House of Commons
Committee of Public Accounts

The Work Programme

Twenty-first Report of Session 2014–15

Report, together with the formal minutes relating to the report

Ordered by the House of Commons to be printed 22 October 2014

HC 457
Published on 6 November 2014
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit" (Standing Order No 148).

Current membership

Rt Hon Margaret Hodge (*Labour, Barking*) (Chair)
Mr Richard Bacon (*Conservative, South Norfolk*)
Guto Bebb (*Conservative, Aberconwy*)
Mr David Burrowes *(Conservative, Enfield, Southgate)*
Jackie Doyle-Price (*Conservative, Thurrock*)
Chris Heaton-Harris (*Conservative, Daventry*)
Meg Hillier (*Labour, Hackney South and Shoreditch*)
Mr Stewart Jackson (*Conservative, Peterborough*)
Andrea Leadsom (*Conservative, South Northamptonshire*)
Rt Hon Anne McGuire (*Labour, Stirling*)
Austin Mitchell (*Labour, Great Grimsby*)
Stephen Phillips QC (*Conservative, Sleaford and North Hykeham*)
John Pugh *(Liberal Democrats. Southport)*
Nick Smith (*Labour, Blaenau Gwent*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Sarah Petit (Clerk), Claire Cozens (Committee Specialist), James McQuade (Senior Committee Assistant), Sue Alexander, Jamie Mordue and Joellen Perry (Committee Assistants) and Janet Coull Trisic (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee's email address is pubaccom@parliament.uk

Contents

Summary

The Department for Work and Pensions (the Department) is responsible for the Work Programme, which aims to help people who have been out of work for long periods to find and keep jobs. Specifically the Work Programme aims to increase employment, reduce the time that people spend on benefit, and to improve support for the hardest-to-help – those participants whose barriers to employment are, relatively, greater than others on the programme. The Department assigns people to one of nine payment groups depending on characteristics such as age and the benefit each person is claiming.

The Department pays prime contractors to provide support to people to get them into long-term employment using a payment-by-results approach. The amount the Department pays a prime contractor depends on its success in getting people into sustained work and the payment group of the individual. The Department has 40 contracts with 18 prime contractors. Either two or three prime contractors operate in 18 different geographic areas across England, Scotland, and Wales. Prime contractors may subcontract some or all of the support they provide.

The Department will stop referring people to the Work Programme in March 2016, although payments to prime contractors will continue until March 2020. Between June 2011 and March 2016, the Department expects to refer 2.1 million people to the Work Programme and forecasts total payments to prime contractors of £2.8 billion.

In this report we set out recommendations in five areas, following evidence we took from the Department on the basis of a report by the Comptroller and Auditor General.[1] We will take further evidence from the Department in early 2015 to assess progress.

1 C&AG's Report, *The Work Programme*, HC 266 Session 2014-15, 2 July 2014

Conclusions and recommendations

After a slow start, performance is improving

1. Performance for people who have completed the full two years on the Work Programme has been similar to previous welfare-to-work schemes. Cohorts of participants aged 25 and over claiming Jobseeker's Allowance who have completed the Work Programme have achieved job outcomes in 27% of cases, compared to performance for a group with similar characteristics under Flexible New Deal of 26%.[2] After a slow start, recent performance has improved, with 32% of the most recent cohort of this group to complete the Work Programme achieving job outcomes.[3]

2. The Department is confident that the upward trend in performance will continue. It estimates that, based on recent performance for participants aged 25 and over claiming Jobseeker's Allowance, the performance for those cohorts yet to complete the Programme will be 38%. It described its methodology for arriving at this forecast as both "conservative" and a "robust estimate of the future".[4]

3. If the Department achieves this level of performance for remaining cohorts, overall performance for this group at the end of the Work Programme is expected to be at least 34%—just above its own assessment of minimum performance (33%) but below its own original expectations (39%).[5] We will have to monitor actual performance and make a judgement on this basis.

