Route2Work

Policy Exchange

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Ed Holmes and Matthew Oakley

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About the Authors

Ed Holmes is a Senior Research Fellow in the Economics & Social Policy Unit and works on economic and social policy; primarily public spending, taxation policy, welfare reform and fiscal consolidation. Ed read History at Gonville and Caius College, Cambridge concentrating on global financial regulation and management at the Judge Business School where he studied systemic risk and business economics. Prior to joining Policy Exchange, Ed worked for a public affairs company and in Parliament.

Matthew Oakley is Head of Economics and Social Policy at Policy Exchange. His team focuses on welfare reform, growth and the UK economy, public sector reform and financial policy. As well as reports on the public sector pay premium he has recently published on: the next steps for tackling unemployment and benefit dependency; and areas where government must focus to boost growth in the long-term. Prior to joining Policy Exchange he was an Economic Advisor at the Treasury. His roles at the Treasury included working on property tax strategy, microeconomic analysis of the labour market and welfare reform and on medium-term tax strategy. He has an MSc in Economics from University College London, where he specialised in labour economics and econometrics. Matthew was appointed as a member of the Social Security Advisory Committee in January 2013.

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Executive Summary

Work Programme – a step in the right direction

Since coming to power, the coalition government has introduced a wide range of changes to both the benefits system and the system of employment support in Britain. One of the most important reforms has been the introduction of the Work Programme, the coalition's flagship welfare to work scheme for helping the long-term unemployed and disadvantaged into work.

This is an entirely outcomes-based, payment-by-results model of outsourcing that aims to help long-term benefit claimants into a job or jobs that last cumulatively for six months and over. It involves 18 prime contractors and around 1,100 supply chain partners and is projected to deal with 3.3 million claimants in total by 2015/16. Providers will have responsibility for claimants for up to two years at a projected cost to the exchequer of £3-5 billion over a total of seven years up to 2018.

For many claimants it will likely be a significant improvement over historic employment support programmes. However, significant concerns have been raised over the performance of the Work Programme since it was introduced. These have included comments and analysis from claimant advocacy groups, the media, the Opposition, the Work and Pensions Select Committee and Public Accounts Committee. Many of the criticisms have been based on results from the first release of performance data from the programme. This led many to argue that, with job outcome (six months of cumulative work) rates of 3.7% as of July 2012, the programme has been a failure. This is not a view that we share.

The key reason is that it is too soon to properly judge the performance of the scheme: many participants could not have entered and held a job for up to six months because they have only just joined the scheme; and, for others, the ingrained problems that they face can take significant time to tackle. This means that we will only be able to judge the success of the scheme once it has been running for much longer.

There are also broader considerations:

- Historic estimates, built into the DWP contracts, of the proportion of claimants who would have moved into work without Provider help ("deadweight" or the "non-intervention baseline") did not account for the relatively low rate of economic recovery and job creation;
- Provider performance and minimum performance level targets were also set to be deliberately stretching, and;
- There have been numerous issues with the numbers of individuals being transferred to providers and the range of barriers that they face.

Taken in this context, the Work Programme represents a significant step forward in the provision of employment support for the long-term unemployed and disadvantaged. There are strong reasons to believe that results will improve over time, in particular, it is likely that the next release of data will show a marked improvement compared to the first release. There is also evidence that as well as spurring efficiency, tight budgets and a challenging economic climate have not squeezed out innovation in the support provided by the Work Programme. This means that it is likely that the provision of support and the associated results will improve over time. However, it is also clear that there are still problems with the current structure of the programme.

Reasons to reform employment support for the very-hardest-to-help

Ensuring adequate support

For the very-hardest-to-help individuals, the logic of a payment-by-results system, where providers are incentivised to target scarce resources in a way that maximises job outcomes, can mean that they are 'parked' without the resources and support that they need. There is evidence that this is happening.[1] As the Public Accounts Select Committee has found:

> *'There is some emerging evidence that those who are hardest to help are being parked with minimum support, and therefore little prospect of moving into work.'*[2]

The existence of parking is not a criticism of individual providers or advisors working on the front line. The overwhelming majority of these individuals and organisations will be driven to help as many people as possible to tackle the barriers to employment they are facing and to help them into sustainable employment. However, to do this in a world of limited finances and a tough labour market, organisations and individuals have to make decisions over where resources are spent in order to deliver the best outcomes overall. In this sense, 'parking' is a rational response to the incentives provided in the contract system, particularly when there is not sufficient money available to support the very-hardest-to-help.

Seen in this light, parking is simply the method by which the programme delivers the best outcomes for the highest number of individuals. However, ultimately it means that the Work Programme in its current form may not be able to provide effective support consistently for the most vulnerable claimants.

A mixed economy of providers

An equally large potential problem is that that the structure of the Work Programme has appeared to squeeze out small specialist providers (particularly in the third sector) who have a particular focus on tackling barriers to work for the hardest-to-help groups.

The Work Programme was contracted with a small number of large providers on the 'Freud' model:[3] 40 Work Programme contracts are split across 18 package areas, with two or three providers in each region. This has the effect of limiting risk to the government by reducing the likelihood of Provider failure: these large firms must be well capitalised to bid for the programme and so are less likely than smaller, thinly capitalised firms, to go bust.

1 For example, see 'Does sector matter? Understanding the experiences of Providers in the Work Programme', TSRC 2013, www.tsrc.ac.uk/LinkClick.aspx?fileticket=oJrkSIkyQyg%3d&tabid=873

2 www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/936/936.pdf, p. 5.

3 Freud D, 'Reducing dependency, increasing opportunity: options for the future of welfare to work', DWP, 2007.

However, the concept behind this model is that prime contractors will develop supply chains that bring smaller organisations on board in order to deliver specialised and targeted interventions at hard to help groups. While this approach was strongly emphasised in DWP's Commissioning Strategy, this vision does not seem to have been achieved. As one commentator noted in evidence to the DWP Select Committee:

> *'The way funding is currently geared, I think the programme will actually start to strip out specialist interventions, will start to focus on those people that are closest to the labour market, and the needs of people who are the hardest to help will be excluded.'*[4]

Smaller-scale and specialist provision is not universally effective. As with all sectors, skills and ultimately performance vary across different organisations. However, developing a programme structure which supports the best providers to stay in the market in order to provide personalised, tailored and specialised support should be a goal of the employment support system.

Reforms needed

With these criticisms in mind, reforms will be needed to ensure both that the very-hardest-to-help individuals receive the support they need and that a mixed economy of employment support providers is maintained. Potential solutions must be cost effective for the government.

In part, these issues can be tackled by a more ambitious approach to personalisation of support and targeting of interventions. Our previous report, *Personalised Welfare, argued that instead of leaving individuals parked with Jobcentre Plus for up to a year before receiving more intensive support through the Work Programme, a new diagnostic tool should be developed* that allowed support to be provided on the basis of need rather than on the basis of primary benefit type and length of claim. Using such a tool would allow support to be given right from day one of an unemployment claim for those with the greatest barriers to work, with contracts to private and third sector providers based on the extent and depth of these barriers, rather than just benefit type.

Such an approach is particularly attractive since, by creating a better assessment of need, it would allow resources to be more accurately targeted on those furthest from the labour market and also allow much higher payments to providers supporting these individuals. This would reduce the targeting of resources away from relatively hard-to-help groups and, by implication, reduce parking.

Once this new system has been developed and implemented we believe that Work Programme contracts based on need rather than benefit type will be the best framework for the vast majority of hard-to-help claimants to be supported. However, even with a more effective segmentation and personalisation tool, there is likely to be a significant minority of claimants for whom the Work Programme is inappropriate.

The key concern is that a pure payment-by-results contract based on delivering sustained job outcomes within the current tight financial envelope will simply not be adequate to give providers the right incentives to assist the very-hardest-to-help claimants.

For this reason, we believe that the very-hardest-to-help individuals who are eligible for the Work Programme should instead be given support through a new

4 Richard Johnson, House of Commons Work and Pensions Committee, 'DWP's Commissioning Strategy and the Flexible New Deal', Second Report of Session 2008–09, Volume I, Report, together with formal minutes, to be printed 25 February 2009, Q113.

employment support system, *Route2Work*. Individuals would become eligible for *Route2Work* through three main routes: segmentation through Jobcentre Plus either on day one of a benefit claim, after leaving the Work Programme without finding work or through referral from the Work Programme itself. Here, providers would be encouraged to identify the 5% of individuals referred to them that they think are least likely to find sustainable employment through the Work programme. Figure ES1 outlines these routes.

Figure ES1: Illustrative access point to *Route2Work*

Work Programme providers to refer up to 5% of claimant attachments a year to Route2Work	• Primary route for claimants judged by Work Programme providers as being the "very-hardest-to-help" and unlikely to enter sustained employment within the financial constraints of the Work Programme. • In the initial stages, this should mean providers having the option to 'give back' claimants judged to be the very-hardest-to-help and giving them to access to *Route2Work*, up to a maximum of 5% of their new attachments a year. • This quota should be revised over time dependent on capacity in *Route2Work* and ongoing evaluation.
Individuals eligible for post-Work Programme support referred on a case-by-case basis	• For claimants who do not find sustainable employment in the Work Programme, appropriate provision should be found. • This could be normal Jobcentre Plus support, Ongoing Case Management, Community Action Programme, Work Choice, ESF Support for Families with Multiple Problems, or *Route2Work*, to be determined on the basis of need. • This option would enable a route to alternative support or assisted employment and ensure claimants remained engaged in moving towards the world of work even if immediate employment is not an option.
In the longer-term, referrals of the very-hardest-to-help should happen from day one of an unemployment claim	• To ensure that claimants are not parked without effective support before entry into the Work Programme, entry to both the Work Programme and *Route2Work* should be based on an assessment of needs on day one of an unemployment claim. • This assessment would identify claimants who would benefit from more intensive and targeted support through the Work Programme and *Route2Work*.

To tackle the issue of smaller-scale organisations being squeezed out of the Work Programme, the *Route2Work* programme must ensure that consortia of small-scale local providers, local authorities and third sector organisations providing wrap-around support are guaranteed footfall through *Route2Work*. Social enterprises providing traditional employment support or access to intermediate labour markets should also be assured a greater portion of contracts.

Both of these goals can be achieved by directly contracting with these organisations. However, economies of scale could also be secured by working with larger organisations that are contractually required to guarantee footfall to these smaller organisations. This approach could couple the existing infrastructure and caseload management experience of the larger contractors with specialist interventions from smaller providers. Under this latter approach, because of the risks of gaming the system, existing prime providers in the relevant contract package areas would not be eligible to bid for the contracts.

Given the difficulties that some of these smaller organisations have had in achieving a direct (and indirect) route to market, it is clear that to do this the structure of contract payments in *Route2Work* needs to be radically different to that used in the Work Programme. We believe that a more radical form of the Employment Zone model might be appropriate for this group of very-hard-to-help individuals, at no significant cost to the exchequer. This would roll up estimated benefit spend for the contract period and pay this to providers upfront. The providers would then have a duty of care for at least 24 months, under which they are responsible for all costs of interventions to help the individual towards and into work. They would also be liable for Universal Credit costs over the contract period.

Providers would then get to keep all the money that was not spent, while the exchequer would accrue savings through additional tax revenue from any additional employment and the longer-term benefit savings if claimants stay in work following the contract period.

While this change in the profile of funding will ease cash flow constraints for smaller providers, they will have a liability to reimburse DWP for benefit costs during the contract period. This means that there will still be a large element of risk in the contracts. For those individuals placed on the scheme that do not find work, any expenditure on their support will lead to a loss for the provider. Given the deep barriers to work that many of these individuals are likely to have, without further investment in the scheme and payments to providers, it is unlikely that support will be sufficient to meet the needs of individuals.

For this reason, we believe that the government should explore whether the contract period should be extended to between three and five years. This would increase the level of upfront funding and allow a longer period in which providers could work with claimants to get them into work and be rewarded with the savings from reduced benefit payments.

Further outcome payments should also be given to providers. These should give additional payments for employment outcomes and also consider whether intermediate outcomes, which move a claimant closer towards the labour market or tackle specific barriers, could be rewarded. To finance these extra payments and to improve the flow of funds into the scheme more generally, government should lever alternative funding into this market. This should involve both combining existing funding for local and central government schemes that overlap with this new approach and encouraging investment through social finance.

The use of social finance in this respect is currently under-developed. However, by providing guaranteed funding through *Route2Work* and ensuring that additional resources are targeted on the very-hardest-to-help, we believe that government can provide a vital spur to investment. The approach should be implemented before the next round of Work Programme contracts are let and should be informed by a pathfinder.

One obvious route through which an effective pathfinder process could be launched is through piloting as part of the City Deals process. The City Deals provide the opportunity to join up central and local government finances with social investment and, by starting off on this small scale, the Cabinet Office *Social Impact Fund* could be used to further stimulate and encourage social invest.

Conclusion

This report outlines an important new programme of support for the very-hardest-to-help benefit claimants. By bringing together public and private investment for these groups, it is hoped that *Route2Work* will prove more successful than any of its predecessors in helping these individuals towards and into work. By doing so it will tackle the problems of parking of the very-hardest-to-help and exclusion of smaller specialist providers that are both evident within the Work Programme as it is currently constructed.

