

Third Sector Research Centre

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## **Does sector matter? Understanding the experiences of providers in the Work Programme**

James Rees, Rebecca Taylor and Chris Damm

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## Abstract

Employment services, in the UK as elsewhere, are increasingly delivered outside of the traditional public sector, by organisations from the third, private and even by other constituent parts of the public sector. The Work Programme was launched in a policy environment in which the role of the third sector was particularly promoted by ministers, yet at the same time concerns about the sector's role and its perceived marginalisation in large scale high-risk contracts have dogged the Programme. There remains a lack of evidence about what, if anything, is genuinely distinctive about the experiences of third sector organisations compared to providers from other sectors. This paper seeks to explore the experiences of different providers and begins by outlining how the third sector's role in welfare to work has evolved from 1997 and highlights the emergence of particular issues associated with the third sector organisations (TSOs) delivering employment services. It then draws on interviews with key informants and subcontractors from all sectors in the Work Programme to explore issues around the squeezing out of TSOs, low flows of clients to subcontractors and the 'creaming and parking' of hard to help customers. Ultimately it concludes that sector is not the most important factor in accounting for providers' experiences of the Work Programme, and that it is intersected by providers' size, the types of services they provide and crucially, the tier in which they sit in the supply chain.

### Keywords

Employment services, welfare to work, supply chain, third sector, public sector, private sector, the Work Programme.

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## 1. Introduction

Developments in UK employment services have involved the movement of service delivery away from traditional hierarchical public sector entities to the external contracting of a wider range of providers in the third and private sectors (Aiken and Bode, 2009; Davies, 2008). This is part of the broader international trend towards contractualism and managerialism in the context of New Public Management (NPM) based reforms (Clarke and Newman, 1997; Ramia and Carney, 2000) that have involved the adoption of quasi-markets in the delivery of employment services following countries such as the US, the Netherlands and Denmark (Bredgaard and Larsen, 2008) and Australia (Considine, 2005; Wright et al., 2011). This has happened at the same time as a reconfiguring of welfare recipients from a 'passive' to an 'active' mode via labour market activation policies (usually referred to as the 'work first' approach in the US) enshrining greater individual responsibility through, for instance, greater 'conditionality' (Peck, 2001).

In the UK these developments have taken place in a wider context of considerable political support (from both Labour and Conservative governments) for a significant third sector role in service delivery (Lewis, 1999). This stemmed in part from a concern to extend the welfare mix but was also informed by widespread views of third sector organisations (TSOs) as better embedded and networked in relevant communities, more trusted by service users, more innovative and fleet of foot, and animated by mission rather than profit (Aiken and Bode, 2009; Macmillan, 2010). They are also able to draw on a 'hybrid' mix of resources including harnessing the contributions of volunteers, philanthropists and other charitable giving. The evolution of employment services over a twenty year period resulted in a substantial expansion of the role, influence and sophistication of the third sector in the field. In fact an increasingly coherent and marketised policy sector or field of *welfare to work* began to emerge, in which the third sector was an active participant.

But despite the high levels of support and increasingly high profile of the sector in recent years there is surprisingly little evidence about the specific contribution of third sector organisations compared to those from other sectors. In the context of employment services there is little evidence that third sector (or indeed private, or other parts of the public sector)<sup>1</sup> providers offer superior services to the main public provider Job Centre Plus. The vast archive of post 1997 New Deal programme evaluations pays little attention to differences in provision by different sectors (Damm, 2012) and research by the sector tends to focus exclusively on the experience of TSOs and so lacks a comparative element that would cast light on what are third sector issues and what issues affect all providers. One partial exception is research by Hopkins (2007) which provides some cross-sector comparative analysis of 'customer satisfaction' with employment services, one of the fields under scrutiny. Indeed the 'added value' of TSOs as providers in employment services has been the subject of long-running policy debate (Work and Pensions Select Committee, 2009) and some have

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<sup>1</sup> In the context of the Work Programme, 'other public sector' means for example local authorities or further education colleges.

questioned whether there is any evidential basis to adequately support the policy of contracting out at all (Davies, 2008; Grover, 2009).

The lack of (comparative) evidence appeared to have done little to dampen political enthusiasm for the sector's role in welfare to work provision. Indeed when the Conservative-led Coalition that succeeded Labour in 2010 launched its new Work Programme it was in the context of a political ambition to see an enhanced role for civil society in delivering public services in a 'Big Society' (Alcock, 2010; Teasdale et al., 2012) and an Open Public Services agenda (HM Government, 2011). Hence the sector's role as providers in the Programme was hailed by the Employment Minister as a 'triumph for the big society' (Department for Work and Pensions, 2011a).

