

The Work Programme In South West England

Employment and Skills Partnership

Alliance *Briefing Paper*

EXECUTIVE SUMMARY

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In May 2010, the Coalition Government announced its intention to launch the Work Programme, described by Chris Grayling, Minister for Employment, as the *'biggest welfare to work plan that this country has yet seen, and more importantly probably the biggest payment by results scheme that any Government has attempted'*¹. The Work Programme was formally launched in June 2011. Despite its size and ambition, the real story is that those delivering the Work Programme will need to do more with less.

To coincide with the Work Programme launch, SLIM has produced a research report that: explains the structure and goals of the Work Programme; identifies the risks that may arise from its design and delivery; assesses its chances of success in the South West; and highlights matters that partners may wish to monitor or influence in order to ensure that the Work Programme works for those in their area.

This report is aimed at local authorities, providers, Employment and Skills Boards, Local Enterprise Partnerships (LEPs) and others who may be asking themselves: how will the Work Programme work in the South West of England? Where and who are most likely to benefit? What should we be monitoring and how can we help to ensure that none of our people and places get left behind?

Who will the Work Programme help?

The Welfare Reform Act 2007 has resulted in Incapacity Benefit (IB) being replaced by the Employment & Support Allowance (ESA). The key difference between these benefits is the conduct of a Work Capability Assessment (WCA) with all new ESA claimants. From April 2011, existing IB claimants are also being moved onto the new ESA, with WCA forming part of that process as well. This migration is due to be completed by 2014, which means that large numbers of people who have been out of the labour market for a considerable period of time will fall within the remit of the Work Programme.

Eligibility for the Work Programme is open to eight different groups of customers. However it is important to note that the Work Programme is mandatory for members of some groups and voluntary for others. The groups are:

- **JSA customers aged 18 to 24** (mandatory for those claiming JSA for nine months).
- **JSA claimants aged 25 and over** (mandatory for those claiming JSA for 12 months).
- **JSA Early Access customers** (generally people facing significant barriers - mandated to join the Work Programme at three months or have voluntary access from three months).
- **JSA Customers who have recently moved from IB** (mandated after three months of their JSA claim)
- **ESA voluntary customers.**
- **ESA flow customers in the Work Related Activity Group.** New ESA claimants who are placed in the Work-Related Activity Group (WRAG) during their WCA will be mandated to the WP once they are expected to be fit for work within three months.

¹ Chris Grayling, Minister for Welfare Reform at the Department for Work and Pensions, Conservative Home Blog, 22nd December 2010, http://conservativehome.blogs.com/platform/chris_grayling_mp/

- **ESA Ex-IB customers in the WRAG** (mandated when their WCA suggests they may become fit for work within three months).
- **IB and Income Support Customers.**

Work Programme providers will be paid different amounts for helping members of the different customer groups, with the payment levels calculated to reflect the relative difficulty that those within each group are likely to have in finding and retaining employment.

What help will they receive?

The Work Programme has no pre-ordained content or structure. Instead, Prime contractors (see below) are being asked to *'deliver truly tailored support, based on individual need'*². This "Black Box" approach recognises that peoples' circumstances vary. Customers do not fit within neat categories and welfare provision focused on delivering specific single uniform products or support are unlikely to be as effective as personalised interventions matched to the requirements of individual jobseekers.

The capacity of Work Programme personal advisers, not just as individual providers of support, but as orchestrators of external help with health management, skills development, childcare, housing, drugs and transport, will be key to the Work Programme's success.

Whilst the Government is committed to not getting involved in the specific content of the support on offer,³ the Work Programme Invitation to Tender required bidders to set out their customer journey and to demonstrate how they would ensure that this *'is tailored to meet the specific needs and barriers of individual customers'*⁴. They also had to be highly specific about the resources they would set aside to cover 'Participant Costs' such as Travel, Childcare, Clothing and Refreshments⁵.

Jobcentre Plus (JCP) will continue to have a major role in managing worklessness and will be a key partner for Work Programme providers. They will be responsible for helping JSA Claimants to find work for the first 12 or nine months (depending on age) of their claim, including referring claimants to Job Clubs, Work Together (volunteering) opportunities, Enterprise Clubs, the New Enterprise Allowance and other initiatives to 'Get Britain Working'. They will refer early starters and volunteers to the Work Programme on a discretionary basis, using their judgement about whom it will help. And Work Programme participants will continue to report to JCP every two weeks, setting out their work-search activities and establishing their continued eligibility for benefits. For those who fail to undertake the required steps towards employment, JCP will retain the 'sanctioning' role. Indeed, the fact that the Work Programme is being introduced alongside Mandatory Work Activity, Skills Conditionality, Job Clubs, volunteering and other measures, points to a need to view it as

² Chris Grayling, Speech to Oxford and Cambridge Club, 17 May 2011.