Summary of recommendations

Recommendation 1: The government should continue to work to develop a diagnostic tool to assess how far benefit claimants are from the labour market and the support needs they have. Alongside advisor discretion, this should be used to target intensive employment support at those with the greatest barriers to work. This will need to be more ambitious than models developed in other countries, including Australia, which means that involvement of other government departments and private sector data experts is essential.

Recommendation 2: This tool should form the basis of the next round of Work Programme contracts, with access and payment levels based on the assessment of an individuals' distance from the labour market. This means that it will need to be piloted in several Jobcentre Plus districts in 2014 and pre-empted by a consultation in 2013. These pilots should provide results with which further refinements can be made.

Recommendation 3: For the very-hardest-to-help individuals, DWP should recognise that, within the current financial envelope, payment-by-results contracts based wholly on sustainable employment are unlikely to be financially viable because of the very deep barriers to work these individuals are facing. Individuals with this level of support needs should have support provided through a new programme, *Route2Work*.

Recommendation 4: Work Programme providers should be allowed to select up to a certain proportion of the individuals newly placed with them for *Route2Work*. We believe that this proportion should initially be set at 5% of their total new attachments per year. This would mean that at least 25,000 individuals a year could be placed into a new model of support through this route. Once identified by the provider, these individuals would be transferred to *Route2Work*.

Recommendation 5: Claimants requiring the most intensive and personalised support leaving the Work Programme after not finding sustainable employment after two years should be given access to *Route2Work*. At the outset we believe that around 10% of claimants leaving the Work Programme should have access to *Route2Work*. This would mean *Route2Work* providing support to more than 65,000 individuals exiting the Work Programme each year and over 100,000 individuals overall.

Recommendation 6: The government should ensure that contracts for *Route2Work* guarantee footfall for smaller-scale and third sector providers and social enterprises when they are let. Tendering documents should give particular focus to contracts that guarantee use of:

- Consortia of small-scale local providers and local authorities working together to provide a wrap-around support service. This might be led through the City Deals process, or through broader local coordination through Local Enterprise Partnerships; and
- Social enterprises providing support to individuals or routes to intermediate labour markets.

Both of these goals can be achieved by directly contracting with these organisations. However, economies of scale could also be secured by working with larger organisations that are contractually required to guarantee footfall to these smaller organisations. This approach could couple the existing infrastructure and caseload management experience of the larger contractors with specialist interventions from smaller providers. Under this latter approach, because of the risks of gaming the system, existing prime providers in the relevant contract package areas would not be eligible to bid for the contracts.

Recommendation 7: Contract payments in *Route2Work* should be based on an upfront transfer of total expected benefit payments for cohorts of claimants over the contract period, plus the estimated costs of programme support that would have occurred in absence of the new scheme. The provider would then be liable for reimbursing DWP for benefit payments to the individual over the contract period. This means that any benefit savings that accrue from claimants moving into work would be kept by the provider.

Recommendation 8: As well as an upfront funding system with benefit cost claw back, additional payment systems for providers should be introduced. These should provide further outcome payments for sustainable work and also consider whether movements towards work might be rewarded. This should learn from programmes such as ESF Support for Families with Multiple Problems, Employment Zones, Work Choice and international examples of the use of intermediate labour markets. Extended contract periods of between three and five years should also be considered.

Recommendation 9: Additional finances should be levered into *Route2Work* from existing local and central government programmes that overlap with the new approach and from non-state sources. Private investment through social finance should also be encouraged.

Recommendation 10: The government should work with existing and proposed social enterprises to support bids for EU Structural and Investment Funds to top up government financial support through *Route2Work*. This should also involve defunding/cancelling existing projects which overlap/duplicate one another and utilising available funds such as the 2014–20 EU Structural and Investment Funds in a more efficient way.

Recommendation 11: The government should launch a consultation into the use of social finance in the welfare support market. This should assess both whether there are barriers to growth in this market and what government might do to facilitate further investment.

Recommendation 12: *Route2Work* should be implemented before Work Programme contracts are retendered. To allow for time to learn from a pathfinder process and to build an effectively designed programme, contracts should begin in mid-2014.

Recommendation 13: A pathfinder for this approach should be piloted through the City Deals process. Benefit costs and funding from central and local government schemes should be combined under this framework and social investment attracted with use of the Cabinet Office *Social Impact Fund*.

Recommendation 14: Once capacity has been built, if the approach is shown to be successful through evaluations, the government should consider whether there is scope to bring more hard-to-help claimants into *Route2Work*. This could involve Work Programme providers being allowed to "give back" more than 5% of their caseload; more Work Programme "leavers" being given access to the programme; and a greater number of day one referrals once a segmentation tool is in place.

The contracting method might also change in order to provide further savings to the exchequer. In particular, it should be considered whether the approach of providing full upfront benefit costs should be changed. For instance, over time, it might be possible to move to a situation where a smaller percentage of benefit costs are paid upfront (for instance 90%) with the expectation that providers are able to remain financially viable as their performance has outstripped this level.

1
Work Programme, the Basics and Performance So Far

What is the Work Programme

The coalition government's welfare-to-work policy for the long-term unemployed and disadvantaged is based around an ambitious new approach, the Work Programme, which started in June 2011. It is an all-encompassing, national scheme led by private and third sector providers. It is based on a payment-by-results model, where providers are rewarded based on their success in finding sustainable employment for people placed with them.

Welfare to work schemes involving payment-by-results have evolved significantly over the past decade, starting with Labour's 'Welfare to Work' Budget in July 1997. Schemes have included: Employment Zones in 2000; Pathways to Work in 2003; and the flexible New Deal in 2009. This policy direction has culminated in the Work Programme's aim of an entirely outcomes-based, payment-by-results model of outsourcing, involving 18 prime contractors and around 1,100 supply chain partners and 500 voluntary groups.

It is projected to deal with 3.3 million claimants in total by 2015/16[5] for which providers will have responsibility for up to two years at a projected cost to the exchequer of £3–5 billion over a total of seven years up to 2018, with the aim of filling some 300–400,000 vacancies on a sustained basis.

Referrals and payments

Unemployed benefit claimants are referred from Jobcentre Plus (JCP) to the Work Programme at a certain point in their claim, largely depending on the primary benefit they receive and their age. As Table 1.1 shows, there are nine different 'payment groups', with varying points of referral and payment levels differentiated between them (See Table 1.1).

It is worth noting that the vast majority of unemployed people will have no contact at all with the Work Programme. Around 87% of Jobseekers Allowance (JSA) claimants do not spend long enough on benefit to reach the point where they are referred to the Work Programme.[6] For those who do receive a referral to the Work Programme, support is based on a "black box" approach. Aside from minimum standards defined by the Provider as part of the bidding process, this is largely independent of government control and providers are able to mandate a wide range of activities in addition to the standard requirements that continue to be imposed by JCP.

5 Work Programme cumulative attachments, DWP Tabulation Tool.

6 Off flow rate, Jan–March 2011.

The Work Programme payment structure consists of three types of fee payable to providers: an 'Attachment Fee' when a claimant joins the programme (being phased out in June or July 2014 depending on region), a 'Job outcome' fee payable when a claimant has been in work up to a cumulative total of six months and a 'Sustainment Outcome' fee, payable for every further four continuous week period the claimant is in work to a maximum time limit varying by the Payment Group.[7]

Table 1.1: Work Programme payment groups and referral details

Payment group	Description	Referral period (mandatory unless specified otherwise)
1	JSA customers aged 18 to 24	From nine months
2	JSA customers aged 25 and over	From twelve months
3	JSA customers given early access to the Work Programme	From three months (voluntary or mandatory)
4	JSA customers who have recently moved from IB following a work capability assessment	From three months
5	Voluntary ESA customers including contribution based, work related activity and support group	At any time (voluntary)
6	New work capable income-based ESA customers/expected to be capable of work within twelve months in Work Related Activity and Support Group	From date of reassessment/ when expected to be ready for work within twelve months (since November 2012)
7	Income-related ESA customers who have recently moved from IB following a work capability assessment placed in Work Related Activity and Support Group	At any time claimants are fit for work within twelve months
8	Voluntary IB and Income Support (IS) customers	At any time (voluntary)
9	Prison leavers who claim JSA (since April 2012)	Anytime from first day a claim is made of release date

Source: DWP, Information note on statistics for Work Programme http://statistics.dwp.gov.uk/asd/asd1/work_programme/work_prog_note.pdf

On the face of it, this approach is attractive since, after July 2014, Government will only pay if providers succeed in finding the individual sustained employment. It also provides an effective way to unlock future benefit savings. This should allow providers to innovate, boosting quality and value without risking taxpayer money. The transfer of risk to the private sector aligns taxpayer interests with private interests and has been the subject of extensive academic research.[8] Several other countries such as Denmark, Germany, Canada and Israel have successfully developed similar schemes.[9]

Overall, this is a sophisticated and well-designed system. For many claimants it will likely be a significant improvement over historic employment support programmes. Unlike the preceding scheme, flexible New Deal, there is a significantly differentiated payment system, provider intervention is over a two year period rather than one, sustainable job outcomes are measured over up to two years rather than 26 weeks, while referrals will take place at the same time (twelve months) or earlier. These are all welcome reforms. However, significant

7 Work Programme ITT, DWP 2010, www.dwp.gov.uk/docs/work-prog-pricing-guidance.pdf

8 For example, see Steve Aos, Washington State Institute, Jackie Mould, Be Birmingham and Michael Little of the Darlington Social Research Unit.

9 Wright S, 'Contracting out employment services: lessons from Australia, Denmark, Germany and the Netherlands', Child Poverty Action Group, 2008.

concerns have been raised over the performance of the Work Programme since it was introduced.

Performance so far

These concerns became most vocal following the first release of performance data from the programme. This led many to argue that, with job outcome rates of 3.7% as of July 2012, the programme has been a failure. For example, the Shadow Secretary of State for Work and Pensions has characterised the Work Programme as being 'literally worse than doing nothing.'[10] These are sentiments have been widely echoed in the media[11] and elsewhere.[12]

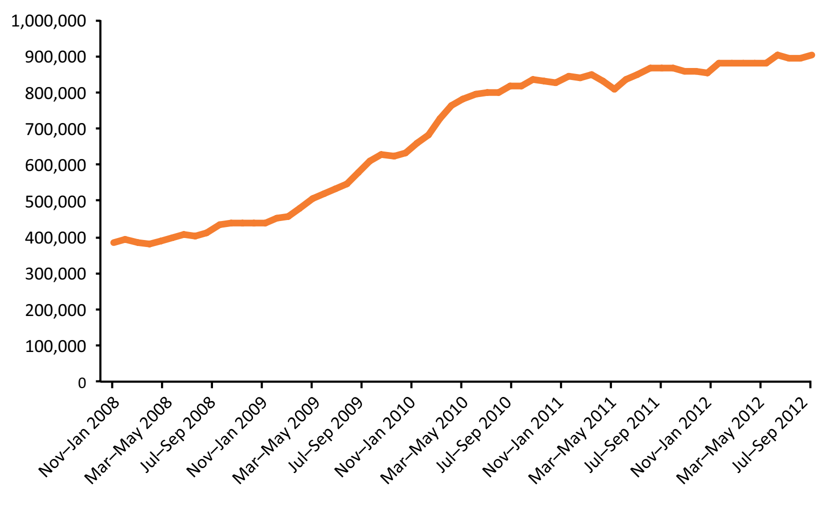
This is not a view that we share. For one thing, this statistic includes many who could not have entered and held a job for up to six months and thus be counted as a Job Outcome. Greater success was achieved on a cohort basis with 8.6% of those referred when the programme started in June 2011 achieving a Job Outcome as of July 2012.

In addition, assistance for claimants with ingrained problems can take more than a year to be effective and were neither designed nor anticipated to show results this soon. Nevertheless, it is certainly true that, based on the statistics released so far, measured performance across the industry has been below the DWP's estimate of what the minimum performance levels should be. However it is both too soon to properly judge performance and there are a number of additional factors.

The scale of the challenge

A clear factor to consider when assessing the performance of the Work Programme is the current economic climate. Figure 1.1 demonstrates that the number of people unemployed for more than a year has increased by over 520,000 or 137% since the financial crisis.

Figure 1.1: Unemployment over 12 months



Source: Labour Force Survey. Seasonally adjusted, all aged 16 and over.

