Merlin Standard. The Department will ensure that providers are rigorously assessed to ensure that their supply chains are effective and that smaller organisations are treated appropriately and fairly. At the framework letting stage bidders are asked to provide information on their supply chain policies, and to demonstrate their experience in managing and developing supply chains. Only those who are able to do this effectively will be put onto the framework.

6.5 All prime providers will be required to successfully complete the Merlin accreditation process. This is an independent accreditation of the arrangements between a prime provider and their sub-contractors/partners. Finally, at the tendering stage for specific contracts such as the Work Programme, prime providers will need to name all of their key sub-contractors and partners as well as providing a letter of intent from each which confirms the arrangements that have been agreed between them. These arrangements will then form part of the contract and the prime provider cannot change them without the permission of the Department.

6.6 Prime providers have the opportunity to decide what their supply chains look like and the assessment process will evidence their obligation to manage and support the supply chain they construct and the delivery partners they have chosen. The Merlin Standard will allow benchmarking of best practice irrespective of supply chain structures chosen by prime providers.

6.7 Evidence of achievement and excellence against each element of the Merlin Standard will dictate the final result of the Merlin Assessment and offer a clear indication of where an organisation needs to improve as well as highlighting and recognising excellence. The Department is evaluating the prime provider model as part of its evaluation of commissioning principles. This will consider the provider business and delivery model, and explore the impact on the welfare to work market, including the experience of the voluntary and community sector.

Account Manager Role

6.8 The Department’s intention for account management of the Work Programme is to build on the processes developed for Flexible New Deal which are being refined as relationships progress. The Department’s Account Managers are a senior team of qualified commercial specialists, familiar with market demands and interests and the complexities of being a provider for the Department. Working strategically, using this expertise, the Account Manager works with the prime providers to address issues, resolve risks and improve the whole supply chain and market.

7. Impact on Providers of Migration from Incapacity Benefit and Employment Support Allowance

7.1 The Department expects around 1.5 million existing incapacity benefits customers to go through the incapacity benefits reassessment process by 2014. Of these approximately 23% are expected to be assessed as fit for work following their Work Capability Assessment and move off incapacity benefits (of whom around half are expected to go to Jobseeker’s Allowance). The remaining 77% are expected to be assessed as having a limited capability for work and move to Employment Support Allowance with around three-quarters of those moving to the Work Related Activity Group. Those in the Work Related Activity Group with a prognosis of a return to capability for work within three months will be eligible to be supported through the Work Programme.

7.2 The Work Programme will help people with a wide variety of needs. Providers will be expected to cater for the whole of the client group, including the harder to help. Payments and priority of access to the Work Programme will reflect the additional cost and needs of supporting the harder to help customers.

8. Implications of Payments by Results and Differential Payments

8.1 The Department wants to reward providers for getting more customers (including harder to help customers) into work than ever before, and keeping them there. More detail on the payment model is included in the prospectus.

8.2 The Department has a good track record in securing the involvement of voluntary sector organisations in supply chains; around a third of the sub-contractors involved in programmes such as Pathways and Flexible New Deal are from the voluntary sector. The Department is committed to continuing these high levels of engagement in the delivery of the Work Programme, in particular for the specialist expertise they often bring.

8.3 Prime providers will come to agreement with their sub-contractors on payments. However, the Department has strengthened the requirement on prime providers to put together supply chains that deal credibly with all aspects of disadvantage for the customer groups and locality. This includes:

- Specific and heavily weighted scoring criteria at both the framework and Invitation To Tender stage to establish that potential prime providers have both the ability to effectively nurture supply chains and that the supply chains they use will meet the needs of customers;
- Including clear statements in the Work Programme specification to stress that the Department strongly recommends that prime providers engage with a wide range of local partners;
- The Department will seek views from Jobcentre Plus regarding the credibility of the partnering proposals in each contract area; and
- Prime providers will need to include a letter of intent signed by each sub-contractor within their tender. If their tender is successful, these arrangements will form part of the contract and a prime provider will not be able to drop a sub-contractor without the written permission of the Department. However, the Department’s aim is for a high performing supply chain. Where a sub-contractor is under-performing the Department is likely to support their replacement.

8.4 The Department will be rigorously assessing prime providers to ensure that their supply chains are effective and that smaller organisations are treated appropriately and fairly. The Department will steward the supply chain through the Merlin Standard.

Regional variations in differential payment arrangements

8.5 The Department recognises that the cost of delivering the Work Programme is likely to differ between locations as a result of a range of factors including local employment conditions, infrastructure costs, staff wages, whether the location is urban or rural. The Department would expect providers to take local circumstances into account and build these into the costs of the bid.

9. Working Effectively with Local Authorities and Other Local Partners

9.1 Local partners are critical to the successful delivery of the Work Programme and the Department is committed to working with local strategic partners and partnerships including local authorities and the emerging Local Enterprise Partnerships to shape local delivery. Local Authorities and other partners can provide valuable local insight and can offer services which complement the Work Programme. Jobcentre Plus is currently working with partners to develop local supporting information which will be included in the Work Programme Invitation To Tender packs.

9.2 Potential bidders are encouraged within the Framework for Provision of Employment Related Support Services specification to work with local partners and stakeholders to fully understand the local picture and existing provision, to develop and, on an ongoing basis, to deliver high quality proposals that actively reflect local needs, priorities, strategies, and resources. This message will be reinforced within the Work Programme Invitation To Tender. Providers are encouraged to work with partners on an ongoing basis during the life of the contract to deliver improved outcomes, value for money, and a cohesive customer service.
9.3 The specification for the Work Programme will not be prescriptive. This will leave maximum flexibility for the bidders to develop innovative tenders which meet the needs of specific localities. Strategic partners can additionally help support the development of the local supply chain and facilitate contracts between prime providers and sub-contractors.

10. Evaluation

10.1 The Department will commission independent researchers to evaluate the Work Programme to determine the overall effectiveness of the programme and to investigate delivery. The evaluation strategy for the Work Programme will be broader than those of previous programmes, bringing together the commissioned evaluation together with performance management information and internal analysis to provide an early insight into performance. The Department intends to make service delivery and customer experience a key component of the evaluation of the Work Programme in order to understand how the programme is delivered and what the experience is of Work Programme customers.

10.2 In addition The Commissioning Strategy: Provider Survey on Early Implementation was published on 28 October 2010.9

10.3 The Work Programme is designed to deliver for its customers by improving incentives so increasing the off flow rates for Work Programme customer groups and getting more people into work. In addition the introduction of Universal Credit will create a simpler integrated system of support in and out of work and improve work incentives through earnings disregards and a single taper. The Work Programme will decrease the average time on benefit for Work Programme customer groups (so getting people into longer, sustained jobs) and narrow the gap between off flow/time in employment rates for disadvantaged groups and everyone else (less parking of the harder to help).