4. The Department has estimated that contractors have not claimed around 26,000 job outcomes in the period June 2011 to December 2013, which would increase performance by approximately 10%. The Department cannot, however, estimate the number of similar unclaimed job outcomes for previous welfare-to-work initiatives, so comparison of any enhanced total for job outcomes will be difficult.[6]

5. The real value in any assessment of performance is an assessment of additionality—the number of people that would not have secured employment without the support received from welfare-to-work initiatives. We recognise that any assessment of additionality is difficult, but the Department has done this on previous programmes and should incorporate a measure of additionality as part of its assessment of the programme's effectiveness.[7]

2 Q 9, C&AG's Report, paragraph 2.5 and Figure 8

3 Qq 15, 18, C&AG's Report, Figure 9

4 Qq 6, 11,18 and 19, C&AG's Report, Figure 8

5 C&AG's Report; Figure 8 and paragraph 2.7

6 Qq 24 -26, C&AG's Report, paragraph 2.13

7 Q 88, C&AG's Report, paragraph 10

Recommendations: ***The Department should, before we take further evidence in early 2015, update us on its view of progress and provide robust and certain data to enable both the National Audit Office and the Public Accounts Committee to make sound judgements on value for money. The Department should introduce, for the Work Programme and future contracted out welfare-to-work initiatives, control groups so that it can assess the additional impact of its welfare-to-work provision.***

Supporting harder-to-help participants into work has been particularly difficult

6. The Department estimates that around 90% of people claiming benefits will move into a job within a year, with the remaining 10% moving on to the Work Programme. All participants on the Work Programme can therefore be considered hard to help.[8] However, one of the Department's aims for the Work Programme is to reduce the gap between performance for the most disadvantaged and other groups on the Work Programme whose barriers to employment are relatively low, and to reduce the amount of 'parking' of harder-to-help participants.[9]

7. The Department pays prime contractors more for getting harder-to-help participants in to work, to encourage them to work with everybody regardless of their barriers to and distance from employment.[10] However, the Department's own interim evaluation, in draft at the time of our evidence session, concludes that there is no clear relationship between payment groups and the nature of the support participants receive. The absence of such a relationship suggests differential payments have not been effective in preventing contractors from focusing on easier-to-help claimants and parking the harder-to-help clients, often those with a range of disabilities including mental health challenges.[11]

8. Supporting harder-to-help participants into work has been particularly difficult. Only 11% of new Employment and Support Allowance claimants achieved job outcomes compared to the Department's original (22%) and revised (13%) performance expectations. Therefore, almost 90% of Employment and Support Allowance claimants on the Work programme have not moved into employment.[12]

9. The Department recognised that more needs to be done to encourage prime contractors to work with harder-to-help groups. It told us that it is concentrating its new performance management regime on the hardest-to-help, Employment and Support Allowance claimants. For example, it requires prime contractors which are performing poorly with the harder-to-help to produce plans to improve which focus specifically on these groups. The Department has also taken steps to improve the transparency of data around the performance of prime contractors both nationally

8 Q 95; C&AG's Report, paragraph 3

9 Q 1, C&AG's Report, Figure 1 and paragraph 3.1

10 Q 65, C&AG's Report, paragraph 1.7 and Figure 3

11 Q 90

12 C&AG's Report, Figure 13

and in the same area, and is supporting sharing of best practice on working with harder-to-help groups.[13]

Recommendation: ***The Department should review the impact of differential payments to prime contractors on their support to participants with different barriers to finding employment. Before we take further evidence in early 2015, the Department should update us on performance in respect of harder-to-help groups, and its progress encouraging prime contractors to work with them.***

The Department could do more to understand the effectiveness of different approaches to supporting participants into work

10. The Department recognises that it needs to improve its approach to monitoring the quality of service that participants on the Work Programme receive from contractors. It told us that it assesses prime contractors against the 212 minimum service standards they agreed when they signed their contracts with the Department. But the number of standards can work against their effectiveness, and only four out of 18 prime contractors have minimum service standards that differentiate between groups of participants.[14]

11. The Department also now monitors performance against what it described as "generic service offers" —14 standardised quality measures to monitor each prime contractor's service quality. However, the Department does not include whether the claimant is on JSA or ESA as part of its analysis of compliance with service standards, limiting its opportunity to identify cases where prime contractors had potentially parked participants. We were therefore encouraged to hear that the Department was refining its approach so that it focused more on participants claiming Employment and Support Allowance.[15]