10 www.labour.org.uk/the-road-back-to-full-employment--speech-by-liam-byrne,2013-05-17

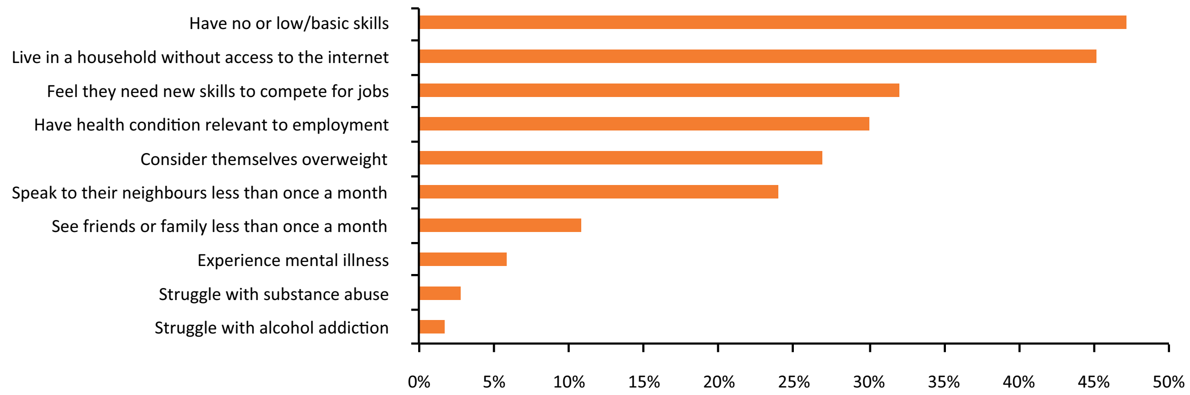
11 www.mirror.co.uk/news/uk-news/work-programme-450m-back-to-work-scheme-1460472

12 www.bbc.co.uk/news/uk-politics-21532191

Combined with relatively weak growth in the UK economy, this large increase in the number of long-term unemployed will make it difficult to place those furthest from the labour market into sustainable work as they have to compete with far more claimants who are closer to the labour market than would usually be the case. In addition, the ongoing reassessment of people claiming Incapacity Benefit presents a further challenge for the Work Programme. As table 1.1 outlined, those judged to be capable of some form of work will be referred to the Work Programme for support relatively quickly. However, they may have spent years if not decades out of the labour market, meaning that finding these claimants sustainable work in a comparatively weak labour market is formidable challenge.

It is also worth considering what characteristics claimants on the Work Programme have more generally. While there is some data on the barriers to employment that the unemployed have (for example, they are twice as likely to suffer from a long-term illness as the general population)[13] precise diagnostics across the Work Programme are not available. Given they are generally more long-term unemployed, these barriers are likely to be significantly worse than the unemployed population in general. Figure 1.2 shows one provider's analysis of its claimants.

Figure 1.2: Work programme claimant profiles



Source: A4e. Customer surveys: Management Information; A4e Big Conversation Winter 2010, Summer 2011, Winter 2011.

Almost half of claimants cite low or basic qualifications and 30% cite a health issue relevant to their employment prospects. This highlights just how difficult the challenges posed in assisting the Work Programme clients back to work are. While providers are being paid to tackle these issues, 'the fact that many claimants have been unemployed for three years or more clearly demonstrates that previous programmes, as well as the provision from JCP, has not proven effective for these claimants. In short, a weakened labour market and significant barriers to employment faced by many individuals referred to the Work Programme demonstrate that the challenge of finding these individuals sustainable employment should not be underestimated.

13 General Lifestyle Survey, Office for National Statistics 2011.

'Worse than doing nothing'?

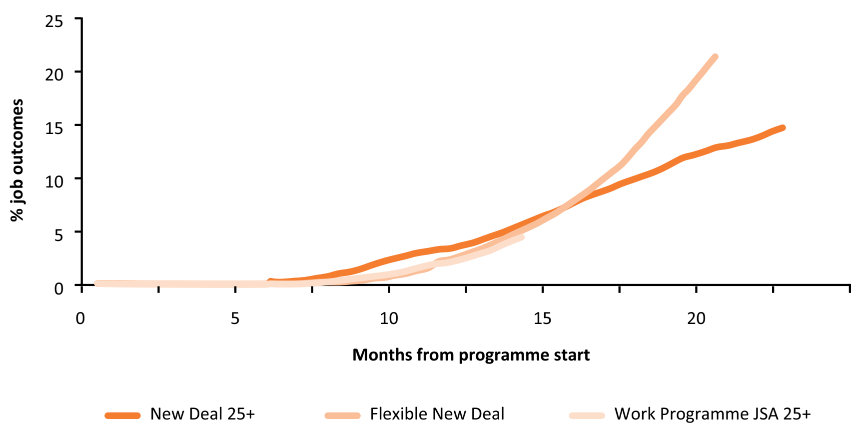
The scale of the challenge and difficult economic climate are clear, but the fact that performance was measured as being below the non-intervention baseline still raises the question of whether the support provided through the Work Programme has been, as a number of commentators have suggested, worse than doing nothing.[14] Overall, we believe that there are a number of reasons to believe that the performance of the programme overall is significantly stronger than the initial figures suggest; we outline a number of these reasons below. However, there remain concerns that the support given to individuals in society who are the very furthest from the labour market is not adequate.

Better next time

One clear reason to believe that the Work Programme may perform better than the initial results suggested is that they did not fully capture the underlying performance of the programme. First, the statistics release for results up to July 2012 only showed an early, still and partial snapshot of what is a five-year programme and, as we have seen, these early statistics are very limited and easily misleading if not set in their proper context.

Second, performance should also be compared to previous schemes that aim to help these very hard to help groups. In this respect, Figure 1.3 demonstrates that despite ongoing economic difficulties, a fast tendering process and the programme being rolled out within as little as two months of the contracts being awarded, the Work Programme has shown similar early results to previous programmes for Jobseeker's Allowance claimants over 25. The industry's trade association, ERSA, has released figures showing job starts (i.e. claimants starting work) of between 18% and 23%, roughly equivalent to the anticipated 20% after six months and this also compares favourably to National Audit Office estimates.[15] Though inadequate evidence for judging the long-term success of the programme, this measure shows early promise of significantly better job outcomes and sustainability results as the programme progresses.

Figure 1.3: Work Programme performance relative to legacy programmes



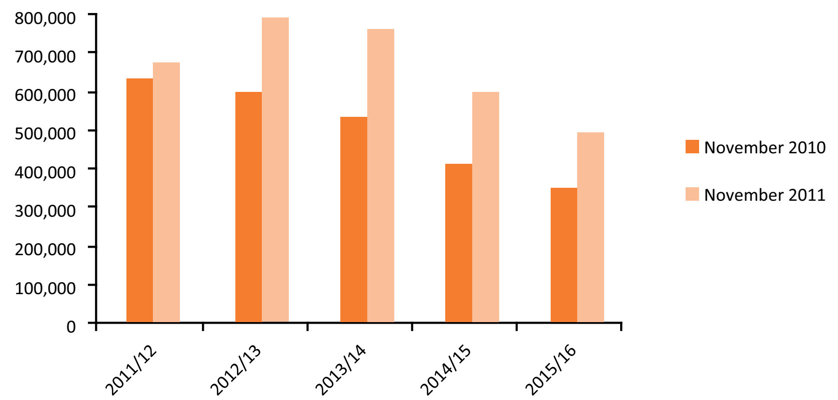
Source: Paul Bivand, Work Programme performance, CESI, 2012.

14 www.telegraph.co.uk/news/politics/9706074/Iain-Duncan-Smiths-Work-Programme-worse-than-doing-nothing.html

15 http://yesminister.org.uk/2012/02/03/ersa-releases-early-indicative-performance-figures-for-the-work-programme/

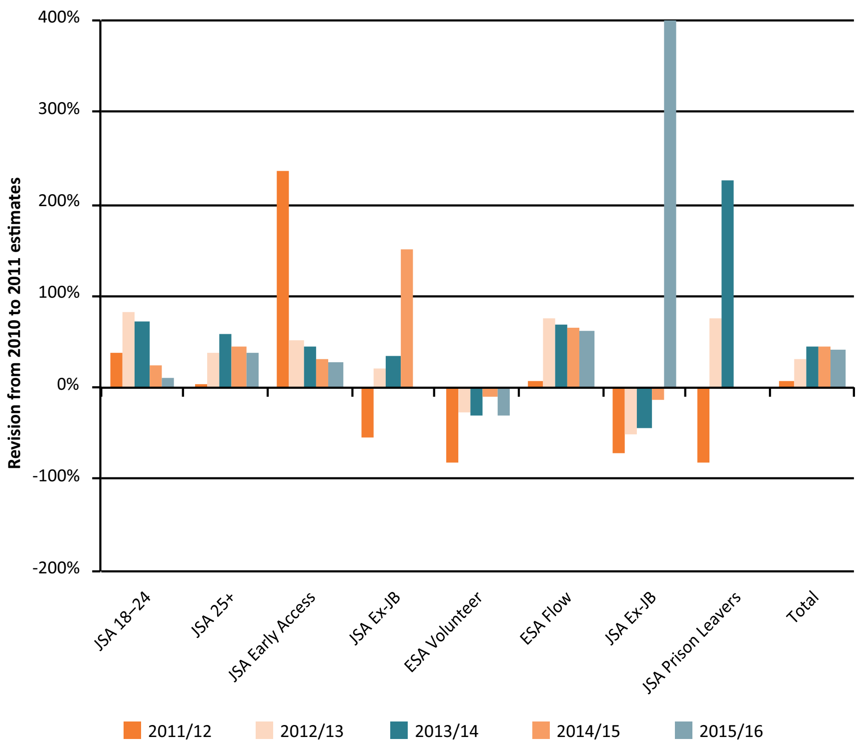
Experience of previous programmes also suggest that performance often takes some time to 'get going' as initial referrals are slow and it takes time for experience, capacity and procedures to become fully established. On the whole, the overall level of referrals was not something that Work Programme providers experienced problems with. Figure 1.4 demonstrates that referrals were significantly higher than expected in the early stages of the Programme.

Figure 1.4: Work Programme referrals, original and revised estimates



Source: 'Work Programme referrals and attachments: Inclusion analysis', CESI, www.cesi.org.uk/keypolicy/work-programme-referrals-and-attachments-inclusion-analysis

Figure 1.5: 2011 Work Programme referrals estimates as percentage of 2010 estimates



Source: DWP forecast Work Programme starts.

In the early stages, this may have helped to ease financial conditions, increasing attachment fees by some £115 million overall. However, these flows are very different from those initially anticipated, with referrals for JSA groups up substantially, former IB claimants (and ESA groups more generally) far lower, and with less consistency over the forecast period. Revisions have been very large, both downward and upward. Figure 1.5 demonstrates how 2011 referrals for different groups compare to estimates made in 2010.

> "Misallocation of resources, lack of capacity and uneven, unpredicted patterns of referrals are likely to have significantly affected the capacity of Work Programme providers to deliver support effectively"

The degree to which these figures differ from initial estimates when Provider bids were submitted highlights just how difficult the challenges posed in successfully fashioning provision for the long-term unemployed really are. Misallocation of resources, lack of capacity and uneven, unpredicted patterns of referrals (particularly at the start when many claimants who had been 'held back' from legacy programmes were released very quickly) are likely to have significantly affected the capacity of Work Programme providers to deliver support effectively.

Overall, there are strong reasons to believe both that the first set of results were not a true reflection of the underlying performance of the programme and that the next release of statistics will show a significant improvement. Further improvements should also be expected over time.

The right baseline?

Another problem with the assessment of Work Programme performance is the baseline against which their success is measured. The 'Invest to Save' model – the concept that the Programme would be paid for through savings to the benefits bill because participants who would otherwise be claiming would be working – requires a 'counterfactual' from which the savings can be measured. These estimates are then used to assess levels of 'non-intervention' (what would have happened in the absence of any Provider employment support based on historic job outcome performance) and minimum performance standards (the minimum level of employment outcomes above this Providers are expected to achieve).

It is clear that, if either of these is set too high, the resulting baseline will necessarily make results look poor. This is particularly relevant as we have seen a number of commentators suggesting that the original performance expectations of the Work Programme were set unrealistically high.

Most significantly, a National Audit Office report (NAO), based on statistical precedents in FND, estimated job outcomes significantly below that of DWP.[16] In terms of job entry, in contrast to DWP estimates of a 40% rate for the Flexible New Deal claimant group (i.e. excluding the new, potentially harder-to-help claimant groups now on the Work Programme), the NAO estimates that only 26% would achieve this status.[17] A Social Market Foundation study in 2011 also gave the similar figure of 27.8%, significantly below minimum performance expectations of DWP.[18]

Who is right in this dispute need not concern us here. Estimates of future job outcomes necessarily depend on assumptions which may or may not occur,

16 'Department of Work and Pensions: The introduction of the Work Programme', National Audit Office 2012.

17 'Introduction of the Work Programme', National Audit Office 2012.

18 'Will the Work Programme work?', SMF 2011, p. 9, www.smf.co.uk/files/7713/2310/6676/WP_analysis.pdf

in terms of labour market changes and the efficacy of employment support provision. However, there does seem to have been a desire to set 'stretching' targets[19] to challenge Providers to innovate and 'up their game'. This necessarily meant a significant risk these high expectations could not be met. This risk was made particularly large because of the slower-than-expected economic recovery which has taken place since the contracts were tendered.

For example, CESI's analysis has estimated that a 1% drop in annual GDP growth results in a drop in job entry rates of just under 10% and that job entry rates are considerably more dependent on changes in GDP.[20] Overall, we will only be able to fully assess outcomes towards the end of the Programme, several years away. In this respect, as one Work Programme executive commented, 'you would not judge the outcome of a marathon after the first mile.'