November 2010

Written evidence submitted by Community Links

1. Summary

1.1 Community Links’ response is based on our experience as a community charity running the most successful New Deal in London and the south east.

1.2 As a potential sub-contractor we believe there need to be strong guidelines to protect smaller voluntary sector sub-contractors from the risks associated with a payment-by-results system, and from the uncertainty of fluctuating volumes of clients. As part of this, sub-contractors need to be paid largely upfront, and for the hardest to help clients payments need to reward progression towards work.

1.3 The local labour market and barriers to work need to be fully taken into account when undertaking needs assessments and allocating differential payments. For this reason we urge Government to prioritise an awareness of the local situation when choosing prime contractors.

1.4 The migration of clients off from IB and ESA onto JSA will pose particular challenges for providers—the time taken to learn how to work with this new client group needs to be taken into account.

1.5 The Work Programme’s interaction with Jobcentre Plus will be crucial—we suggest JCP advisors carry out an initial needs assessments with new clients, and those with particular needs are allowed to join the Work Programme immediately.

2. About Community Links

2.1 Community Links is an east London community charity working with 30,000 people each year across a wide range of children’s, youth and adult projects which include employment support.

2.2 We are based in Newham, the east London borough with one of the highest rates of long-term unemployment in the country. We have been delivering the New Deal since 1999 and have remained the most successful prime contractor in London and the South East for over four years, supporting over 2,000 people into work. The majority of our clients have complex needs, are aged between 18–24 years and are considered long-term unemployed yet through the New Deal they have remained in employment for at least six months.

2.3 We submitted an expression of interest for the Work Programme framework agreement as a potential prime contractor but were unsuccessful, and are now in negotiations with all the potential prime contractors with the aim of becoming a sub-contractor in east London.

9 http://research.dwp.gov.uk/asd/asd5/rrs-index.asp
3. **Policy Responses**

3.1 The steps the Department for Work and Pensions needs to take to ensure that a procurement programme of this size and complexity is managed effectively and delivers high quality outcomes

3.1.1 The DWP has a fundamental role in monitoring prime contractors’ service provision and relationship with sub-contractors. Therefore DWP should:

3.1.1.1 Take responsibility for ensuring the Merlin standards are met, and act if the standards are not adhered to by prime contractors.

3.1.1.2 Set the differential payments pricing to ensure consistency and transparency, whilst allowing primes and sub-contractors to develop the categories of needs to be assessed; taking local employment barriers into account.

3.2 The extent to which the Work Programme will differ from existing contracted employment programmes

3.2.1 The Work Programme is the biggest employment programme to date and is being developed at an exceptionally rapid rate. The most obvious difference is in the size of the contracts being awarded, both in terms of finance and geographical coverage. The other main difference will be the flexibility afforded to providers through the black box approach.

3.2.2 The size of prime contractors has eliminated smaller voluntary and community sector organisations such as Community Links from a role that they have shown themselves capable of fulfilling under the New Deal.

3.3 The relationship between prime contractors and sub-contractors and DWP’s role in overseeing this relationship

3.3.1 The Work Programme’s success will depend on the formation and development of sound working relationships between a prime and its sub-contractors. For this to develop primes need to form an excellent understanding of the needs of the client groups and employment barriers in specific areas. The DWP have a role in ensuring these two factors are being given substantial recognition by the primes through a monitoring and scrutiny role. Therefore:

3.3.1.1 Localised needs assessments should be recognised by primes.

3.3.1.2 Differential payments should reflect the needs assessments and be determined centrally by DWP.

3.3.1.3 DWP should hold primes to account for delivering on the contract agreed. They should set targets for working with the hardest-to-help and ensure that primes provide evidence that they are meeting this target.

3.4 The role of Jobcentre Plus in delivering the Work Programme, including the lessons learned from the Delegated Flexibility Pilots

3.4.1 Community Links ran a project over the summer of 2010 interviewing 550 people from around the UK about their experiences of the benefits system and Jobcentre Plus. Participants, particularly those who had been out of work for a long time, were clear that more and earlier support would be crucial in improving their experience of the Jobcentre. Therefore we suggest that:

3.4.1.1 An initial needs assessment should accompany every new claim for an out-of-work benefit, undertaken by a JCP advisor familiar with the local barriers to employment.

3.4.1.2 On the basis of this, and if the client and advisor agree it would help, the client should be able to access support provided by the Work Programme immediately, rather than having to wait six months.

3.4.2 More generally, participants felt that the dual role of a JCP advisor—both policing their claim and supporting them into work—hampered the supportive function, and suggested that one or other of these roles be removed. In the longer term we would like to see more significant structural changes to the way Jobcentre Plus operates to address this issue, and its interaction with the Work Programme should be a crucial part of these changes.

3.5 The implications for providers of the increase in volume and the change in profile of JSA claimants arising from the migration from incapacity benefit and employment and support allowance

3.5.1 Uncertainty over the way the migration from IB and ESA will work makes it hard to predict volumes of clients. Specifically, it is still not clear what will happen to the ESA support group; whether they will be placed with the JCP for the initial six months, given the option of voluntary self referral to the Work Programme or mandatory placed on the Work Programme despite being on a benefit that does not require them to seek employment. Volumes are also dependant on the rate at which DWP carries out the assessments. Fluctuating volume is already a problem, particularly for smaller providers, and the added complexity of the profile of this client group would only exacerbate this. Therefore we suggest that:
3.5.1.1 DWP carefully manages the rate at which people are reassessed, to ensure the capacity exists to accommodate them within the Work Programme. It would be particularly damaging to assess someone as fit for work, move them onto JSA and not be able to provide them with the appropriate level of support they need immediately.

3.5.1.2 Reserve resources are made available to manage unpredictable volumes of new clients with complex needs.

3.5.1.3 Sufficient regard is given within the payment system to the need for a period of learning on the part of the provider about how to deal with the particular needs of people who have been on IB for many years: we stress that this will be a new client group for many, even specialist providers will need time to adequately develop the best service adapted to their needs.

3.5.1.4 Contractors shape their employment support services to encourage local companies to hire people with a very poor track record of work.

3.6 The implications for providers of “payments by results” arrangements, with particular reference to the voluntary and social enterprise sector

3.6.1 Payment by results is to be welcomed—it ensures in-work support, drives up competition and hopefully standards of support. However the model requires contractors to have the upfront capital to deliver initially. Voluntary sector organisations, unless they form a consortium, are therefore largely restricted to a subcontractor role. Even then, the level of the upfront payments which smaller organisations will need to function depends on the individual negotiations between a prime and its subcontractors. We suggest that:

3.6.1.1 Primes must pay sub-contractors a large percentage of the fee, if not the entire cost, upfront to allow smaller voluntary organisations to deliver support immediately and effectively.