³ *'It is fundamentally important that we do not (meddle), 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'*. Chris Grayling, evidence to the Work & Pensions Select Committee, Op Cit, Q162.

⁴ *Work Programme Invitation to Tender Form*, DWP. www.dwp.gov.uk/docs/wp-itt-questionnaire-england.doc

⁵ *Work Programme Pricing Proposal*, DWP. Available from: www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/work-programme/

being just one vehicle in the Coalition's overall drive to 'Get Britain Working'. The effective integration of all these services will be central to their collective success.

How will the Work Programme be delivered?

The context for the Work Programme is one of relatively high levels of worklessness in a period of fiscal restraint. The Work Programme is structured so that payments to providers are made from the savings generated from people leaving benefits and entering employment. This results-based payments system transfers financial risk from government to the Work Programme's providers, whose revenues will be linked to the proportion of their customers who enter long-term, sustained employment. In addition to incentivising high performance, the Work Programme is designed to punish poor provider performance. Minimum Performance Levels will be set and failure to reach these levels *'will lead to contractual action up to and including contract termination if improvements to performance are not made'*⁶. In addition, the Department of Work and Pensions (DWP) will encourage competition between Work Programme providers in each Contract Package Area (CPA), by shifting market share to providers who perform most strongly.

The Work Programme will be delivered by two or three Prime Providers (Primes) operating within 18 CPAs across England, Scotland and Wales. The financial risk involved in delivering such a large outcomes-related programme means that only large organisations could bid to become Primes, the majority of which were major providers of welfare-to-work services in their own right.

The South West is divided into two CPAs:

- **CPA 11 - Devon, Cornwall, Dorset and Somerset which will be delivered by Prospects Services Ltd and Working Links.**
- **CPA 12 - Gloucester, Wiltshire and West of England which will be delivered by JHP Group Limited and The Rehab Group.**

There are significant differences in the delivery arrangements proposed by each Prime⁷. Working Links plans to deliver support to around 57% of Work Programme customers internally, whilst the JHP group plans to deliver less than 1% of the support themselves. Prospects plans to contract 56.5% of their provision to the voluntary sector (the highest figure for any Prime), while Working Links, the other provider in CPA 11, plans for only 6% of delivery to be through this sector. A significantly higher proportion of Work Programme provision will be self-delivered by the Primes in CPA 11 compared with CPA12. Primes' contracts will cover seven years of activity. With customers spending two years on the programme, this amounts to five years of 'starts'.

The DWP has set out the minimum number of Job Outcomes that it expects providers to achieve for three Customer Groups who have been the targets of similar welfare-to-work

⁶ The Work Programme, Invitation to Tender, p. 14

⁷ It should be borne in mind that these figures are by provider and that Working Links and Rehab are delivering in more than one CPA. The balance of their delivery across CPAs may not be identical.

programmes in the past. Primes who do not meet these minimum performance levels may have their contracts withdrawn. *'The minimum performance standard... is set at a level that is the highest level of performance that the New Deal for Young People and the New Deal for those who are 15-plus ever reached, even at the height of the boom earlier in the 2000s⁸'.*

In addition to setting high minimum performance levels, the upfront attachment fees that providers will receive when customers join their programme will reduce over the first three years of the contract, disappearing by year 4. From the third year, the job outcome fees providers receive will also start to fall for three customer groups and a compensatory incentive payment, based on the proportion of customers who achieve job outcomes, will be introduced. As a result, Primes will need to improve their outcome rates continuously over time if they are to maintain their income levels.

A further concern for providers is the proposal to shift market share to providers who perform most strongly within each CPA.

The challenge for Government will be to achieve the right level of flexibility, allowing inefficient providers to experience losses and for mergers between providers to take place where necessary, without putting the Programme at risk.

Challenges and Issues?

Performance risks - the general consensus is that delivering the Work Programme will be extremely challenging and it will be hard for providers to profit excessively from the programme. But are the risks too great and could the level of risk threaten the delivery of the programme?