A more important issue is whether the Work Programme is providing appropriate, tailored employment support for the hardest-to-help and whether it is sustainable in its current form over the contract period should Providers significantly underperform expectations over the medium term.

Comparing to Jobcentre performance

Another reason why the Work Programme could appear to be underperforming is that performance could be erroneously compared to that achieved by JCP. Given often quoted data which suggests that JCP move around 75% of claimants off benefit within six months of an unemployment claim, this is unsurprising. However, even looking at this measure there would be good reasons to expect headline performance measures from the Work Programme to be below similar measures from JCP since, by its nature, the Work Programme deals with harder-to-help individuals.

A much broader point is that, such comparisons are not currently possible as there are no comparable data available to compare JCP and Work Programme performance on a like-for-like basis. Performance from the Work Programme is based on job starts and job sustainability, whereas performance of JCP is based on benefit off-flows. That means that, while Work Programme metrics focus on work, JCP metrics include movements onto other benefits, people who have been disallowed from benefit and people who dip into employment for a couple of weeks and return back to benefits immediately afterwards.

A previous Policy Exchange report, *Welfare Reform 2.0*, used DWP data to show that this meant that, in fact, by the sixth month of a benefit claim, only 38% of claimants using JCP find employment that lasts for the next eight months. This presents a very different picture of performance than that usually shown and clearly demonstrates that finding sustainable employment for benefit claimants can be extremely challenging.

This challenge becomes greater by the time that Work Programme providers have individuals referred to them. Since this can be up to a year after a benefit claim has started (and may be years after the claimant actually held a sustainable job),[21] barriers to work are likely to have deepened, motivation sapped and the probability of discrimination from employers increased.[22] In short, the support provided by JCP has failed for every individual that is transferred to the Work Programme, so it is unsurprising that this is a group for which it is harder to find employment and for which expected outcomes are lower than for the wider population of unemployed individuals.

19 www.nao.org.uk/report/the-introduction-of-the-work-programme/

20 'Long Term Unemployment in 2012', CESI 2012, www.cesi.org.uk/blog/2012/jan/nao-predicts-rocky-times-work-programme

21 In particular, the case of those being moved from Incapacity Benefit to JSA, many of who will have been out of the labour market for years, if not decades.

22 Holmes, E., & Oakley, M., (ed), (2011) Personalised Welfare: rethinking employment support and Jobcentres. Policy Exchange, London.

The hard-to-help client group for Work Programme providers warrants the approach taken where, unlike previous volumes-based supply contracts, a payment-by-results structure incentivises providers to develop sophisticated diagnostics. These can identify barriers to work such as self-esteem, experience, training, alcohol or drugs problems. These barriers can then be addressed with appropriate, tailored interventions paid for by the provider: training, therapy, CV building, mock interviews and confidence workshops, along with things like transport, childcare and caring costs, for example.[23] For more serious or difficult to address barriers which prime providers are unable to fulfil, this approach should enable specialist subcontractors to provide more niche interventions.

Box 1.1 outlines some of the interventions that are already being used under the Work Programme.

Box 1.1: Examples of innovation in the Work Programme

Innovative new ways of getting the hardest-to-help claimants into sustainable work are already evident through the Work Programme. For example:

- Future Clean – a programme run by the social enterprise Pluss employing people with complex disabilities, mental health and learning issues in a mobile car wash system operating across 10 locations, delivering experience and skills training across a range of disciplines.[24, 25]
- The Twist Partnership – a consortium of organisations operating as a social enterprise in partnership with Work Programme providers such as A4e to provide programmes sited in local religious and social centres to reduce language and cultural barriers to employment for ethnic minority and migrant communities, empowering its participants by promoting leadership through learning.
- Catch22's Project New Horizons – a learning and mentoring programme for at-risk NEETs, involving intensive residential weekends, an overseas expedition and a more traditional mentoring, workshops and support.[26]
- EOS' Employment Centres – warehouse-sized premises where claimants are able to develop skills in full-scale stimulated working environments responding to labour market-driven demands (Level 2 NVQs in Gaming Operations to enable employment in a 'super-casino' being built in Birmingham, for example).[27]
- Ingeus' Sports and Social Inclusion Programme – uses football and boxing activities to build claimant self-esteem, teamwork and motivation and develop relationships with local employers.[28]

Problems on the horizon?

Overall, the Work Programme represents a significant step forward in the provision of employment support for the long-term unemployed and disadvantaged. The use of outcomes-based financing secures value for money for the exchequer while providing incentives for providers to innovate and target resources into helping as many claimants as possible back into sustainable work.

The first set of results have led many to dismiss the scheme as a failure, however we believe that these views are both short-sighted and ill-informed. There are strong reasons to believe that results will improve over time, in particular, it is

23 'The Work Programme Invitation to Tender: Specification and Supporting Information', DWP 2010, p. 57. www.dwp.gov.uk/docs/work-prog-itt.pdf.

24 www.pluss.org.uk/future-clean

25 http://indusdelta.co.uk/story/social_enterprise_wins_reves_excellence_award/13144

26 www.catch-22.org.uk/ProjectNewHorizons

27 www.cbi.org.uk/media-centre/case-studies/2012/10/eos-adding-value-by-helping-people-back-to-work/

28 www.chroniclelive.co.uk/sport/football/football-news/former-nufc-stars-north-east-1376054

likely that the next release of data will show a marked improvement compared to the first release. We have also shown evidence of innovation occurring in the Work Programme, despite tight budgets and a challenging economic climate. This means that it is likely that the provision of support will become more effective, and outcomes improve, over time. However, it is also clear that there are still problems with structure of the existing programme.

At the most extreme, the significant deterioration in the UK economy since the tenders were submitted in February 2010, ambitious nature of the targets set and tightly drawn financial rewards, mean that there is a non-trivial risk of failure for the entire programme. This is true both in terms of financial viability[29] and, more importantly, in terms of a failure to provide an adequately targeted, timely and cost effective means of assistance to the long-term unemployed. There also remain significant issues around the viability of specialist interventions provided by subcontractors who have struggled to make the niche services needed for the hardest-to-help financially viable due to limits on assurance of future work, lack of upfront payments and other factors.

Each of these potential issues is likely to become particularly evident once the effect of two related changes to the contract structure become apparent:

- In June and July 2013, a higher discount on Job Outcome Payments began.[30] Agreed by each Provider during the contract tendering process and amounting to around 6% of contract value overall.[31]
- In June or July 2014, the Attachment Fee will be completely phased out, meaning Providers will no longer receive any 'upfront' funding.[32]

Both of these factors are likely to increase the existing financial pressures on Work Programme providers. Should one or more Providers fail, significant questions will be asked of the whole system and its ability to provide effective employment support for some of the most disadvantaged groups in our society.

For this reason, a future report in this series will provide potential solutions to the problems outlined above and make recommendations for how reforms of the Work Programme could build on the base that is already in place. Specifically, it will examine how:

- the new Work Programme contracts should look like once the existing contracts expire;
- to incorporate incentives to progress claimants in work;
- to account for the economic cycle and local labour markets;
- to better incorporate measures of past performance and quality of service into the contract award process; and
- to align Provider incentives with the roll out of Universal Credit.

Support for the very hardest to help

While a future report will consider the general structure of future contracts and how to ensure that the programme is successful in helping the long-term unemployed and disadvantaged into sustainable employment and towards self sufficiency, there is an immediate, short-term problem that requires urgent attention.

29 'The Work Programme Invitation to Tender: Specification and Supporting Information', DWP 2010, www.dwp.gov.uk/docs/work-prog-itt.pdf.

30 Both the higher Job Outcome discount and Attachment Fee phase out commence three years after project roll out, rather than in April as originally stated. Since some contract areas began in June or July, the timing of these changes vary.

31 'The Work Programme Invitation to Tender: Specification and Supporting Information', DWP 2010, www.dwp.gov.uk/docs/work-prog-itt.pdf.

32 The Attachment Fee is differentiated according to client group and was 100% of the contracted price in 2011/12, 75% in 2012/13, 50% in 2013/14 and 0% for 2014/15 onwards.

That is that, for many of the issues outlined above, we believe that the risks are particularly high for those jobseekers who are the 'very-hardest-to-help', or furthest from the labour market. For these groups, the logic of a payment-by-results system, where providers are incentivised to target scarce resources in a way that maximises job outcomes, can mean that they are 'parked'. This means that those claimants least likely to enter sustainable employment might not receive the resources and support that they need because it would not be economically viable to do so.

We believe that parking represents a significant problem because it involves a fundamental failure to provide the support that the very hardest to help claimants need to move into sustainable work. Unfortunately, there is evidence this is happening.[33] As the Public Accounts Select Committee has found:

> *'There is some emerging evidence that those who are hardest to help are being parked with minimum support, and therefore little prospect of moving into work.'*[34]

For this reason, this report assesses whether and how existing Work Programme provision for the long-term unemployed could be supplemented to target support more effectively at the very-hardest-to-help. We begin by outlining performance so far for these groups, before outlining some of the key barriers to effective provision and detailing reforms which we believe could dramatically improve the support given to these groups.

33 For example, see 'Does sector matter? Understanding the experiences of Providers in the Work Programme', TSRC 2013, www.tsrc.ac.uk/LinkClick.aspx?fileticket=oJrkSIkyQyg%3d&tabid=873

34 www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/936/936.pdf, p. 5.

2

Parking the Very Hardest to Help

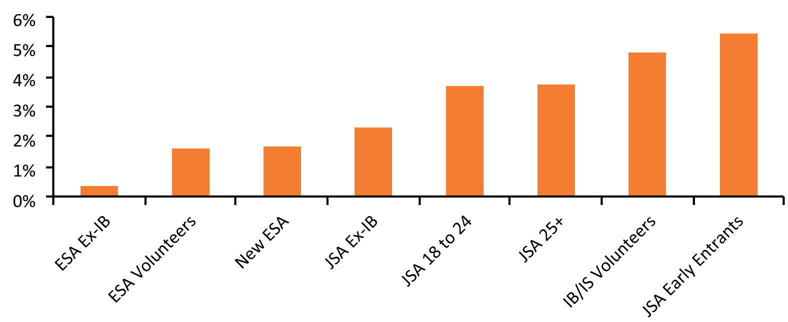
'With the best efforts the industry can possibly put into place we're not going to get all of those [Work Programme clients] into work.'[35]

Chris Grayling MP, former Minister for Employment, 19th October 2011

Mixed performance

Chapter 1 outlined the available data relating to the headline performance measures for the Work Programme. While as highlighted, these figures do not represent the full picture,[36] Figure 2.1 suggests that there are some groups of claimants that providers are finding it particularly hard to place into work. It shows that, as at July 2012, around 3.6% of JSA claimants over 25 have found employment and worked cumulatively for six months (i.e. to trigger a Job Outcome), however this falls to just 0.3% for Employment and Support Allowance claimants who had previously claimed Incapacity Benefit.

Figure 2.1: UK job outcomes as % of attachments by claimant group, cumulative July 2012



Source: DWP Tabulation Tool, November 2012, http://83.244.183.180/WorkProg/tabtool.html

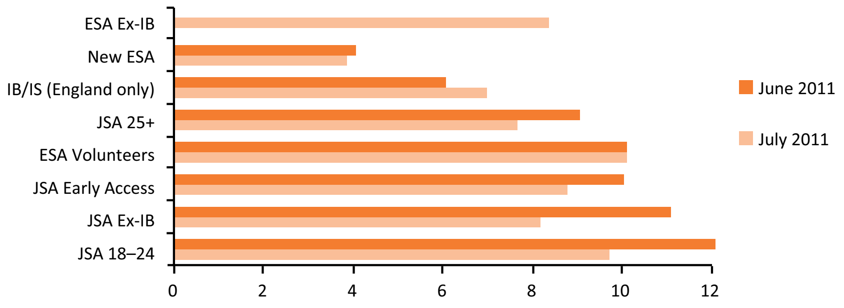
Note: Prison Leavers began referral to the Work Programme in March 2012 and thus could not have achieved a Job Outcome by July 2012; they are thus excluded.

Figure 2.2 shows the situation measured on a cohort basis. It shows that 9.6% of Jobseekers Allowance claimants aged 18 to 24 joining in July 2011 had achieved a Job Outcome twelve months later, but this falls to just 3.8% for new ESA claimants.

35 www.policyreview.tv/video/616/4327

36 Many of the claimants on the Programme joined too late to get a Job Outcome payment by July 2012 and the results should be judged by cohort over the full two years of the Programme rather than an early 'snapshot'

Figure 2.2: Job outcomes for June/July 2011 cohort by July 2012



Source: DWP Work Programme cohort data, Data Visualisation Tool

In some respects this differential outcome performance may simply reflect the fact that some groups are likely to have larger barriers to work and so they could take longer to enter employment (meaning future successes would not be measured in these results). However, even if overall performance of the Work Programme does not improve significantly, if this situation continues, this leaves a real worry that those who are hardest to help will remain unemployed and face a further deepening of the barriers to work that they face.