3.6.1.2 Both performance income and aftercare income must be factored into the contract design from the beginning, otherwise payments on outcomes of one year will prove problematic.

3.6.1.3 The costs of supporting people once they are in work should be factored into contract design and not left up to the black box approach. This should be agreed by the provider when the contracts are signed, with DWP knowledge.

3.6.1.4 The Work Programme should be linked to other provision—core funding must be available and combined with complimentary funding streams for delivery agents to operate effectively.

3.7 The likely effectiveness of a differential payment scheme in encouraging providers to support harder to help groups

3.7.1 The effectiveness of differential payments will depend on how the contracts ensure that they adequately account for the resources required by specialist providers to address the needs of harder to help clients. Therefore:

3.7.1.1 Needs assessments should be universally categorised, shaped by specialist providers in the development of the Work Programme and ultimately carried out by JCP advisers in their new capacity following the Universal Credit reforms.

3.7.1.2 Although the Black Box approach is less prescriptive, a continuum of joined up services are necessary for the client to progress into the labour market without falling through the providers net or getting appointment fatigue—differential payments should be focused on end to end support services, in particular for harder to help clients.

3.7.1.3 Differential payments should be based on a client’s employment history and the distance travelled when with a provider. Targets for progression or distance travelled must be set by the DWP to lesson the risks for specialist sub-contractors.

3.8 The implications of regional variations in the labour market, and whether these will be reflected in the differential payment arrangements

3.8.1 Local variations in the labour market, and in other barriers to accessing work, will be crucial. We suggest:

3.8.1.1 Prime contractors in the two contract package areas in London must show a solid understanding of, and ability to, meet London’s needs, and their contracts should be aligned to the London employment strategy.

3.8.1.2 We recommend that local labour market variations be identified when contracts are being shaped and the time and size of differential payments should account for the nature of the local labour market. For example east London has a high degree of temporary employment and agency work. Providers need to have enough upfront resources to be able to offer clients support in-between these short-term jobs.

3.8.1.3 Primes must be contracted by the DWP to take on a percentage of differential payment contracts which reflect local needs.
3.8.1.4 Providers must have a strong track record with local employers; understanding the supply and demand of the local labour market.

3.8.1.5 Providers should value local small businesses, which often offer the ideal working environment: they are likely to be more flexible and understanding to employees needs.

3.9 How providers will be encouraged to work effectively with local authorities and other local agencies

3.9.1 The framework agreement in itself will encourage providers to work more closely with local agencies as it will incorporate all procurement for a wide range of other programmes such as Work Choices, Get Britain Working, Work for Yourself, etc. Furthermore:

3.9.1.1 Primes should show evidence of valuing working relations with other local service providers in each region. They should actively encourage sub-contractors to form better relations with JCP, Local Authorities and other local voluntary and community organisations to develop a smoother referral process and a more accurate needs assessment of clients.

3.9.1.2 Local Employment Partnerships have a varied success rate across the UK — co-commissioning may not necessarily be right for all providers, but LEPs should be acknowledged at the very least.

3.9.1.3 Local providers should become jobs brokers; working with local employers to identify their needs eg for lone parents, providers could highlight to employers the benefits of part-time employment.

4. Other Issues

4.1 Personalisation

4.1.1 Our work and research (Deep Value, 2010, attached) suggests that a good relationship between the personal adviser and the client, in both JCP and the Work Programme, will be critical to its success. Therefore:

4.1.1.1 Advisers need adequate training, particularly around identifying multiple needs, responding to personal needs and building stronger networks locally.

4.1.1.2 Employment support programmes need to be extremely individualised services with comprehensive assessments of barriers.

4.2 Risks associated with the transition to the Work Programme

4.2.1 Voluntary sector organisations are in danger of committing to targets they will not be able to deliver in the current labour market context. There is a serious risk of gambling on their charitable status.

4.2.2 The timeframe for rolling out the programme is much faster than the culture change period, therefore the DWP should build in a learning period for providers.

4.2.3 Mass migration from IB to JSA or work ready ESA will bring new clients with complex multiple barriers — providers may not yet have developed the specialist expertise to work with these individuals. The lack of experience in a new and high-volume client group will potentially impact on successful outcomes for providers.

4.2.4 If voluntary sector organisations are required to implement sanctions, this could have a significant impact on their reputation locally.

November 2010

Written evidence submitted by Wise Group

Introduction

The following provides the Wise Group's response to the Work and Pensions Committee Inquiry into The Work Programme: providers and contracting arrangements.

Response

1. The steps the Department for Work and Pensions needs to take to ensure that a procurement programme of this size and complexity is managed effectively and delivers high quality outcomes

   No response.

2. The extent to which the Work Programme will differ from existing contracted employment programmes

   No response.
3. The relationship between prime contractors and sub-contractors and DWP’s role in overseeing this relationship

3.1 The scale and diversity of customer groups within the Work programme demands robust and effective supply chain management and a diversity supply chain organisations. The Merlin Standard and DWP Code of Conduct provides a clear framework for the standards in which prime and sub-contractor relationships should be managed. The Wise Group welcomes the Merlin Standard and Code of Conduct as part of the process in managing relationships. There has to be recognition however that partnership arrangements between contractors along the supply chain will vary and a standard one-size fits all approach should not be applied. This should be recognised within the Merlin audit process.

3.2 DWP should have a key role in ensuring that all primes and sub-contractors, particularly those of a smaller size, should have an opportunity to be fully briefed on the Merlin Standard, and ensure that there is understanding across the sector on how the Standard should be applied. This could be provided through DWP briefing events and training events at a regional level.

4. The role of Jobcentre Plus in delivering the Work Programme, including the lessons learned from the Delegated Flexibility Pilot

No response.

5. The implications for providers of the increase in volume and the change in profile of Jobseeker’s Allowance claimants arising from the migration from Incapacity Benefit and Employment and Support Allowance

5.1 Knowing and understanding the transfer rates is one of the main difficulties in planning not only the future numbers, but also the needs of the customers that may be part of the Work Programme. In particular, the WCA and the transfer rates from IB or ESA onto other groups such as JSA or the ESA WRAG, are relatively “new” numbers. That is, there has only been 12-48 months of the new WCA process and the short timeline for the transfer rates can make identifying possible trends for forward planning unreliable. Similarly, the large numbers of appeals during the WCA process means that the percentages taken from the decision rates can be limited in use for understanding possible future on-flows to the Work Programme group. Recently the DWP has produced more up-to-date data on the WCA process including the proportion of individuals transferred and what the breakdown is between health categories. Up-to-date and detailed information such as this is necessary for providers to understand this new customer group.