Provider discounting - tenders submitted by organisations seeking to become Work Programme providers were judged on the basis of both quality and price. Analysis by some commentators suggests that it is "*finance rather than quality (that is) driving the shape of the market*" and that the majority of contracts were won on price discounting, so adding to the already difficult challenge.

Minimum performance levels – the DWP has set out the minimum number of Job Outcomes that it expects providers to achieve for the three Work Programme Customer Groups who have been the targets of similar welfare to work programmes in the past. The performance levels are extremely challenging and risks of failure are significant.

Delivery risks - Primes were selected on the basis of their capacity to bear risk and the cash flow burden inherent in a payment-by-results programme. Their delivery networks include large numbers of much smaller sub-contractors, including voluntary organisations

⁸ Work and Pensions Committee, April 2011, p33.

and specialist providers. Concerns exist around Prime providers seeking to pass financial risk on to organisations within their delivery networks, for example, by retaining a significant proportion of the attachment fees.

The impact of welfare reform – the Government will be introducing Universal Credit, the purpose of which is to make sure work pays and ‘reintroduce the culture of work in households where it may have been absent for generations’⁹. This may have a major impact on Work Programme outcomes. However, as it is still in development, the effects of this and other policies on the delivery of the Work Programme remain uncertain.

Creaming and Parking - a potential pitfall of outcomes-related payments programmes is that providers can be tempted to focus their attention and services on those clients who are easiest to place into work, to the detriment of those who face larger barriers. The different levels of payment attached to the outcomes attained by the eight different Work Programme customer groups aims to counter this temptation. But will this be sufficient? The customer groups are very broadly defined. People within each customer group will vary considerably, with some facing much larger barriers to employment than others. Prime contractors appearing before the Work & Pensions Committee were generally agreed that ‘it was not yet possible to say whether the price differentials (between each Customer Group) accurately reflected the difficulties and costs of finding work for different client groups.’¹⁰ It remains to be seen whether the Government has got this differential payment system right. And it remains to be seen whether Primes and their provider networks invest the same amount of energy in helping all people within each customer group, such that creaming and parking is avoided.

Not all workless people are eligible - many workless people fall outside the Work Programme customer groups. With JCP making significant job cuts, it will be important to ensure that the needs of the many workless jobseekers who are outside the scope of the Work Programme are not overlooked and that all jobseekers receive appropriate support.

Rurality – both of the South West’s CPAs contain large rural areas. Economies of scale may exist for those delivering in urban areas, a point that was highlighted by the Work & Pensions Committee¹¹ who were, ‘particularly concerned that participants in rural or remote areas and areas where job opportunities are few should not be neglected’¹².

Local economies - economic conditions vary considerably from place to place. The structure of the Work Programme is such that providers may have a strong incentive to focus on areas where jobs are most abundant. Primes could adjust the level of payments they make to suppliers in different areas to compensate for this. But will they? And what complications might this introduce into local delivery?

⁹ *Universal Credit: welfare that works*, DWP, Nov 2010, Executive Summary, p. 3

¹⁰ Work and Pensions Committee, April 2011, p. 26

¹¹ *Ibid.*, p. 30

¹² *Ibid.*, p. 4

Seasonality - seasonality may also affect delivery of the Work Programme in rural and tourism-dependent parts of the South West, where vacancies rise and unemployment declines during the summer.

Delivery in the South West

That the Work Programme is a flagship government programme is undeniable. Ultimately, partners and stakeholders in the South West will want to know whether this programme is delivering the right services to the right people in the right places. The report seeks to understand better the Work Programme's chances of success within and across the South West by reviewing the data available on Work Programme Customer Groups and the outcomes of previous welfare-to-work programmes. This provides important baseline information for those with an interest in monitoring the performance of the Work Programme in their local areas. Our analysis shows the Work Programme faces a range of challenges. Key issues are:

- The indicative contract volumes are such that only a proportion of people in some customer groups, notably ex-IB clients, will be able to be supported.
- The contract volumes in each CPA do not closely match the distribution of eligible customers in each CPA, suggesting that there should be some flexibility to vary volumes across customer groups.
- Concentrations of Work Programme customers will be found in particular areas. Many of these will be urban areas, although deprived rural areas in places such as Cornwall do also stand out. Conversely, there are a number of large geographical areas (in the Cotswolds, North Wiltshire, Dartmoor and East Devon, for example) where the number of Work Programme customers is likely to be very small. This raises questions about whether delivery models will vary in different regions (e.g. more group work in urban settings and one-to-one mentoring or telephone-based support in rural areas).
- In terms of IB and ESA clients, a very high proportion of claimants are affected by mental health issues. Thus, a good understanding of the nature, causes and management of the range of mental health conditions will be essential to the Work Programme's effectiveness.
- People who are long-term unemployed are often seeking low-skilled jobs. People with low skill levels often only compete for jobs at a very local level. Young people who are long-term unemployed are more likely to be looking for jobs in Sales and Customer Service Occupations. People aged 25 and above are more likely to be looking for jobs in industry - in Skilled Trades and as Process, Plant and Machine Operatives. Older people are significantly more likely to be looking for jobs in the higher level occupations.
- The state of the economy will have a considerable bearing on the success, or otherwise, of the Work Programme. Differences in local economic conditions are very clear, with