Parking – a rational response

There are certainly strong reasons to believe that this situation might continue. As we have alluded to, it is well known that payment-by-results models like that operating in the Work Programme lead providers to, quite rightly, target resources on those easiest to help into work. In turn, this leads to parking of the hardest to help, who under such a broad contract are simply too difficult and expensive to help.

This is not a criticism of individual providers or advisors working on the front line. The overwhelming majority of these individuals and organisations will be driven to help as many people as possible to tackle the barriers to employment they are facing and to help them into sustainable employment. However, to do this in a world of limited finances and a tough labour market, organisations and individuals have to make decisions over where resources are invested in order to deliver the best outcomes overall. In this sense, 'parking' is a rational response to the incentives provided in the contract system, particularly when there is not sufficient money available to invest in the very-hardest-to-help.

Given the significant payments that are available to providers finding sustainable employment for hard-to-help individuals, this situation may seem strange. For instance, by helping an ex-Incapacity Benefit claimant into employment that lasts for two-and-a-half years, the maximum theoretical available payment for a provider amounts to some £13,700.[37] This is a large sum of money. However, when considering the very large barriers that some groups face in getting to work and the cost of interventions, it is clear that it might not go very far.

In this respect, if price variation within contracts is not sufficient to meet needs across whole payment groups, we could see distinct groups of claimants being parked. This is a conclusion shared by many in the industry, with one report summarising that:

37 www.gov.uk/government/uploads/system/uploads/attachment_data/file/49884/the-work-programme.pdf

'…very few groups are confident that that the differential payments on offer for different kinds of customers are adequate to ensure the Work Programme helps harder to reach groups.'[38]

There can be little doubt the above view is privately widespread amongst key stakeholders in the Work Programme. A survey of ACEVO members showed just 9% think differentiated payments will reach the hardest to help.[39]

This is not just an issue of parking of particular payment groups as there is also a clear risk that parking may occur within distinct payment groups. For instance, if out of a group of 100 claimants who had recently left Incapacity Benefit, a provider was able get 20 into work for half of the contract period, the total payout could reach a theoretical maximum of £144,000.[40] However, if all of the original 100 claimants were provided with the same support, this £144,000 would need to be split between all of the claimants, leaving just £1,440 to invest in support for each claimant. If the cost of delivering an effective intervention for one of this group was, say, £3,000 (including broader overheads and normal profits), there would clearly be a large shortfall: meaning that in order to get *any* of the group into work, the provider would need to target resources at individuals where they thought they could have most success. The others would necessarily receive less support.

"It's not about supporting 100 customers. It's about getting 50 of them into a job. The other 50 are collateral damage … It's an outcome contract, not a service contract"

Seen in this light, parking is simply the method by which the programme delivers the best outcomes for the highest number of individuals. However, ultimately it means that the Work Programme in its current form may not be able to provide effective support consistently for the most vulnerable claimants. One Work Programme provider executive summarised:

'It's not about supporting 100 customers. It's about getting 50 of them into a job. The other 50 are collateral damage… It's an outcome contract, not a service contract.'[41]

In this sense, parking is both a problem for very-hard-to-help groups (where contract payments are too low for the whole group) and for those hardest-to-help within particular groups, where resources will be targeted at those within the group that are relatively easy to help.

A lack of effective contract segmentation

Parking within groups can be particularly problematic because, as Table 1.1 demonstrated, the current system distinguishes between individuals with different levels of need based predominantly on the type of primary benefit claimed and their age. However, as we identified in our previous report, Personalised Welfare,[42] the extent of barriers to work can be entirely unrelated to the benefit type claimed.

For example, a highly-motivated, skilled former Incapacity Benefit claimant may have few or no barriers to employment on paper, whereas a JSA claimant with a long previous employment history who is unmotivated and has undisclosed drug or mental health problems may have many. A payment structure based on benefit type will be unable to respond to these issues and will lead to hard-to-help claimants within each "payment group" being parked without effective support.

38 www.lvsc.org.uk/media/57778/fair%20chance%20to%20work%20-%20vcs%20experiences%20of%20work%20programme%20in%20london%20-%20lvsc%20oct%202011.pdf

39 www.acevo.org.uk/document.doc?id=1730

40 Based on 16 months of employment (6 month of job outcome fee of £3,500 plus 10 sustainment payments of £370) for 20 individuals.

41 www.guardian.co.uk/society/2012/feb/28/why-work-programme-bad-business?newsfeed=true

42 Holmes E, Oakley M (ed.), 'Personalised Welfare', Policy Exchange 2011, www.policyexchange.org.uk/publications/publication.cgi?id=252

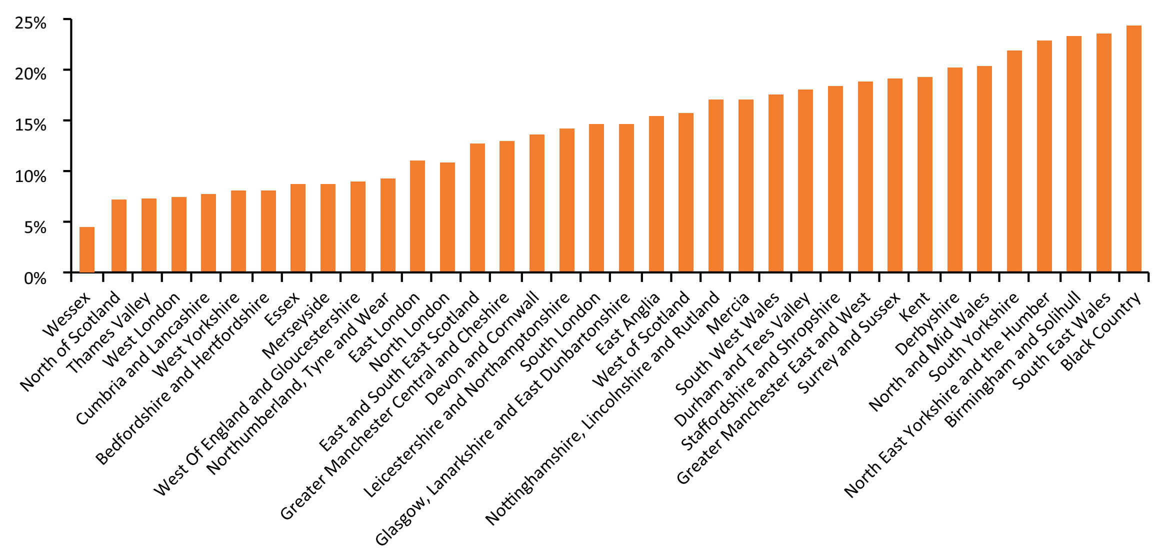
One possible defence of this system is that there is a category for JSA early referrals (payment group 3). This provides a means to 'capture' claimants who may ordinarily fall within one of the other payment groups but can be identified as being likely to have additional needs by their broader characteristics. This group includes those who are:

- ex-offenders;
- have physical or learning disabilities;
- have mild to moderate mental health issues;
- are care-leavers;
- are carers or ex-carers;
- are homeless;
- are former Armed Forces personnel; and/or
- have substance dependency problems.

However, difficulties in identifying many of these issues upfront (for instance, it is unlikely that JCP staff will know whether someone is a care leaver or not as that information is not shared between JCP and the local authority) contributes to the fact that referrals through payment group 3 are patchy at best. Our discussions with Jobcentre advisors and Work Programme offices also demonstrate the lack of consistency in the use of early referral by different Jobcentre offices. Some are keen to refer individuals early, while others prefer to attempt to provide support through JCP first.

Figure 2.3 demonstrates this consequence of these issues by showing the vast divergence across JCP districts of referral rates through payment group 3. This is particularly worrying since, as demonstrated in Figure 2.1, results for individuals in this payment group once they reach Work Programme are the strongest out of all the groups.

Figure 2.3: Referral rates through payment group 3, by JCP district



Source: DWP

The hardest to help and size of contractors

Parking of claimants clearly represents a large problem. An equally large potential problem is that, even if payment structures were appropriate, some have argued that the structure of the Work Programme has squeezed out small specialist providers (particularly in the third sector) who have a particular focus on tackling barriers to work for the hardest to help groups.[43]

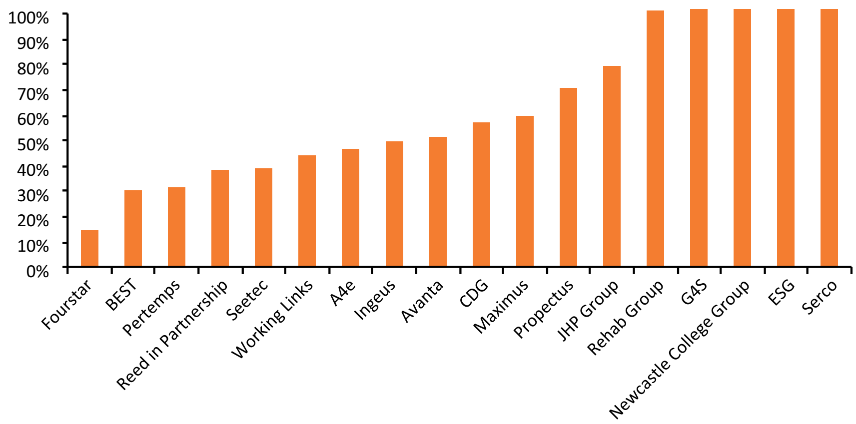
This is not a new problem. Getting the balance right – leveraging the advantages of involving larger firms (at low risk) and involving smaller firms, to encourage innovation and make use of specialist skills, is difficult and has been a significant issue in successive employment support contracts.[44]

The Work Programme was contracted with a small number of large providers on the 'Freud' model[45]: 40 Work Programme contracts are split across 18 package areas, with two or three providers across each region. This has the effect of limiting risk to the government by reducing the likelihood of Provider failure: these large firms must be well capitalised to bid for the programme and so are less likely than smaller, thinly capitalised firms, to go bust.

However, the concept behind this model is that prime contractors will develop supply chains that bring smaller organisations on board in order to deliver specialised and targeted interventions at hard to help groups. Contracts with sub-contractors can be designed to ease cash flow and risk problems.

However, Figure 2.4 demonstrates that the variation of the use of sub-contracted support is very wide. The picture is more complex when we consider that several 'subcontractors' are in fact large private companies, often Prime Providers in other contract regions who had existing infrastructure in the area.

Figure 2.4: Work programme subcontractor, % of total supply chain volume



Source: CESI, DWP forecasts.

In some respects, this variation reflects different delivery models. However, there is also concern that Prime Providers are not sticking to their originally specified use of sub-contractors. A particular problem has seemed to be with referrals, with those without contractual guarantees of referrals and/or who are providing specialist interventions, appearing to receive very few, or in some

43 For example, see 'Fair Chance to Work: initial voluntary and community sector experiences of the Work Programme in London', LVSC October 2011, www.lvsc.org.uk/media/57778/fair%20chance%20to%20work%20-%20vcs%20experiences%20of%20work%20programme%20in%20london%20-%20lvsc%20oct%202011.pdf

44 'DWP Commissioning Strategy and the Flexible New Deal', Work and Pensions Select Committee 2008.

45 Freud D, 'Reducing dependency, increasing opportunity: options for the future of welfare to work', DWP, 2007.

cases, no referrals.[46] A recent survey by NCVO supports this conclusion. It found that 35% of contractors surveyed had received no referrals; with a further 15% receiving between just one and ten.[47] One subcontractor reportedly had budgeted for 150,000 referrals without receiving any at all. There are similar problems with use of charitable organisations, where early indications are that they have been involved in as little as 20% of claimants' cases.[48] The similar reforms in Australia led to several smaller non-profit organisations criticising the programme as undermining their viability and service provision.[49] One community and voluntary sector (VCS) manager described it as:

> '…*awaiting work as sub-contractors – sat waiting like an agency worker awaiting a call to do a shift and hoping you earn enough to survive until the next job… Is this really what we want for the future of the sector?*'[50]

There have also been broader complaints. Some sub-contractors report that, against the principle of the original model, the pricing structure has largely been passed onto them and that the most difficult to help claimants have simply been 'parked' with them.[51,52] Others have complained of Prime contractors 'freezing' them out of the Work Programme altogether to reduce costs.[53] For example, an early National Housing Federation Survey found that, of 120 housing associations sampled, only nine had contracts and only five of these had had referrals.[54] While this is clearly a two-way street, as Housing Associations could also be criticised for not being proactive enough in engaging with providers or attempting to join up services, this lack of coordination and waste of potential Housing Association resource and experience is a concern.

More broadly, we have already seen several specialist staff and organisations leaving the industry. The long-term damage through loss of subcontractor expertise through skills, goodwill and institutional knowledge, could be substantial. Despite these widespread concerns, it has often been commented that the Merlin Standard – a code of conduct for how Prime Providers should deal with subcontractors,[55] has had little impact on these issues.[56]

In short, while the role of the third sector and supply chains is strongly emphasised in DWP's Commissioning Strategy, this vision does not seem to have been achieved. This has meant that the specialist and targeted support that many of these groups have been providing hard-to-help groups has been squeezed out of the market. As one expert commented in evidence to the DWP Select Committee:

> '*The way funding is currently geared, I think the programme will actually start to strip out specialist interventions, will start to focus on those people that are closest to the labour market, and the needs of people who are the hardest to help will be excluded.*'[57]

To change this will require recognition that the way in which the current system is structured has the potential to militate against the continuation of niche providers. It will also require a new way of targeting more effective support at those individuals who are furthest from the labour market. The next chapter proposes reforms to achieve these goals.