5.2 Although we have been able to make a number of assumptions and identify approximate on-flow numbers, the changing needs and profile of the Work Programme group (compared to previous programmes focussed on JSA claimants only), means services and supply chains are more complex in their design. Understanding the possible range of barriers and needs of the transferred customers in particular will be key to ensuring that individuals are given the best support and opportunity to access and sustain employment. Having a clear research base for understanding the Work Programme profile, the volumes, and the customer needs will ensure that we can provide high standards of service. We are undertaking a lot of research into this area of Work Programme planning to make sure we are able to design high quality services. However, it is also important that the DWP will be able to provide up-to-date and detailed information on the customer groups before and during the tendering phase.

5.3 It is important that the DWP continues to publish research on all the groups involved in the Work Programme to ensure that services can be designed on best practice and to the needs of the customer base.

6. The implications for providers of “payments by results” arrangements, with particular reference to the voluntary and social enterprise sector

6.1 The payment by results approach is a risk and a somewhat unnerving prospect for all contractors along the supply chain. It has been regularly discussed with smaller specialist organisations who have not previously managed their finances and business planning in this way. In particular, those organisations who may be working with individuals furthest away from the labour market and previously may not have been paid on a job-outcome basis. It is important that these organisations are able to play a part in the supply chain and that their services can be accessed by those customers who need them. We are working to identify other contracting arrangements with some providers that ensure the risk and payment structure reflects the needs of the customer, the contract and the supply chain. DWP should however consider balancing a “payment by results” model with some element of service fee to ensure all sectors are represented in the supply chain.

7. The likely effectiveness of a differential payment scheme in encouraging providers to support harder to help groups

7.1 Differential payment schemes for the hardest to help groups will ensure that the appropriate services can be procured along the supply chain to assist individuals into employment. Clearly for many individuals in these groups support will be needed for longer, more frequently and often specialist services may need to be accessed. This type and level of support is unsurprisingly more expensive to procure and it is important that payments
in the Work Programme reflect the effort and support provided by the contractors in the supply chain. By using a differential payment system for these groups it ensures that those with complex needs can be adequately catered for and helped into employment.

8. The implications of regional variations in the labour market, and whether these will be reflected in the differential payment arrangements

8.1 Differential payment schemes would also ensure that regional variations are taken into account. Depressed labour markets in certain areas in the UK are still experiencing an impact from the recession. Within these areas there are local labour markets where unemployment is high and jobs are limited. As such, for those furthest from the labour market to access and gain employment opportunities, more resources and support may be needed from organisations along the supply chain. As such, the Work Programme will only work nationally if those regions without a buoyant labour market receive higher differential payments than areas where the providers may not need to provide as much support and can provide services for a shorter period of time. Finding suitable employment for those furthest from the labour market in these locations will ensure that long-term unemployment is avoided and that local communities across contract areas are all able to access high quality employment services. In areas where job creation programmes need to be created to stimulate employment opportunities, differential payments will be required to make this financially viable for the contractors along the supply chain. Intensive programmes are often more expensive and if payments are by results the risks to suppliers in these areas are intensified without a differential payment structure.

9. How providers will be encouraged to work effectively with local authorities and other local agencies

9.1 Work Programme delivery needs to respond to local needs and be integrated with other local services. Current budgetary conditions demand that value for money is achieved in all public sector spending. Jobcentre Plus local teams could play a role in facilitating localized partnerships with local authorities and other local strategic partnerships to enable a more co-ordinated approach to planning and delivering services.

November 2010

Written evidence submitted by Employment Related Services Association

The Employment Related Services Association (ERSA) is the trade body for the welfare to work industry. It has 60 members, drawn from across the private, public and voluntary sectors. Collectively, its members deliver over two thirds of current Department for Work and Pension contracts by value.

ERSA welcomes the opportunity to submit its views to the Work and Pensions Select Committee and would be willing to provide oral evidence if requested. This submission is based on survey responses from ERSA members, combined with feedback from one to one interviews, during the period 5–22 November 2010. It therefore provides a snapshot of industry views during the procurement process and prior to the release of detailed information from the Department for Work and Pensions about the Work Programme.

1. Key Messages and Synopsis

1.1 The Employment Related Services Association (ERSA) welcomes the Government’s introduction of the Work Programme, including the commitment to payment by results, differential pricing and the black box approach. It believes that this is a truly groundbreaking approach to welfare to work delivery which has the potential to bring significant benefit to Work Programme customers and provide lessons potentially applicable across other parts of the public sector.

1.2 ERSA members list the following factors as being of particular concern about the Work Programme: potential financing arrangements, supply chain relationships, performance management and transition arrangements. The difficulty in undertaking financial modeling, developing supply chain relationships, plus other activities necessary in preparation for contract bidding, with limited information is a recurrent theme of this document.

1.3 Good supply chain relationships will be central to the success of the Work Programme. To date, smaller civil society organisations have found the process of potential prime contractors assembling supply chains onerous. The management of supply chain relationships and the extent to which risk is transferred to smaller organisations remains a concern for smaller providers. ERSA is supporting the development of the Merlin Standard by the Department for Work and Pensions (DWP) and believes that this has a significant role to play in supporting supply chains.

1.4 ERSA members welcome the commitment to a black box approach and believes that the DWP should maintain a light touch approach to day to day contract oversight. However, the DWP does have a role to play in relation to market stewardship, the enforcement of penalties where complaints are held and in the learning and sharing of lessons about outcomes based procurement and black box contract management.
1.5 An effective relationship between Jobcentre Plus (JCP) and Work Programme providers will be essential. There are significant risks around volume predictions and referral flows, which may undermine financial modelling.

1.6 The impact of the migration of Incapacity Benefit and Employment Support Allowance claimants onto Job Seekers Allowance is likely to be significant. There is insufficient evidence in the sector to allow the pricing of this customer group with great certainty. Another known unknown is the level to which the private sector jobs market will grow to compensate for public sector job losses.

1.7 ERSA is supporting calls for regional (or at least local) variations in pricing. In some parts of the country, it may be that the Work Programme is not viable without it.

1.8 Finally, ERSA is particularly concerned about the uncertainty (at the time of writing) around the transition arrangements from current DWP-funded welfare to work contracts to the Work Programme. If there remains uncertainty after the announcement of Framework providers, ERSA asks the Work and Pensions Committee to consider transition arrangements within the scope of its inquiry.

2. The Steps the DWP Needs to Take to Ensure the Effective Management of the Procurement Process

2.1 The Employment Related Services Association (ERSA) fully supports the Government’s ambitions in relation to benefits reform and the Work Programme. It agrees that in order to get Britain working, the Government must combine (a) reform of the benefit system to make work pay; (b) well designed and implemented active labour market policies; and (c) a strong focus on economic development and inward investment to stimulate business growth.