employment rates ranging from 68% in Torbay to 79% in South Gloucestershire. The challenges facing Work Programme providers in areas such as Torbay will feel very different to those facing providers in areas of high employment. The extent to which a focus on employment creation, as well as helping individuals to compete for jobs, is appropriate or affordable in areas such as Torbay may be worthy of discussion. How Prime providers monitor and allow for this, perhaps through differential payment rates to sub-contractors, may be important to the overall success of the Programme and something that partners may be keen to follow.

- There are significantly more people chasing each available vacancy in deprived areas, such as Plymouth, Torbay, Cornwall, Bristol and Swindon.
- There is a strong link between the outcomes achieved by welfare-to-work programmes and the health of the labour market. The performance of previous programmes thus provides a strong indicator of the possible performance of the Work Programme. Our analysis suggests that New Deal job entry rates in the South West exceeded those required to meet Work Programme minimum expectations for long periods of time, up until the economic downturn. The good news is that the Work Programme's chances of success may be higher in the South West than in some other regions. The caveat is that New Deal job entry rates in the South West have been significantly below those required to meet the minimum performance expectation since the onset of the recession. Work Programme modelling has been based on Office for Budget Responsibility (OBR) forecasts for continued economic recovery. However, confidence remains weak, there is a lack of clear direction in the economic indicators at present and the outlook remains uncertain.

Will the Work Programme deliver in my area?

In the name of simplicity, the Government has applied uniform contract values across all geographical areas. The challenge, of ensuring that financial incentives and contractual obligations are sufficient to ensure full coverage, has been passed down to Prime providers. How they go about applying this within their delivery networks will be an issue of concern to a range of local partners and should be closely monitored. To enable this to happen, performance information must be made available at the local level, broken down by both provider and geography.

How can partners help?

Just as partners and stakeholders in the region have an interest in how the Work Programme performs in their localities, they, too, through collaborative working, can help support Work Programme delivery.

- **Sharing Lessons** - many lessons will have been learned with regard to the needs of the client groups and the nature of local economies and communities. These lessons should inform the programme design and delivery, but how do we ensure that these lessons are captured and shared?

- **Work Programme - Is it Working?** – the Work Programme is set to make a major contribution to tackling worklessness. Understanding if it is working for individuals and communities will be a key concern for stakeholders. *What are the key things that stakeholders would wish to see monitored?*
- **Joining up** - to be effective, initiatives aimed at tackling worklessness will need to be integrated into the wider economic development and regeneration strategies of local areas. For this reason it is essential that the delivery of the Work Programme is viewed not simply as the discharge of a private contract, but as a contribution to a much wider public mission. Primes and their supply chains need to develop effective working relationships with strategic agencies such as local authorities and partnerships such as LEPs, to maximise the impact of the available resources and to ensure that the relevant services are delivered in a coordinated way. *How should Primes and their supply chain be linking with broader local strategies?*
- **The delivery system** - the risks inherent in the delivery system are clear. 'Do more with less' is the underpinning principle. But is the differential in the payments system sufficient to prevent the problems of creaming and parking, and what about providers operating in those areas with tougher labour markets? The chances of Primes struggling or of patchy performance are significant. *How do we support the delivery system to be effective in all areas and to minimise the risks?*
- **Co-ordinating Employer Engagement** - with the extensive publicity that has accompanied the preparation for and launch of the Work Programme, one might be forgiven for thinking that this is the only game in town. Yet that is far from being the case. Other programmes and initiatives are available for workless people via the range of JCP offers. In addition, local authorities may be engaged in supporting initiatives to improve employment opportunities in their area. A major challenge will be to ensure that these agencies do not all focus on the same employers whilst leaving others untouched. *How do we create a coordinated and effective approach to employer engagement?*