12. Data prime contractors sent to the Department appears to show that they are, on average, spending less than half what they originally intended on harder-to-help groups.[16] The difference might be explained by a number of factors. But we were surprised that the Department did not analyse how much prime contractors spend on harder-to-help groups, and therefore it did not know whether the amount was increasing or decreasing, despite helping harder-to-help groups being an aim of the programme.[17]

13. Based on feedback from some constituents, we were also concerned about how the Department's sanctions regime works in practice; in particular, that the number of sanctions was increasing and that some prime contractors were recommending sanctions more than others.[18] The Department told us that an individual is not

13 Qq 66, 82

14 Qq 80, 111; C&AG's Report, paragraphs 3.10 and 3.11

15 Qq 80, 154; C&AG's Report, paragraphs 3.13 and 3.14

16 Q 74; C&AG's Report, paragraph 3.8

17 Q 92

18 Q 171

sanctioned when he or she does not find employment; and that it is the Department, based on recommendations and evidence from prime contractors, which decides whether to apply a sanction to an individual. The Department confirmed that Seetec has high numbers of sanction referrals compared to other providers. The Department also told us that it did not set quotas for the number of sanctions. It is not clear whether the sanctions regime is effective in encouraging people on the Work Programme to engage with the support offered by prime contractors.[19]

Recommendations: ***The Department should collect information from each prime contractor on how much they are spending on different payment groups and relate this to the nature of support being provided and the outcomes achieved, to help identify cost effective approaches to support. The Department should publish, alongside its quarterly release of performance data, details of the number sanctions analysed by prime contractor. It should use the data to monitor whether providers are making appropriate sanction referrals to the Department.***

The Department needs to tighten up its contract management

14. The Department has designed the contracts with providers in a way which exposes the Department financially. For instance, the way performance is measured means that the fewer clients are referred to a provider, their performance looks better. They then become entitled to additional incentive payments. Thus, for example, Newcastle College Group whose contract will be terminated in March 2015 on performance grounds may still be entitled to incentive payments because the measurements chosen by the Department distort real performance.

15. Because of the flawed performance measure the Department expects to make incentive payments—intended only to reward exceptional performance—to all 18 of the prime contractors for all 40 of the contracts. The Department estimates that it could end up paying prime contractors incentive payments totalling £31 million for 2014-15 and £61 million over the Work Programme's life (compared to £6 million and £17 million respectively if it had a more appropriate performance measure). The Department confirmed that any incentive payment due to the Newcastle College Group, which is required to work within the terms of its contract up until March 2015, would be calculated on the basis of its performance during its notice period. The Department said that incentive payments were one aspect of its current renegotiation of contracts with prime contractors.[20]

16. The Department has difficulty validating the 'sustainment payments', which are paid to prime contractors for every four weeks a participant is in employment over and above the job outcome period (of between 3 and 6 months depending on payment group). The Department has estimated that it paid £11 million to providers for sustainment payments that it is unlikely to be able to validate, an amount which it has declared as a loss in its 2013-14 annual accounts. The Department told us it has

19 Qq 50, 51, 54, and 172; Letter from Robert Devereux dated 11 September 2014

20 Qq 116, 117, 141 and 142, C&AG's Report, paragraph 4.21

recovered more than £500,000 from one prime contractor, and that it hopes to recover all £11 million.[21]

17. The Department has made around 30 changes to its contracts with prime contractors, which it estimates could save it £40 million over the life of the Work Programme.[22] The Department is currently renegotiating its contracts with prime contractors, including its approach to dealing with the validation of sustainment payments.[23] It is unlikely that it will be able to recover from contractors all the actual costs it has incurred to date as a consequence of its flawed performance measure.[24]

Recommendations: The Department should write to us, as soon as it as certain, to confirm whether Newcastle College Group will or will not receive an incentive payment for 2014-15.