2.2 To aid the procurement of the Work Programme and in order to help measure success, ERSA believes the Government should clarify the hierarchy of principles driving the Work Programme. Which of the following aims take precedence: reducing the overall number on benefits, helping those furthest from the labour market or reducing costs to HM Treasury? The Select Committee may wish to seek clarity around this hierarchy of principles in order to aid any future deliberations around the programme’s success.

2.3 In order to develop this submission, ERSA members were asked a range of questions about their views on the procurement process. Respondents listed the following three factors as being of the most concern to their organisations: transition arrangements (see section 9), potential financing arrangements (see section 6) and lack of information (which encompassed financing arrangements, contract terms and conditions, performance management and is a theme throughout this document). A smaller number of ERSA members were concerned that procurement timescales were being rushed.

2.4 A major concern has been the process by which potential primes have been assembling supply chains prior to the announcements of successful prime contractors and certainly before the award of contracts has placed a huge burden on smaller providers. In some cases, small civil society organisations have been asked to prepare over 50 Expressions of Interests. This is a substantial drain on resources. It is therefore suggested that in future similar processes, that a suitable common expression of interest form be used to cut down effort by smaller organisations.

2.5 Finally, it is worth noting that while frameworks are well established procedure in other UK industries, notably housing and construction, they are not well established in the welfare to work market. ERSA believes that the Government may need to clarify relationships between frameworks and contracts. There is currently uncertainty about whether framework providers will be made to sign framework agreements before the terms and conditions of Work Programme contracts have been agreed.

3. Work Programme Difference from Existing Contracted Employment Programmes

3.1 The Work Programme promises to be radically different from existing contracted employment programmes and, indeed, from much public sector delivery. As such, it presents a significant number of unknowns which have in turn presented a series of major challenges to providers during the procurement process to date. The impacts of these major differences are addressed throughout this document, but, in summary, include:

— The integration of the majority of unemployed adults into a single programme for the first time rather than customers being differentiated by profile type.

— A greater focus on those furthest from the labour market through the migration of customers currently on Incapacity Benefit and Employment Support Allowance onto Jobseekers Allowance (JSA) and thereby into the Work Programme. This will have significant implications for providers given the range of barriers to the workforce these groups are likely to present and the lack of information to allow accurate pricing predictions for this group.

— The opportunity for far more integrated delivery with other sectors, including healthcare providers, local authorities, plus other organisations such as housing associations. The Work Programme will only succeed if there are close working relationships with other agencies, particularly but not exclusively Jobcentre Plus.
4. Supply Chain Relationships Concerns and Mitigation

4.1 ERSA agrees that the quality of supply chain relationships will be integral to the success of the Work Programme and that smaller specialist providers need to be valued within the contracting process. However, the relatively rapid timescales for creating a dynamic supply chain of smaller organisations has been challenging for many organisations, be they potential prime contractors or smaller civil society organisations.

4.2 A key issue is that uncertainty over financing arrangements, customer volumes and performance targets, contract terms and conditions, plus the Department's potential approach to performance management have, to some extent, stymied the ability of potential prime organisations to plan effectively and led to uncertainty among potential sub-contractors about the financial feasibility of the Work Programme for their organisations. However, the timescale for supply chain assembly has meant that agreements in principle are being reached before answers to these issues are clear.

4.3 A major current concern among potential sub-contractors is the extent to which risk will be transferred down the supply chain. Clearly, some sub-contractors will not be able to operate entirely, if at all, on a payment by results basis. However, without clarity about the overall sums involved, the details of differential payments and likely volume flows, potential sub-contractors are unclear whether there will be sufficient payment margins to support their operations. Prime contractors should be encouraged to provide as much transparency as possible about their management charge and potentially give an indication of their credit rating.

4.4 ERSA is very supportive of the development of the Merlin Standard by the Department for Work and Pensions and strongly supports the Department's wish for this standard to be owned by the industry. To be successful, Merlin will need to develop sufficient teeth to render it effective. At present, there is still some level of concern among potential sub-contractors about how disagreements between contractors and sub-contractors will be resolved. It is not clear to what extent the DWP will be requiring providers to be assessed against Merlin and whether it will consider removing providers that are found to have breached the code of conduct from the frameworks (see 4.2 below).

4.5 It may also be worth noting, that there is strong anecdotal evidence that some third sector specialist welfare to work providers have lost or are in the process of losing other public sector income streams, meaning that they may be overly reliant on income from the Work Programme going forward. ERSA recognises that a diversity of income streams is a far healthier position for any organisation, regardless of sector, and believes that prime contractors may be advised to see capacity building small civil society organisations as part of their role.

5. Role of Department for Work and Pensions in Overseeing the Contractor/Sub-contractor Relationship

5.1 The consensus among ERSA members is that the DWP should not attempt to put in place a bureaucratic process for overseeing contractor/sub-contractor relationships on a day to day basis. Instead, ERSA believes that the Department should adhere to an appropriately high level of due diligence on proposed supply chains and then, when contracts go live, maintain the lightest of touches in terms of day to day oversight. The Merlin Standard should set minimum expectations of behavior in terms of supply chain relationships. However, the DWP should have a limited role in the contractor/sub-contractor relationship, in line with the black box approach promised by the Work Programme.

5.2 Where the DWP does have a role, however, is in the area of market stewardship; creating the conditions for effective relationships. This would include, for example, the transparent publication of historical performance data that would help inform supplier decisions.

5.3 The Department will also inevitably have a role where conflicts arise and must have the power to enforce penalties, such as potential removal from the framework, where subcontractor complaints are upheld.

5.4 A third role for the Department will be in ensuring that the lessons learned from the Work Programme are being appropriately captured and shared in a real time manner. It is in the interest of everybody, including Government, taxpayer and welfare to work industry, to understand how the application of the black box approach and the payment by results methodology are delivering. ERSA will look to work with the Government to make sure that this mechanism is in place.

5.5 Finally, there is some concern among ERSA members about the DWP holding responsibility for employer checks. Encouragement for businesses to employ Work Programme customers will be essential and ERSA believes that employer checks need to take place in as light touch a manner as possible. Anything which
proves burdensome to the employer is likely to act as a disincentive to employing those participating in the Work Programme.

6. THE ROLE OF JOBCENTRE PLUS

6.1 Effective working with Jobcentre Plus (JCP) will be essential to the success of the Work Programme and is also a concern for ERSA members. ERSA believes the main roles of JCP should be:

- Efficient management of the referral process to ensure that volumes referred to providers are as close to predicted volumes as possible.
- Promoting and explaining the Work Programme to customers so that they are prepared for referral and engagement with the programme and understand the anticipated changes to their benefits, which mean they will be better off in work.
- Categorising customers accurately and efficiently to aid referrals to providers.