46 www.civilsociety.co.uk/finance/news/content/11326/employment_minister_not_keen_to_address_payment_concerns_on_work_programme

47 www.ncvo-vol.org.uk/sites/default/files/sig_survey_june_2012_report_17.9.12.pdf

48 www.dwp.gov.uk/newsroom/press-releases/2011/dec-2011/dwp143-11.shtml

49 Finn D, 'Job Services Australia: design and implementation lessons for the British context', DWP Research Report No 752, 2011, p. 4.

50 Caulfield R, 'Is the VCS the agency worker of the future?', Third Sector, http://frontline.thirdsector.co.uk/2011/07/28/is-the-vcs-the-bank-worker-of-the-future/

51 www.tsrc.ac.uk/LinkClick.aspx?fileticket=oJrkSIkyQyg=

52 Pushed to the edge', Locality, 2011, p. 2.

53 Pushed to the edge', Locality, 2011, pp. 1–2.

54 www.housing.org.uk/idoc.ashx?docid=0833c8d0-0ee7-4073-8130-3363fc1a7fd1&version=-1

55 'The Merlin Standard is standard of behaviour to which prime providers are expected to adhere in their relationship with their subcontractors. It is designed to encourage excellence in supply chain management by prime providers, to ensure fair treatment of sub-contractors and development of healthy high performing supply chains'. www.dwp.gov.uk/supplying-dwp/what-we-buy/welfare-to-work-services/merlin-standard/

56 For example, see Cook S, 'Editorial: Merlin Standard must be enforced in the Work Programme', Third Sector, www.thirdsector.co.uk/news/1105092/Editorial-Merlin-Standard-enforced-Work-Programme

57 Richard Johnson, House of Commons Work and Pensions Committee, 'DWP's Commissioning Strategy and the Flexible New Deal', Second Report of Session 2008–09, Volume I, Q113.

3
Un-Parking the Parked

Immediate action needed

The first two chapters have highlighted that the principles behind the Work Programme are strong and that performance is likely to improve markedly over time. However, they also outlined that there are significant groups of claimants who stand little chance of entering sustainable employment within the timeframe and financial constraints of the programme. This issue is a result of:

- contract structures which do not adequately segment claimants and do not effectively bring smaller specialised providers into the market;
- outcomes payments for the very-hardest-to-help which are too low;
- tight financial constraints which mean that resources have to be targeted at those closest to the labour market; and
- a weaker than expected labour market that means it remains difficult to place those furthest from the labour market into work.

These issues combine to mean that some hard-to-help claimants are likely to be parked without effective support. Tackling this issue is vital to ensure that these groups are helped to tackle the barriers to work that they face and that these barriers do not become further entrenched. It is also important so that the wider principles of the welfare state are upheld. The legitimacy of the welfare state is built around a mutual contract between the state and the individual, with the individual expected to do all they can to get back to work and the state expected to provide the support that individuals need to realise that goal. To continue to increase conditions on benefit claimants without simultaneously improving the support that is available would both break this contract and risk leaving some individuals and families without the support they need to re-enter work and move towards financial independence.

While the importance of action on this front is clear, it is also clear that potential solutions to this problem must be cost effective for the government. This chapter outlines recommendations for how these very-hard-to-help individuals can receive better support and greater number of smaller specialist organisations can be brought into employment support programmes.

Personalised support for the hardest to help

In part, some of the issues outlined above can be tackled by a more ambitious approach to personalisation of support and targeting of interventions. Our previous report, Personalised Welfare, argued that instead of leaving individuals parked with JCP for up to a year before receiving more intensive support through the Work Programme, a new diagnostic tool should be developed that allowed support to be provided on the basis of need rather than on the basis of benefit type and length of claim. Using such a tool would allow support to be given right from day one of an unemployment claim for those with the greatest barriers to work, with contracts to private and third sector providers based on the extent and depth of these barriers, rather than just benefit type.

Such an approach is particularly attractive since, by creating a better assessment of need, it would allow resources to be more accurately targeted on those furthest from the labour market and also allow much higher payments to providers supporting these individuals. This would reduce the need to target resources away from relatively hard-to-help groups and, by implication, reduce parking.

“Those with the top 10% of JSCI scores were correctly predicted to reach long-term unemployment 31% of the time”

The original Conservative Party proposals for the Work Programme were in fact ambitious in this direction. They stipulated that fees would be differentiated:

> *‘Depending on a range of factors such as how long an individual has been out of the labour market, their health, and their skills. Factors like these have often been found to be reliable indicators of the relative difficulty and cost of restoring an individual into the world of work. As the system develops, differential pricing is likely to become increasingly sophisticated.’*[58]

Perhaps due to time constraints and limitations on available data and existing IT systems, this ambition was largely unfulfilled in drawing up the Work Programme. Nevertheless, it does hold out the prospect of a more nuanced system in the longer-term.

In this respect, it is encouraging that the DWP has recently undertaken a pilot of the Australian Jobseeker Classification Instrument model.[59] Through extensive data gathering of a claimants’ personal circumstances and barriers to work, a logistic regression model to determine the probability that a claimant would reach the 12 month point of a claim was developed, with answers weighted to give a ‘score’ as to how likely they were to reach 12 months. It revealed that 59% of the variation in data could be explained by the model.[60] Those with the top 10% of JSCI scores were correctly predicted to reach long-term unemployment 31% of the time. The report notes that:

> *‘This approach to claimant segmentation could assist the more efficient targeting of support to those with the greatest need, with those included in the high risk category receiving appropriate and possibly early intervention.’*[61]

These results demonstrate that there is a trade-off between wrongly targeting additional support on claimants who would not have reached long-term unemployment, and reaching the maximum number of claimants likely to be long-term unemployed. This is illustrated in Table 3.1:

58 ‘Get Britain Working’, Conservative Party, 2009.

59 Matty S, ‘Predicting likelihood of long-term unemployment: the development of a UK jobseekers’ classification instrument’, Department for Work and Pensions Working paper No 116, http://research.dwp.gov.uk/asd/asd5/WP116.pdf

60 Matty S, ‘Predicting likelihood of long-term unemployment: the development of a UK jobseekers’ classification instrument’, Department for Work and Pensions Working paper No 116, http://research.dwp.gov.uk/asd/asd5/WP116.pdf

61 Matty S, ‘Predicting likelihood of long-term unemployment: the development of a UK jobseekers’ classification instrument’, Department for Work and Pensions Working paper No 116, p. 3, http://research.dwp.gov.uk/asd/asd5/WP116.pdf

Table 3.1: Trade off between capturing long-term unemployed and creating deadweight

	Target top 8% of JSCI score	Target top 30% of JSCI score
Proportion of all long-term unemployed captured by segmentation	32%	70%
Proportion of all non long-term unemployed receiving 'unnecessary' support	6%	26%

Source: 'Predicting likelihood of long-term unemployment: the development of a UK jobseekers' classification instrument', DWP 2013.

In other words, targeting the top 30% of JSCI scorers 'captures' some 70% of long-term unemployment – a significant result – but only at the 'deadweight' cost of unintentionally targeting 26% of claimants who do not require this support. Narrowing the focus to just the top 8% of JSCI scores reduces the success rate – capturing only 32% of the long-term unemployed – but also reduces the proportion of those receiving unnecessary support to just 6%.

While these are encouraging results, there is a worry that with the vast array of other reforms being rolled out in the welfare state, the scale of ambition in this area will be dampened. It is our view that this would be a serious mistake. For this reason we believe that it is vital that the government continues to devote resources to developing and testing a tool that would allow them to identify the distance individuals are from entering work and base contract payments on this measure. It is clear that this will need to go beyond the tools developed in Australia and recently tested in the UK. This means that, as we laid out in *Personalised Welfare*, DWP should also work with private sector data experts and other government departments to develop a new approach to the targeting of support.

Recommendation 1: The government should continue to work to develop a diagnostic tool to assess how far benefit claimants are from the labour market and the support needs they have. Alongside advisor discretion, this should be used to target intensive employment support at those with the greatest barriers to work. This will need to be more ambitious than models developed in other countries, including Australia, which means that involvement of other government departments and private sector data experts is essential.

Recommendation 2: This tool should form the basis of the next round of Work Programme contracts, with access and payment levels based on the assessment of an individuals' distance from the labour market. This means that it will need to be piloted in several Jobcentre Plus districts in 2014 and pre-empted by a consultation in 2013. These pilots should provide results with which further refinements can be made.

A new system of employment support for the very hardest to help

Once this new system has been developed and implemented, we believe that the Work Programme with contracts based on need rather than benefit type, will remain the best framework for the vast majority of hard-to-help claimants to be supported. However, even with a more effective segmentation and personalisation tool, there is likely to be a significant minority of claimants for whom the Work Programme is inappropriate.

The key concern is that, combined with a tight financial envelope, a pure payment-by-results contract based on delivering sustained job outcomes within the current financial envelope will simply not be adequate to give providers the financial incentive to assist the very-hardest-to-help claimants.

For this reason, we believe that the very-hardest-to-help individuals who are eligible for the Work Programme should instead be given support through a new employment support system.

Recommendation 3: For the very-hardest-to-help individuals, DWP should recognise that, within the current financial envelope, payment-by-results contracts based wholly on sustainable employment are unlikely to be financially viable because of the very deep barriers to work these individuals are facing. Individuals with this level of support needs should have support provided through a new programme, *Route2Work*.

The *Route2Work* programme would function under a different contract structure and would not be delivered by the same Work Programme providers that deliver in the relevant contract package area. Key design issues are discussed below.

Claimant access to a new form of support

The immediate question is how individuals who might benefit from *Route2Work* might be identified. Once a new diagnostic tool is developed, it will be possible to identify a proportion of the very-hardest-to-help who might benefit from the new programme. However, in the short-term a different approach needs to be adopted.

To facilitate this, Work Programme providers should be used to identify suitable individuals. The logic is that, because of the costs associated with providing basic support to individuals with very little chance of entering work, providers will be incentivised to develop assessments that identify these individuals in order to minimise costs. Some providers have suggested privately that, for a small number of particularly hard-to-help individuals, this approach would already be feasible.

Recommendation 4: Work Programme providers should be allowed to select up to a certain proportion of the individuals newly placed with them for *Route2Work*. We believe that this proportion should initially be set at 5% of their total new attachments per year. This would mean that at least 25,000 individuals a year could be placed in a new model of support. Once identified by the provider, these individuals would be transferred to *Route2Work*.

While Work Programme providers should not be required to take part in this approach and should be allowed to select a lower proportion than 5%, providers would be likely to take part if it leads to both better support for hard-to-help groups and cost savings for them. It would also still leave the mainstream Work Programme with around 560,000 referrals for 2014/15.

It will be important to carefully evaluate the approach and use the results to assess whether the initial level of 5% is suitable. If successful, there would be a case for increasing the proportion of attachments that providers are allowed to select for *Route2Work*. We also believe that providers should be able to continue to adopt this approach once the new diagnostic tool is in place, since no such tool will ever provide 100% accurate results.

There is also another clear group of individuals for which *Route2Work* would be appropriate: those claimants who, after spending two years with a Work Programme provider, have not found sustainable employment and have exited the programme. Since the Work Programme rolled out in June 2011, we will see the first cohort of Work Programme "leavers" in June 2013.

Pilots have tested two types of provision focusing on claimants who have cycled through legacy New Deal schemes: a six-month 'Community Action Programme' (CAP) work experience placement scheme to build skills and experience in a working environment, and more intensive JCP Adviser based support, called 'On-going Case Management' (OCM).[62] While both of these approaches performed better than the standard JCP support, neither was overly successful – 74% of OCM recipients were in receipt of benefits 41 weeks after random assignment compared to 76% of CAP recipients and 81% of the control group (who only received normal JCP service).[63]

To some extent, this is unsurprising. This group that will move back to JCP have been unemployed for at least three years and, in the case of ex Incapacity Benefit claimants, significantly longer. They have already received various levels of support through JCP, the previous New Deals and flexible New Deal and now two years with Work Programme providers. None of these interventions has been effective. DWP have recently announced a new more intensive programme of JCP support for some of this group, however it seems unlikely that this will have significantly greater success for very-hard-to-help individuals than the OCM model already tested.

For this reason, it is appropriate to try something new which, as we show below, will not add extra costs to the exchequer. With perhaps 400,000 claimants or more flowing out of the Work Programme each year without securing sustainable employment, we believe that the proportion moving into *Route2Work* should be carefully managed. It is also clear that it may not be suitable for all individuals flowing out of the Work Programme. For some, ongoing JCP support, other schemes such as Work Choice,[64] ESF Support for Families with Multiple Problems, or work experience through CAP are likely to be more effective. For this reason, access to *Route2Work* should be taken on a case-by-case basis via advisor segmentation at JCP and targeted at the 10% of claimants exiting the Work Programme that are judged to be most likely to benefit from the intensive support that *Route2Work* would provide.