Before we take further evidence in early 2015, the Department should:

- ***update us on its progress in clawing back from prime contractors the estimated over payment of £11 million for invalid sustainment payments; and***
- ***update us on its progress renegotiating its contracts with prime contractors, including a summary of the changes it has made to the contracts, the intended impact of the changes, and the cost of making the changes.***

Recommendations in the Comptroller and Auditor General's report

18. The Department accepted the recommendations detailed on pages 10-11 of the Comptroller and Auditor General's report, and which we repeat in the attached annex.[25]

Recommendation: ***The Department should, before we take further evidence in early 2015, update us on its progress against the recommendations in the Comptroller and Auditor General's report.***

21 Q 145, C&AG's Report, paragraph 4.16

22 Q 148, C&AG's Report, paragraph 4.25 and 4.26

23 Qq 120, 148, 157

24 C&AG's Report, paragraph 4.26

25 Q 186

Annex: Recommendations from the Comptroller and Auditor General's report[26]

In developing the Work Programme and future contracted out welfare-to-work schemes the Department should:

1. **Ensure sufficient time to develop a robust performance framework**

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

2. **Improve the setting and monitoring of minimum service standards**

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

3. **Eliminate spending on invalid sustainment payments**

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

26 C&AG's report, paragraph 30

- In future programmes the Department should review contracts to identify whether similar problems might arise.

4. **Improve performance management measures**

- Contractors should not receive incentive payments based on flawed measures of performance. The Department recognises that minimum performance levels have not worked well in managing contracts and has developed a new cohort-based measure of performance.

- Future programmes should use cohort-based measures for determining whether an incentive payment is merited, introduce relative as well as absolute thresholds, or remove these payments altogether.

- The Department should extend its use of the HM Revenue & Customs' real-time information to help prime contractors to identify people that are no longer in employment to support them back into work.

5. **Develop a clear approach to making any future termination decisions**

- After it has agreed termination costs, the Department should evaluate the impact of terminating a contract.

- It should set out clear principles for making future termination decisions using break clauses in the current contracts.

- In future contracts it should include relative as well as better absolute measures of performance in setting the conditions under which it could terminate contracts at no cost.

Formal Minutes

Wednesday 22 October 2014

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon
Guto Bebb
Mr David Burrowes
Jacqui Doyle-Price
Meg Hillier
Mr Stewart Jackson
Anne McGuire
Austin Mitchell
John Pugh
Nick Smith

Draft Report (The Work Programme), proposed by the Chair, brought up and read.

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

Conclusions and recommendations agreed to.

Annex agreed to.

Summary agreed to.

Resolved, That the Report be the Twenty-first 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.

[Adjourned till Monday 27 October at 3.00 pm

Witnesses

Monday 14 July 2014

Question

The following witnesses gave evidence. Transcripts can be viewed on the Committee’s inquiry page at www.parliament.uk/pac.

Robert Devereux, Permanent Secretary, Department for Work and Pensions; **Matt Thurstan**, Senior Responsible Officer for the Work Programme, DWP; and **Mike Driver**, Finance Director General, DWP — Q1–186

List of printed written evidence

The following written evidence was received and can be viewed on the Committee’s inquiry web page at www.parliament.uk/pac. WOR numbers are generated by the evidence processing system and so may not be complete.

1 Department For Work And Pensions (WOR0002)

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 2014–15

First Report	Personal Independence Payment	HC 280
Second Report	Help to Buy equity loans	HC 281
Third Report	Tax reliefs	HC 282
Fourth Report	Monitor: regulating NHS Foundation Trusts	HC 407
Fifth Report	Infrastructure investment: impact on consumer bills	HC 406
Sixth Report	Adult social care in England	HC 518
Seventh Report	Managing debt owed to central government	HC 555
Eighth Report	Crossrail	HC 574
Ninth Report	Whistleblowing	HC 593
Tenth Report	Major Projects Authority	HC 147
Eleventh Report	Army 2020	HC 104
Twelfth Report	Update on preparations for smart metering	HC 103
Thirteenth Report	Local government funding: assurance to Parliament	HC 456
Fourteenth Report	DEFRA: oversight of three PFI waste projects	HC 106
Fifteenth Report	Maintaining strategic infrastructure: roads	HC 105
Sixteenth Report	Early contracts for renewable electricity	HC 454
Seventeenth Report	Child maintenance 2012 scheme: early progress	HC 455
Nineteenth Report	The centre of government	HC 107
Twentieth Report	Reforming the UK Border and Immigration System	HC 584