6.2 For this to happen effectively a range of things need to happen, including the development of strong local partnerships with providers, the development of co-production approaches where appropriate (including with providers, local authorities and other actors), plus a strong focus on customer service and listening to customer needs. To achieve the latter, ERSA strongly believes that there needs to be a joint industry/JCP approach to professionalisation in the sector. At present entry routes in the welfare to work sector are haphazard, progression routes are unclear, while the sector lacks a fit-for-purpose qualifications framework. JCP could play a role in supporting this, in partnership with the welfare to work industry.

6.3 The Work Programme also provides the opportunity for a rethink of the role of JCP in the future. One means of lessening the cost to the public purse, whilst increasing operational efficiency, is likely to be the co-location of JCP/provider services—possible if contract terms are long enough. This would decrease JCP estate costs, whilst potentially reducing communication problems between agencies and increasing the quality of service to customers.

7. MIGRATION FROM INCAPACITY BENEFIT AND EMPLOYMENT SUPPORT ALLOWANCE

7.1 ERSA welcomes the introduction of the Universal Credit and supports the Government in its ambition to ensure that work pays. The Universal Credit should remove the perverse incentives to stay out of work created by the withdrawal of multiple benefits at different and punitive rates.

7.2 There is consensus across ERSA membership that the implications of the increase in volume and change in profile of JSA claimants arising from the migration from Incapacity Benefit (IB) and Employment Support Allowance (ESA) is the greatest unknown. It is extremely difficult to forecast the likely flows from IB onto the Work Programme as they are unlikely to flow through the Work Capability Assessment (WCA) in the same proportions as new claimants to ESA. The uncertainty around figures, combined with the (as yet) lack of announcement about the levels of differential pricing, means that forecasting and financial planning is currently very difficult.

7.3 It can be anticipated, however, that the needs of this new JSA claimant group are likely to be more demanding than the provider community has collectively been used to, both because of their longevity outside the labour market, their level of additional barriers (both physical and mental health related, coupled with potentially lower emotional resilience), plus a potentially greater difficulty in finding employment that suits their needs. It is a far more difficult ask of an employer to recruit somebody who has been out of the labour market a considerable time.

7.4 ERSA strongly supports the findings of the Professor Harrington review of the WCA and is pleased that the Government has accepted his recommendations wholesale and will be making adjustments to the WCA process forthwith. ERSA particularly welcomes the decision to review mental, intellectual and cognitive descriptors as a failure to recognise adequately customers’ circumstances could be a major problem for Work Programme providers. Assessors will therefore need to be highly skilled to carry out this actively well. A connected point is the need for a mechanism through which providers can refer customers back to Jobcentre Plus for reassessment if they believe that the customer has barriers to the labour market not properly identified by the initial assessment.

7.5 The design of the Work Programme will need to disincentivise gaming, particularly the parking of customers far from the labour market and therefore expensive to support. Differential payments (see section 8) will be essential to this, but will need to be set at a suitably realistic level to stop this occurring.

7.6 ERSA believes that this area is one that could well benefit from greater collaboration between sectors and potentially across providers. Jobcentre Plus, Work Programme providers and health sector partners will need to work together to ensure that these customer groups get the support they need. Similarly, there is a public interest case for the best practice in terms of what works in helping those with significant/long-term barriers to the labour market being shared across providers. This is potentially particularly the case in relation to mental health and musculoskeletal difficulties.
8. **Payment by Results**

8.1 The move to a payment by results commissioning model is a genuinely innovative attempt to redraw public service and is supported by ERSA. However, the risks are well known, namely:

- The need for working capital, which has excluded some organisations from bidding to become primes.
- The uncertainty about the payment model and expected price differentiators, which has made financial modeling by individual organisations difficult.
- The level of uncertainty in the financial market which, in many cases, will need to provide the working capital for providers.
- The potential for gaming.
- Potential cashflow overstretch.

8.2 Given the uncertainties about the impact of moving directly to payment by results at a time when reliable information about customer profiles is unavailable, ERSA would welcome a soft start or exploratory phase to the Work Programme, which includes an upfront service fee for a defined period of time. This could give reassurance to Government, the industry and funders by minimising risks.

8.3 Of strong concern to ERSA members is the potential mismatch between actual volumes of customers (in total and per customer category) vis-à-vis those predicted—thereby undermining financial models. ERSA is asking that there be an overall prediction of volumes at contract outset, plus regular (potentially quarterly) reforecasting meetings during the contract.

8.4 ERSA strongly supports the DEL/IAME shift in Government policy. However, it believes that the Work Programme should recognise the widest economic and social return on investment to the public purse (i.e. the savings due to lower recidivism, child protection costs, etc and not just the additional tax revenue/saved benefit funding).

8.5 There are also some concerns about the affordability of the Work Programme for both primes and subcontractors, although until the details of the funding model and information on predicted volumes of referrals are available, this is difficult to predict.

9. **Regional Variations**

9.1 ERSA members were asked specifically about the potential of a premium to recognise the costs of operating in tougher employment markets across the UK. All respondents agreed that this was important, with 80% of respondents favouring the idea of a differential payments model, which would mean an assessment process for jobseekers that took into account differing regional costs and local labour market conditions. This was preferred to a model whereby a premium was paid for contract areas deemed to be more difficult.

9.2 At a recent round table cohosted by ERSA and the Commission for Rural Communities, there was strong agreement by participants that the additional costs of operating in rural areas should be recognised. Some parts of Scotland, in particular, are so remote that a favourable regional differentiator is virtually a necessity to make the Work Programme viable. In addition, there was agreement that seasonal jobs cannot be excluded as without worth by the Work Programme. In some parts of the country, seasonal jobs are a major source of employment and it may be appropriate to support customers into these.

10. **Local Arrangements**

10.1 One of the major benefits of the Work Programme is likely to be its greater ability to incentivise longer partnerships with both the public and private sector locally. Health partnerships have been addressed in section 6, but ERSA also believes that there will be strong incentive for providers to forge strong relationships with local authorities and other organisations such as housing associations. This could manifest itself in terms of support for public sector downsizing, co-location of services and joint outreach activities, such as debt counselling, plus of course provider delivery of local authority funded employment services.

10.2 The Work Programme model is likely to incentivise providers to build these sorts of partnerships—if working with local authorities improves outcomes, providers will do this as a matter of course. It is therefore unlikely that additional incentives will be needed to bring providers to the local authority table. A more pertinent question may be how do we encourage and incentivise local authorities to integrate providers in local partnership arrangements? Local authorities should not be involved in contract management, but should be encouraged to share information about businesses and local communities and involve providers in plans around economic development.