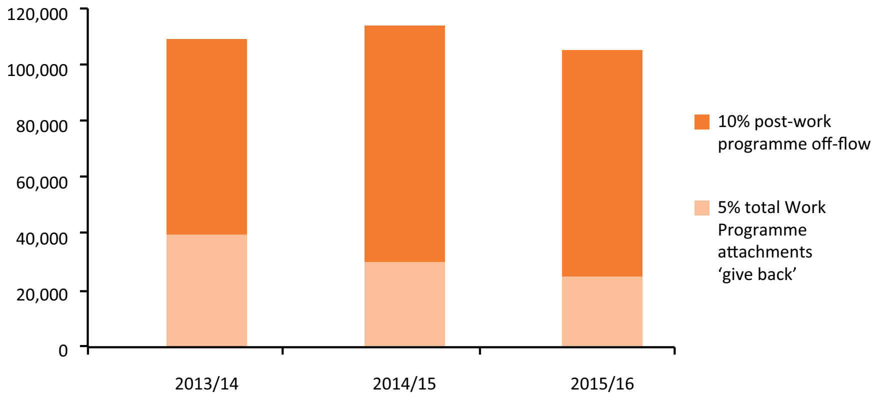
Recommendation 5: Claimants requiring the most intensive and personalised support leaving the Work Programme after not finding sustainable employment after two years should be given access to *Route2Work*. At the outset we believe that around 10% of claimants leaving the Work Programme should have access to *Route2Work*. This would mean *Route2Work* providing support to more than 65,000 individuals exiting the Work Programme each year.

62 www.dwp.gov.uk/docs/wp-cap-1.pdf

63 'Support for the very long term unemployed trailblazer', DWP ad hoc analysis, December 2012, p. 12, http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2012/20121203_svltu_ad_hoc_stats_publish.pdf

64 Work Choice is a voluntary support scheme for people with a recognised disability not tied to benefit group focused on job entry, medium-term and ongoing in-work support. Referral currently takes places through Disability Employment Advisers at Jobcentre Plus.

Figure 3.1: *Route2Work*, projected referrals



Source: DWP forecast Work Programme starts.

Combined with referrals from Work Programme providers, we believe that once up and running, *Route2Work* could be providing support for over 100,000 of the hardest-to-help individuals each year. Figure 3.2 summarises the entry points to *Route2Work*.

Figure 3.2: Illustrative access point to *Route2Work*

Work Programme providers to refer up to 5% of claimant attachments a year to Route2Work	• Primary route for claimants judged by Work Programme providers as being the "very-hardest-to-help" and unlikely to enter sustained employment within the financial constraints of the Work Programme. • In the initial stages, this should mean providers having the option to 'give back' claimants judged to be the very-hardest-to-help and giving them to access to *Route2Work*, up to a maximum of 5% of their new attachments a year. • This quota should be revised over time dependent on capacity in *Route2Work* and ongoing evaluation.
Individuals eligible for post-Work Programme support referred on a case-by-case basis	• For claimants who do not find sustainable employment in the Work Programme, appropriate provision should be found. • This could be normal Jobcentre Plus support, Ongoing Case Management, Community Action Programme, Work Choice, ESF Support for Families with Multiple Problems, or *Route2Work*, to be determined on the basis of need. • This option would enable a route to alternative support or assisted employment and ensure claimants remained engaged in moving towards the world of work even if immediate employment is not an option.
In the longer-term, referrals of the very-hardest-to-help should happen from day one of an unemployment claim	• To ensure that claimants are not parked without effective support before entry into the Work Programme, entry to both the Work Programme and *Route2Work* should be based on an assessment of needs on day one of an unemployment claim. • This assessment would identify claimants who would benefit from more intensive and targeted support through the Work Programme and *Route2Work*.

How contract payments should be structured

As we have shown, a major criticism of the current structure of the Work Programme is that it has squeezed out some smaller and third sector providers. This is disappointing given the existing level of goodwill and resources in the UK devoted towards charitable ventures seeking to help the long-term unemployed: often an issue they see as critical to their purpose. For example many schemes are run by local authorities, housing associations and local groups with funding from central, local government and EU Structural and Investment Funds initiatives.

These programmes are not without criticism. As with all sectors, it is certainly true that skills, and ultimately performance, vary across different organisations. Many of the services also overlap, are poorly targeted or are not sufficiently focussed on delivering employment outcomes.

“Social enterprises can thus sit somewhere between a charity and a normal business and this makes social enterprises of significant interest in an area such as welfare-to-work”

However, maintaining a mixed economy of provision that supports the best providers to stay in the market in order to provide personalised, tailored and specialised support should be a goal of the employment support system. This raises the question of how can this goodwill and resource be leveraged into a coherent framework that efficiently targets the objectives of movements towards and into work?

We believe that *Route2Work* could be used to fulfil this role and bring smaller, specialised organisations more fully and coherently into the market. In particular, it could be well suited to small scale organisations and local authorities working together in collaboration to provide a level of wrap-around support and interventions that would be unlikely to be provided by one organisation working alone.

The approach could also be used to stimulate a social enterprise market in welfare provision. Social Enterprises are generally defined as businesses that are focused on social returns to the community as well as financial goals. While not a charity in the sense that profits are still made (and generally retaining the legal status of a private company), the focus is on social outcomes even at the expense of profits, with all or a proportion of the surplus being reinvested back into the cause. Their usual status as a private company allows more flexible arrangements than charities or the public sector (the ability to more easily raise debt finance, give employees a share of ownership or alter contractual terms and conditions, for example). Social enterprises can thus sit somewhere between a charity and a normal business and this makes social enterprises of significant interest in an area such as welfare-to-work.

Box 3.1 provides further details.

Social enterprises, charities and community groups have the potential to do a great deal more to bring vital expertise into supporting hard-to-help individuals into work. This is both true in terms of providing employment support in the traditional sense, but also in terms of providing opportunities through the so-called ‘intermediate labour market’ (ILM) model. Typically, this provides disadvantaged individuals opportunities to enter paid employment in temporary jobs created to provide social value and give the individual experience and skills they can transfer to the mainstream labour market in due course. In this way, ILMs can help to achieve better outcomes for the long-term unemployed in transitioning people back into the open labour market over time.[65] Where provision is currently limited or restricted due to limitations on funds, *Route2Work* could provide a useful opportunity to co-fund and expand the use of ILMs more widely.

Box 3.1: Contrasting business models

A charity: In contrast to a business, a charity is obliged to reinvest any surplus to further the organisation's purposes for public benefit. They have tax exemptions, including corporation tax, stamp duty, VAT and capital gains. While charities have borrowing powers, it is not possible to invest in a charity for capital return (any investment must be for purely philanthropic reasons).

Community Interest Companies: A recognised legal form of social enterprise structure, for companies set up to be of community benefit. Their main distinguishing features are the 'Asset Lock' – a device to prevent the selling of off assets (especially transferred public assets) for private profit and ensuring that they remain of social benefit and a cap on distributable profits, set at 35%, and a dividend cap of 20% of share value.[66]

The Social Enterprise Mark: A less regulated, non-legally binding (i.e. tending to take the form of limited by guarantee company without the asset lock of a Community Interest Company) but form of recognition for a social enterprise company. For these, at least 50% of profits must be spent on a recognised socially beneficial purpose, with any assets distributed for that purpose if the entity is wound up.[67]

Profit-making company: Public or privately limited companies, bound by the normal rules of firms with no restrictions on the redistribution of any surpluses to shareholders. While not social enterprises in the narrow definition, they may nevertheless be engaged in activity associated with a particular social benefit (public service provision, for example).

To facilitate this, the government must ensure that consortia of small-scale local providers, local authorities and third sector organisations providing wrap-around support are guaranteed footfall through *Route2Work*. Social enterprises providing traditional employment support or access to intermediate labour markets should also be assured a greater portion of contracts.

Recommendation 6: The government should ensure that contracts for *Route2Work* guarantee footfall for smaller-scale and third sector providers and social enterprises when they are let. Tendering documents should give particular focus to contracts that guarantee use of:

- Consortia of small-scale local providers and local authorities working together to provide a wrap-around support service. This might be led through the City Deals process, or through broader local coordination through Local Enterprise Partnerships; and
- Social enterprises providing support to individuals or routes to intermediate labour markets.

65 Finn D, Simmons D, 'Intermediate Labour Markets in Britain and an International Review of Transitional Employment Programmes', CESI 2003, www.cesi.org.uk/sites/default/files/publications/CESI_ILM.pdf

66 www.bis.gov.uk/cicregulator/

67 www.socialenterprisemark.org.uk/

Both of these goals can be achieved by directly contracting with these organisations. However, economies of scale could also be secured by working with larger organisations that are contractually required to guarantee footfall to these smaller organisations. This approach could couple the existing infrastructure and caseload management experience of the larger contractors with specialist interventions from smaller providers. Under this latter approach, because of the risks of gaming the system, existing prime providers in the relevant contract package areas would not be eligible to bid for the contracts.

Given the difficulties that some of these smaller organisations previously have had in achieving a direct (and indirect) route to market, it is clear that to do this the structure of contract payments needs to be radically different to that used in the Work Programme. In part this reflects the levels of risk that these smaller organisations are able to take on, but it also reflects the idea that, for this group of very-hard-to-help individuals, payments based purely on entry and sustainment in work might not be feasible.

Upfront funding and claw back

A particular problem with the design of the Work Programme, particularly now attachment fees have been phased out, is the limited level of upfront funding. This results in cash flow restrictions that limit access to the market for smaller organisations. However, payment-by-results programmes do not have to operate like this. Box 3.2 shows the Employment Zones model which focussed more heavily on upfront funding and might provide a good basis for the contract design in *Route2Work*.

Box 3.2: Employment Zones revisited

The Employment Zone model was introduced on a trial basis in 2000 to replace all employment support provision in 15 high unemployment areas. It involved 'black box' non-prescription of service processes and a limited form of payment-by-results. Providers were paid an upfront fee followed by the equivalent of 21 weeks' worth of unemployment benefit which providers were then responsible for passing onto claimants, replacing the functions of Jobcentre Plus in these areas.

The rest of the contract was based on getting and sustaining claimants in employment for at least 13 weeks. Subsequent evaluation showed a 32% greater job outcomes compared to non-pilot areas for the long-term unemployed[68] and an 8% overall improvement in 13 week job outcomes over comparable JCP areas[69] and almost doubling sustainable job outcomes for the long-term unemployed.[70] This success was largely put down to increased flexibility for advisers in tailoring provision and focusing on sustained employment outcomes, including discretionary funding of claimants for everything from interview clothes to bespoke training.[71] Further trials of the Employment Zones model through 'Building on the New Deal' pilots were scrapped in June 2006.[72]

A more radical form of the Employment Zone model would be appropriate for this group of very-hard-to-help individuals, at no significant cost to the exchequer.[73] As an example, we can be relatively certain that under existing

68 Hasluck C et al, 'The Wider Labour Market Impact of Employment Zones', DWP, Report 175, 2003.

69 Hales J, et al, 'Evaluation of Employment Zones: Report on a Cohort Survey of Long-Term Unemployed People in the Zones and a Matched Set of Comparison Areas', National Centre for Social Research, 2003.

70 www.variant.randomstate.org/18texts/18workinglinks.html

71 'Full Employment and World Class Skills: Responding to thechallenge', Work and Pensions Select Committee, October 2007, p. 7. www.jobcentreplus.gov.uk/JCP/Customers/Programmesandservices/Employment_Zones/

72 Note that, since the very-hardest-to-help claimants would be removed from the Work Programme, payment structures in the next round of contracts would need to be revised to reflect a slightly lower level of expected unemployment duration for the remaining claimants.

73 This also raises the importance of building a full picture of total benefit claim from all sources, rather than just primary benefit.

programmes they would spend the next 24 months without finding sustainable employment. This means that benefit and support provision costs for this total period can be determined with a high level of certainty. So as long as total costs of the new programme do not exceed the costs of 24 months of benefit payments plus original support provision costs, there will be no deadweight costs associated with any movements into work that are generated. In fact, structured like this and targeted on these groups, this new programme will come with no significant additional costs to the exchequer.

For this reason, this funding could be rolled up and given to providers as a lump sum when claimants are "attached" to them. The providers would then have a duty of care for at least 24 months, under which they are responsible for all costs of interventions to help the individual towards and into work and costs (if any) to JCP. They would also be liable for Universal Credit costs over the two year period.

Providers would then get to keep all the money that was not spent, while the exchequer would accrue savings through additional tax revenue from any additional employment and the longer-term benefit savings if claimants stay in work following the two year period.

Recommendation 7: Contract payments in *Route2Work* should be based on an upfront transfer of total expected benefit payments for cohorts of claimants over the contract period, plus the estimated costs of programme support that would have occurred in absence of the new scheme. The provider would then be liable for reimbursing DWP for benefit payments to the individual over the contract period. This means that any benefit savings that accrue from claimants moving into work would be kept by the provider.

Box 3.3 provides an example.