10.3 The Government’s plans to increase those in work and off benefits will inevitably only work if there is sufficient economic growth, particularly given the retrenchment in public sector funding and subsequent loss of jobs. A significant number of local enterprise partnerships have identified skills shortages as an issue in their area which should incentivise them to work with both training providers and welfare to work providers, whilst the need for jobs and long-term frameworks should incentivise providers to work with local enterprise partnerships.
11. ADDITIONAL POINTS—TRANSITION ARRANGEMENTS

11.1 Although strongly supporting both the Work Programme and the Government’s strategy around benefits reform, ERSA remains concerned about the transition arrangements from the current round of DWP funded welfare to work contracts to the Work Programme.

11.2 As it stands, most current contracts will end prior to the summer, with many providers predicting hitting their cap on volumes for the “old” New Deal as early as 2011. As the Work Programme is designed to start in summer 2011, there will be a gap in provision during that year.

11.3 The current lack of transition arrangements are likely to manifest themselves in two ways:

   — lack of support for customers. There is likely to be regional variations in the services available to people given the differing contract end times. All areas are expected to experience some disjuncture in service unless its continuation is subsidised by the new primes. ERSA believes that there should be support available for all unemployed people who become eligible between Christmas and the summer and that referrals to providers should be continued so that unemployed people are not placed in limbo prior to the Work Programme go live.

   — impact on provider capacity. Inevitably, uncertainty around contract continuation will tempt good staff to leave, while providers may, in some cases, have to make commercial decisions (around leasing of properties for instance) prior to the successful bidders being announced.

11.4 ERSA is hoping that this major concern will be dealt with by the Department by the time the Select Committee receives oral evidence. If not, it asks that this be included in the scope of the Committee’s inquiry.

November 2010

Correspondence between the Chair of the Committee and Rt Hon Chris Grayling MP, Minister for Employment

TRANSITION ARRANGEMENTS FOR THE WORK PROGRAMME

As you may know, the Committee took oral evidence on Wednesday from potential prime and sub-contractors as part of our inquiry into the provider and contracting arrangements for the Work Programme. The session highlighted a significant and immediate issue surrounding the transitional arrangements from existing employment programmes to the Work Programme which we are anxious to clarify with you.

As the Government has emphasised, delivery of the Work Programme will be dependent on a diverse supply chain ranging from large private companies to small, local voluntary and community organisations. The success of the programme relies on these organisations remaining active and fit for purpose in June 2011 when the Work Programme starts.

Witnesses were however concerned that a gap in welfare-to-work provision between the termination of many existing programmes and the launch of the Work Programme may result in a widespread fall in capacity across services and will disrupt the service that many clients receive. The Employment Related Services Association (ERSA) advised us that the gap will adversely affect a wide range of organisations from both the private sector and the voluntary and community sector. They suggested that many organisations are commencing staff redundancy consultation exercises, and that some organisations may not have the commercial viability to survive for several months without funding.

We are grateful to you for agreeing to give oral evidence on 14 March and no doubt we will discuss these matters in detail then. However given that it is still more than a month until that session and that existing programmes may be very close to closure by then, the Committee would be grateful if you could provide us with information now on what actions the DWP will take to ensure that:

   — Clients who are receiving welfare-to-work services continue to receive effective support across all regions and will not experience significant disruption in the help they receive.

   — Organisations which currently deliver DWP employment-related services and which you expect to continue under the Work Programme are supported during the transition period in terms of maintaining their financial capacity and their ability to retain key staff.

   — Staff working in employment-related services across the supply chain receive the clarity and detailed information they need about contracting arrangements and timescales to enable them to plan for the transition period and ensure that their organisation is able to play an effective role within the Work Programme.

I look forward to an early response to the urgent concerns I have raised in this letter.

Dame Anne Begg MP
4 February 2011
Thank you for your letter dated 4 February expressing your concerns about the arrangements for transition from current employment support to the Work Programme. I am grateful to the committee for their interest and for the opportunity to clarify our current plans.

My top priority is to ensure that customers are properly supported during transition to the Work Programme, and that the Work Programme is operational and successfully delivering results as soon as possible. This means that there is a continuing need to ensure a vibrant and capable welfare to work market and that the best of the private, public and voluntary sector organisations are in a position to deliver the innovative support we require of them.

I am happy to confirm the Government's commitment to ensuring that there are no gaps in provision as we move forward, and that we will be working with our suppliers to extend referrals to existing mainstream support for Jobseekers until June 2011. Jobseekers referred to these contracts up to this point will receive a minimum of 13 weeks provision and will be able to subsequently volunteer for early entry to the Work Programme.

However, our approach to supporting ESA customers is changing and Pathways to Work contracts will not be extended any further than they have already. We will be putting in place a whole new system of flexible and personalised support from both Jobcentre Plus and Work Programme providers. We believe that the new arrangements will offer more flexible and more effective support than has previously been available and the Jobcentre Plus based elements of this will start delivery from April 2011.

Current support is a patchwork of different contracts all with different contract areas and end dates and therefore transitions arrangements will inevitably need to be tailored to local circumstances. However, I believe that these contract extensions are the best way of ensuring that wherever possible both our customers and providers are supported during the period of transition.

I hope that this will reassure the committee, and I will be happy to answer any further questions when I give oral evidence on the 14 March.

Rt Hon Chris Grayling MP
Minister for Employment
14 February 2011

Thank you for your letter of 14 February, in response to the Committee’s concerns about the potential gap in services for unemployed people ahead of the introduction of the Work Programme.

I note your reassurance that all claimants will be properly supported during the transition to the programme. However, I am writing to seek further clarity on the arrangements for the extension of programmes and the implications for small and specialist providers of employment services.

Mainstream Support for Jobseekers

Your letter and the Written Ministerial Statement published yesterday indicate that the Government intends to extend referrals to existing mainstream support for jobseekers (New Deals and Flexible New Deal) until June 2011.

The Department for Work and Pensions’ evidence to the Committee in November 2010 stated that the Flexible New Deal would continue until June 2011, so I understand this programme is unaffected by yesterday’s announcement. I would be grateful if you could provide details on how each of the other current employment programmes will be affected by the announcement, including:

- New Deal (18-24, 25+);
- New Deal for Disabled People;
- New Deal for Lone Parents; and
- Employment Zones.

Pathways to Work

I note that Pathways To Work contracts will not be extended, and that this support will be replaced by a new system of support for ESA customers from Jobcentre Plus (from April 2011) and Work Programme providers (from June 2011). I would be grateful if you could clarify:

- Whether any customers will experience an absence of some services until the Work Programme providers start operating?
- Whether you expect any existing Pathways To Work providers to be involved in delivering support for ESA customers through the Work Programme?

In addition, I understand that Pathways to Work is currently operated in 60% of Great Britain by the private and voluntary sector and in 40% by Jobcentre Plus. Is it your intention that Jobcentre Plus will provide for ESA customers across the country between April and June 2011?
Implications for Providers

Your letter replies to a key concern I raised about the continuity of provision for clients between April and June 2011. In our exchange in the House yesterday, you confirmed that "transitional arrangements will involve the existing providers in all programmes except Pathways to Work" (col 696). However, my letter of 4 February also raised two specific questions about the implications of the transitional arrangements for providers which do not seem to have been answered directly:

— How will the DWP ensure that organisations which currently deliver DWP employment-related services, and which you expect to continue under the Work Programme, are supported during the transition period, particularly in terms of maintaining their financial capacity and their ability to retain key staff?

— We understand that some providers are in the process of issuing redundancy notices to their staff because they will not know in time whether these staff members will be required as part of the Work Programme delivery. How will the DWP ensure that providers of employment-related services across the supply chain receive the clarity and detailed information they need about contracting arrangements and timescales to enable them to plan for the transition period, avoid unnecessary redundancies and ensure that their organisation is able to play an effective role within the Work Programme?

It would be helpful to receive your reply in advance of our oral evidence session with you on 14 March.

Dame Anne Begg MP
16 February 2011

Mainstream Support for Jobseekers

Regarding the support delivered for Jobseekers, you noted that we will be extending referrals to the Flexible New Deal and old style New Deals (including New Deal 18-24, New Deal 25+, Private Sector Led New Deals and Employment Zones) until June 2011. It is important to note that once referred customers will complete a minimum of 13 weeks on that provision, meaning that contracts will actually be running up until September 2011.

This is a significant change from the position we outlined to the committee in November 2010. At that time referrals to FND were due to cease in March 2011 and contracts end in June 2011. Referrals to old New Deals were due to cease in December 2010 and contracts end in March 2011.

Bearing in mind that we expect the Work Programme to begin delivering from June 2011, this means that there is no gap in provision. Existing FND and New Deal providers and their sub-contactors will continue to deliver (and therefore be financially supported) until the Work Programme delivery begins and in some cases for a short while afterwards.

New Deal for Lone Parents

From April 2011 support for lone parents will be primarily delivered through Jobcentre Plus who are modernising the way they deliver their services, offering more flexible, tailored support based on individual needs. In addition lone parents on IS will get voluntary access to the Work Programme as it becomes available in their area.

As these new Jobcentre Plus services will be delivered from April 2011, we did not therefore consider it necessary to extend contracted out lone parent support any further than 31 March when it is currently due to end.

Pathways to Work

You asked me whether customers that would have gone to Pathways to Work will experience an absence of some services until the Work Programme starts delivering. The new system of Jobcentre Plus based support for ESA customers will also be in place from April 2011, and whilst customers will experience a different type of support than they did in Pathways, customers will be fully supported until the Work Programme starts delivery in June.

In terms of whether any Pathways to Work providers will be involved in delivery of the Work Programme, this is not a question that I can yet answer. We are still evaluating bids for Work Programme contracts and we will not know the results of the competition until mid April 2011. Details of the results of the competition will be announced shortly thereafter.
I believe that the contract extensions that I announced in February represent significant support for our delivery partners ahead of the Work Programme implementation. These contracts will only end at, or after, the point at which Work Programme contracts are in place and delivering.

However, until we identify preferred bidders and sign contracts there will be an inherent uncertainty as to who will and will not be involved in delivering the Work Programme. I understand that this is a difficult time for providers and we are continuing to ensure that all providers are given up to date information as soon as it is available. This information is published on our website, we send regular update notes to our providers and of course we have regular contact through our existing contract management arrangements.

I hope that this helps to clarify my last letter and I look forward to speaking with you on the 14 March.

Rt Hon Chris Grayling MP
Minister for Employment

Dear Anne

ANNOUNCEMENT OF WORK PROGRAMME PREFERRED BIDDERS

This morning I announced the results of the Work Programme contracting process and who our preferred delivery partners will be. Given the Select Committees interest in the Work Programme I thought it was worth setting out a number of points about these results that I think you will find helpful. A list of preferred bidders is attached to this letter for your information.

The Committee was particular concerned over the impact that the Work Programme would have on the voluntary and community sector. I am pleased to say that our emphasis on third sector involvement during the procurement process has paid off. Our list of preferred bidders includes impressive third sector involvement with nearly 300 voluntary sector organisations involved in delivery of the Work Programme as sub-contractors. This represents a £95 million investment in the voluntary and community sector.

We also have two voluntary sector and one public sector prime contractors, which proves I think, that there is no reason for voluntary sector organisations to be excluded from bidding as prime contractors. I am also pleased to see that we have at least 1 new entrant as prime provider.

Alongside this, from next week, we’ll be significantly increasing the reassessment rate of old style incapacity benefits claims to around 7,000 claims a week. This will further increase to around 11,000 cases a week in May and ensure that people on benefits also do their part to get themselves into work whilst ensuring those who cannot take steps to prepare for work rightly continue to receive unconditional support.

These changes, taken together, represent a major step forward in how we deliver support to people who are out of work in this country, and I hope that you and the Select Committee will continue to take an interest in this important area of the Department’s work.

Rt Hon Chris Grayling MP
Minister for Employment

1 April 2011
WORK PROGRAMME PREFERRED BIDDERS—APRIL 2011

Scotland
- Ingeus UK Ltd
- Working Links

Wales
- Rehab JobFit *
- Working Links Wales
- Ingeus UK Ltd

North East
- Avanta Enterprise Ltd (TNG)
- Working Links

North East Yorkshire & Humber
- G4s
- Newcastle College

West Yorkshire
- Business Employment Service (Training) Ltd
- Ingeus UK Ltd

South Yorkshire
- A4E Ltd
- Serco Ltd

North West (Merseyside, Halton, Cumbria and Lancashire)
- Avanta Enterprise Ltd (TNG)
- G4S
- Seeetec

East Midlands
- A4E Ltd
- Ingeus UK Ltd

West Midlands
- FourstaR Employment & Skills Ltd
- Newcastle College
- Pertemps

East of England
- Ingeus UK Ltd
- Seetec

West London
- Ingeus UK Ltd
- Maximum Employment UK Ltd
- Reed in Partnership

East London
- A4E Ltd
- Careers Development Group (CDG)*
- Seeetec

South East (Thames Valley, Hampshire and IOW)
- A4E Ltd
- Maximum Employment UK Ltd

South East (Surrey, Sussex and Kent)
- Avanta Enterprise Ltd (TNG)
- Rehab JobFit *

South West (Gloucester, Wiltshire and West of England)
- JHP Group Ltd
- WISE Ability Limited (Wise Ability)

South West (Devon, Cornwall, Dorset and Somerset)
- Prospects Services Ltd
- Working Links

* Voluntary sector organisation
** Public sector organisation

EXPECTED SUBCONTRACTORS

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