Box 3.3: Illustrative example of upfront payment with claw-back of benefit costs

A former Incapacity Benefit claimant transferred to JSA might have an assumed benefit claim of £25,000 a year.[74] She is identified as unlikely to find sustainable employment through the Work Programme and so is offered to the *Route2Work* programme. A social enterprise successfully bids for the opportunity to work with this claimant through *Route2Work*. This means they receive £50,000 in upfront funding for assuming the benefit liability of the claimant for two years. If they are successful, the claimant may only take £40,000 in benefit payments and £10,000 is realised for the provider. This would be equivalent to finding the claimant employment for £8 an hour for 30 hours a week for 60% of the contract period.[75]

Either way, the exchequer has incurred no additional costs. If the claimant moves into work, gains will be received through taxation and reduction in wider public services. While the balance of risk and reward may appear disproportionate, this may be a way for social enterprises and non-profits to assume greater risks than would a for-profit company in pursuit of their social objectives. Social investment could also be used to boost this funding.

74 Based on the Universal Credit benefit withdrawal rate of 65% of net income.

75 Based on the Universal Credit benefit withdrawal rate of 65% of net income.

Will this be enough?

While this change in the profile of funding will ease cash flow from when individuals are referred to *Route2Work*, since providers will have a liability to reimburse DWP for benefit costs during the contract period, there will still be a large element of risk in the contracts. For those individuals placed on the scheme that do not find work, any expenditure on their support will lead to a loss for the provider. Given the deep barriers to work that many of these individuals are likely to have, without further investment in the scheme and payments to providers, it is unlikely that support will be sufficient to meet the needs of individuals. For this reason, we believe that the government should explore whether the contract period should be extended to between three and five years. This would increase the level of upfront funding and allow a longer period in which providers could work with claimants to get them into work and be rewarded with the savings from reduced benefit payments. Further outcome payments should also be given to providers.

Recommendation 8: As well as an upfront funding system with benefit cost claw back, additional payment systems for providers should be introduced. These should provide further outcome payments for sustainable work and also consider whether movements towards work might be rewarded. This should learn from programmes such as ESF Support for Families with Multiple Problems, Employment Zones, Work Choice and international examples of the use of intermediate labour markets. Extended contract periods of between three and five years should also be considered.

Leveraging more money into the system to fund these additional payments will be essential to achieving effective support and employment outcomes for these very-hard-to-help individuals. However, in the current economic climate, spending more money on employment support is unlikely to be politically feasible. For this reason, DWP should explore alternative options for leveraging extra finances into *Route2Work* contracts to meet these payments. To some extent, this could be facilitated by joining up existing local services and making use of existing funding where programmes overlap with this new approach. Private investment through social finance should also be encouraged.

The example of co-funding structures with local government, philanthropic entities and the third sector operating alongside match-funding from central government, such as the Social Innovation Fund in the United States[76] provide evidence of how such arrangements can work.

Recommendation 9: Additional finances should be levered into *Route2Work* from existing local and central government programmes that overlap with the new approach and from non-state sources. Private investment through social finance should also be encouraged.

76 For example, see 'From Social Innovation to Social Investment: Learning from the US', Impetus 2012, www.impetus.org.uk/media/134736/SocialInnovation SocialInvestment_IMPETUS.pdf

Growing social investment

> *'Building and growing a market for a new way of funding social interventions based on investment in social returns… This is about enabling investors to put their money into projects which yield BOTH a social return for the community AND a financial return for them.'*
>
> Iain Duncan Smith, Secretary of State for Work and Pensions.

While the potential advantages of combining public and private investment together to meet social goals are clear, investment in social enterprises and the use of social finance more generally is an underdeveloped in the UK. Trusts, foundations, private enterprises and other investors are looking to move into this new asset class but investment opportunities – which generate social as well as financial returns – are relatively few and far between. Aside from the oft-cited rehabilitation programme underway in Peterborough (using the social impact bond model)[77] and a limited number of pilots by local authorities, there are few practical examples of public policy involvement.

This means that, while a bringing smaller organisations and social enterprises together into the welfare market in a more coherent manner would represent a step forward, it is clear that capacity and funding streams to complement government finance will need to be built.

Progress on this front is already being made. The emergence of an 'impact investing' asset class, finding a set of cash flows suitable to the sponsor, provider and investor is a rapidly developing area with considerable progress being made, such as in schools.[78] The Public Services (Social Enterprise and Social Value) Act should ensure that public sector contract awards will have to consider wider social benefits as well as price[79] to encourage organisations that 'have a sense of social responsibility'.[80] Additional 'top-up' funds through the Cabinet Office's Social Outcomes Fund for tackling complex social programmes the savings for which accrue over multiple departmental silos, are also helping to increase investment in payment-by-results and Social Impact Bond contracts.[81]

However, social enterprises and their related financing models have made relatively little headway in the welfare-to-work space. Those that do exist are relatively small scale. For instance:

- the self-employment support network for military veterans, *Heropreneurs*, provides introduction to investors, mentoring, financial and legal advice, as well as funding and business support;[82]
- Organisations like the Acumen Development Trust in East Durham, cater to particular local areas which have long-term dependency issues;[83] and
- There are also various groups like the Spring's Project and Shaftesbury Project that cater to different types of unemployed person.[84]

By providing a guaranteed flow of finance that might act like seed funding, we hope that our proposals will spur the growth in this market. We also believe that there should be opportunities to use EU Structural and Investment Funds grants to boost finance in this market.

77 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/162352/peterborough-social-impact-bond-assessment.pdf.pdf

78 Social Enterprise Schools: A potential profit-sharing model for the state-funded school system', Policy Exchange 2012, www.policyexchange.org.uk/publications/category/item/social-enterprise-schools

79 Public Services (Social Enterprise and Social Value) Bill, www.publications.parliament.uk/pa/cm201011/cmbills/006/11006.i-i.html

80 www.chriswhitemp.com/speeches/speeches/private-members-bill-second-reading/240

81 http://data.gov.uk/sib_knowledge_box/social-outcomes-fund-cabinet-office-uk

82 www.heropreneurs.co.uk/

83 www.acumentrust.org.uk/

84 For example, the Spring's Project www.springproject.co.uk/ or the Shaftesbury Partnership www.shaftesburypartnership.org/what-we-do-0

Recommendation 10: The government should work with existing and proposed social enterprises to support bids for EU Structural and Investment Funds to top up government financial support through *Route2Work*. This should also involve defunding/cancelling existing projects which overlap/duplicate one another and utilising available finance such as the 2014–20 EU Structural and Investment Funds in a more efficient way.

We also believe that creating a new programme focused on helping the very-hardest-to-help will provide a framework to which new investors and bodies will be attracted. Social investors would be guaranteed that their funding would be aimed at the most vulnerable groups (who would otherwise not be helped and 'parked' under existing provision). It would be aimed at improving the social capital of the most vulnerable in society and could help maintain the capacity and specialist skills of charities. Overall, it is likely that this would prove a more attractive proposition than 'vanilla' charitable giving, or existing opportunities for making provision in an uncoordinated way with the Work Programme. For charities or social enterprises uncomfortable with the payment-by-results concept, it clearly delineates where their provision starts and the Work Programme ends.

"It would be aimed at improving the social capital of the most vulnerable in society and could help maintain the capacity and specialist skills of charities"

While finance from both government and the EU Structural and Investment Funds and a clearer framework within which social finance can operate should bring more investors into this market, it would also be sensible to assess whether there are broader barriers to social investment in this market and what government might do to further encourage investment.

Recommendation 11: The government should launch a consultation into the use of social finance in the welfare support market. This should assess both whether there are barriers to growth in this market and what government might do to facilitate further investment.

When to implement the new approach

> *'The Prime Contractor shall comply with any proposed variation to the Contract.'*[85]
>
> Work Programme contract summary, clause 6.3.10.

It is essential that this new approach is introduced as quickly as possible. Without it, those furthest from the labour market will continue to be parked without effective support and it is likely that their barriers to work will deepen. Those individuals who joined the Work Programme when it rolled out in June 2011 and who have spent two years without finding sustained employment, will also begin exiting the programme in June 2013.

This raises the question of the ability to introduce this new market before Work Programme contracts are retendered. In this respect, it appears that the seven year contracts stipulate wide flexibility for DWP to make amendments to the Work

85 www.dwp.gov.uk/docs/work-prog-contract-summary.pdf

86 www.dwp.gov.uk/docs/work-prog-draft-terms.pdf

87 www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/1438/143804.htm

Programme before they are retendered.[86] These changes could be due to 'funding changes, unexpected performance trends, or changes in policy' due to changes in anticipated volumes or economic change and alterations resulting in policy changes.[87] In particular, it reserves 'the right to review contracts for changes in economic conditions', stop referrals for some customers, begin referrals for others, change the point of entry, flex eligibility criteria and change 'the scope and nature of the customer groups'.[88]

There can be no doubt that anticipated economic conditions have worsened considerably since the contracts were originally contracted in 2010 and we have already seen a number of changes that impact upon the Work Programme contracts. For example initiatives like day one referrals for ex-offenders (previously three months) from April 2012 and the announcement of a wage subsidy scheme for younger workers through the Youth Contract. For these reasons, we believe that the government should implement this new programme before the Work Programme contracts are retendered and following a pathfinder programme.

Recommendation 12: *Route2Work* should be implemented before Work Programme contracts are retendered. To allow for time to learn from a pathfinder process and to build an effectively designed programme, contracts should begin in mid 2014.

One obvious route through which an effective pathfinder process could be launched is through piloting as part of the City Deals process. The City Deals provide the opportunity to join up central and local government finances with social investment and, by starting off on this small scale, the Cabinet Office *Social Impact Fund* could be used to further stimulate and encourage social invest.

Recommendation 13: A pathfinder for this approach should be piloted through the City Deals process. Benefit costs and funding from central and local government schemes should be combined under this framework and social investment attracted with use of the Cabinet Office *Social Impact Fund*.

Longer-term options

As outlined, *Route2Work*, will provide support for at least 100,000 hard-to-help individuals each year. By focussing support through smaller-scale charities, specialist support organisations and social enterprise, it will build a market that these groups are able to compete.

Once *Route2Work* has been established and capacity grown, we believe there are at least two areas where additions to this basic outline should be considered:

Recommendation 14: Once capacity has been built, if the approach is shown to be successful through evaluations, the government should consider whether there is scope to bring more hard-to-help claimants into *Route2Work*. This could involve Work Programme providers being allowed to "give back" more than 5% of their caseload; more Work Programme "leavers" being given access to the programme; and a greater number of day one referrals once a segmentation tool is in place.

88 www.dwp.gov.uk/docs/work-prog-draft-terms.pdf, p. 48.

The contracting method might also change in order to provide further savings to the exchequer. In particular, it should be considered whether the approach of providing full upfront benefit costs should be changed. For instance, over time, it might be possible to move to a situation where a smaller percentage of benefit costs are paid upfront (for instance 90%) with the expectation that providers are able to remain financially viable as their performance has outstripped this level.

Box 3.4: Illustrative example of provider payments with less than 100% benefit handover

The same claimant as outlined in Box 3.3 is identified as unlikely to find sustainable employment through the Work Programme and so is offered to the *Route2Work* programme. A social enterprise bids for the opportunity to work with this claimant, but now contracts are based on 90% of total two year benefit costs. This means they receive £45,000 in upfront funding for assuming the benefit liability of the claimant for two years. To this, social finance can be added

If they are successful, the claimant may only take £40,000 in benefit payments and they can thus realise £5,000 for the provider. Again, this would be equivalent to finding the claimant employment for £8 and hour for 30 hours a week for 60% of the contract period.

If they make no impact at all they will lose £5,000. Either way, the exchequer has realised a £5,000 gain above its assumed benefit liability,[89] either to be saved or spent on alternative provision. While the balance of risk and reward may appear disproportionate for a for-profit company, this may be a way for social enterprises and non-profits to assume greater risks than would otherwise be commercially viable in pursuit of their social objectives.

89 We note that contingent capital to offset the potential for default of *Route2Work* providers may reduce this potential gain.

4
Conclusion

This report has outlined an important new programme of support for the very-hardest-to-help benefit claimants. By bringing together public and private investment for these groups, it is hoped that *Route2Work* will prove more successful that any of its predecessors in helping these individuals towards and into work. By doing so it will tackle the problems of parking of the hardest-to-help and exclusion of smaller specialist providers that are both evident within the Work Programme as it is currently constructed.

The Work Programme provides employment support for long-term unemployed and disadvantaged individuals. For the vast majority of these individuals it will provide the right support and help them to find work. However, this report argues that to get the most people into work, the programme focuses resources on those closest to the labour market. This means that those with the greatest barriers to work can be left without effective support.

For this reason, the report recommends that a new programme, *Route2Work*, is introduced. This would provide support for up to 100,000 of the very-hardest-to-help individuals who enter the Work Programme or who leave the Work Programme after two years without finding a job. By using benefit costs to pay providers upfront, *Route2Work* would provide targeted and personalised support to help these individuals get back to work using third-sector and specialist providers of support services and social enterprises. It would also aim to bring social investment into the welfare market and join up existing health and social care provision with employment support.

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Policy Exchange
Clutha House
10 Storey's Gate
London SW1P 3AY

www.policyexchange.org.uk