Whilst this appeared to be a positive message, long running concerns were being voiced by the sector and its supporters who argued that TSOs were increasingly being squeezed out of the welfare to work market (Simmonds, 2011; Bennett 2012). Fewer than expected subcontractor contracts and low initial customer flows to TSOs gave rise to claims that the sector had been used as 'bid candy' to secure Prime contracts with the Department for Work and Pensions (DWP) (Butler, 2011; Plummer, 2011). In fact the Work Programme was rolled out against a backdrop of critical media coverage and public interest focused on the role of the third sector which was seen by some to be 'a victim' of a profit-hungry and ruthless private sector and a cost cutting government (Toynbee, 2011). In addition to the media stories, 2011 saw a range of policy discussions about the Work Programme, reports by the Work and Pensions Committee, and third sector or 'industry' reports (Simmonds, 2011; Work and Pensions Select Committee, 2011) in which sector was the main factor used to frame the experience of providers in the Programme.

Against this backdrop of sector focused policy debate, political rhetoric, and third sector lobbying, the paucity of evidence about the sector's actual role and performance compared to other sectors is somewhat worrying and raises a number of questions about the extent to which there are differences between organisations from different sectors in terms of what and how they deliver in the welfare to work arena. Or to put it another way, we need to examine *how useful is the concept of sector as an explanatory concept in policy debate about welfare to work?* The Work Programme provides an opportunity to explore and compare the role of providers from all three sectors, their experiences of operating in this evolving contracting environment and the extent to which TSOs in particular are being disadvantaged in the field compared to providers from other sectors as some claim (Bennett, 2012). The aim of this working paper is to shed light on whether issues relating to subcontracting, that have been considered 'third sector' issues, are in fact just as widespread beyond the sector. In doing so it touches on not only the ways in which the Programme impacts on the delivery organisations but the ways in which these organisations actively engage with the Programme.

The paper draws on findings from a mixed methods study of the Work Programme conducted between summer 2011 and autumn 2012. The research consisted of three parts: an evidence review (Damm 2012), key informant interviews and case studies of delivery in two geographical areas. The eight key informant interviews included respondents from third sector and welfare to work infrastructure organisations; senior staff in private and third sector Prime contractor organisations, and

mainly large national third sector organisations with experience of delivering welfare to work programmes.

The case studies of delivery were located in two areas chosen to provide geographical and labour market diversity (inner-city versus semi-rural, north versus south) and different supply chain models and focused on exploring the experiences subcontractor providers. In each area a brief 'mapping' was conducted to identify the role and type of third sector and other sector organisations in the supply chains. This was followed by a phone survey of subcontractors which aimed to check their sector and supply chain location against publically available DWP data and ascertain the nature of their provision and to whom they provided. In the two areas we contacted approximately 65% of all subcontractors and in most cases received a response of some form. Finally interviews were conducted with four private sector Primes from the two sampled areas (the fifth declined to take part) as well as interviews and two focus groups with 14 subcontracted providers of whom 10 were third sector, three were private sector and one was public sector.

A number of providers were apprehensive about participating in the study given the strictures in their contract about publishing performance data (even though this was not the aim of our research). Private sector subcontractors tended to be less willing to participate in the research than their third sector counterparts. The low numbers of public sector providers in the whole Programme meant this group were the hardest to capture in the sample. In one area one Prime declined to participate ('due to the Work Programme being in the early stages') and another withdrew support for the research half way through following a change in staff. This meant some of their subcontractors who we had approached could not obtain permission to participate and so had to withdraw. These issues also contributed to a much smaller pool of providers to recruit from and fewer private and public sector providers in the final sample than anticipated.

The paper begins by providing an account of the evolving role of the third sector in welfare to work since 1997, highlighting the emerging debates and issues. It then draws on the interviews with key informants and subcontracted providers in the current Work Programme to understand the extent and role of the third sector in relation to other sectors, in particular examining the different types of organisation and the different types of involvement arising from structured tiers within the subcontractor model. It then goes on to explore three particular issues, the squeezing out of third sector providers, flows to subcontractors and 'gaming' behaviour; all of which have been issues that have been presented in the wider policy debates as disproportionately affecting the sector. Ultimately the findings discussed in the paper suggest that sector is rarely the most important factor in accounting for subcontracted providers' different experiences of the Work Programme. Organisational size, supply chain position, the strategy and management practice of their Prime contractor and location all shape the type of role subcontractors play. At the same time these structural factors are also mediated by the decisions subcontractors make based on internal priorities and practices. However we argue that all of these factors have to be placed within a solid understanding of how the Work Programme, and particularly the Payment by Results (PbR) model at its heart, actually operates.

## 2. Background: the evolving role of the third sector in employment services

The widespread inclusion of the third sector in statutory welfare to work provision can be traced back to the period following New Labour's election in 1997 (for a more detailed account see Damm, 2012). Labour's initial experiments with contracting involved a small number of private sector providers delivering broadly the same service as their public sector counterparts (Finn, 2009). However, a range of subsequent pilots followed that contracted out to both third and private sector providers, and granted a greater degree of autonomy to providers. For example the third sector delivered half of the provision in the New Deal for Disabled People (NDDP) 'innovative schemes' programme (Hills et al., 2001) and around 42% of the NDDP Job Broker contracts by number (Stafford et al., 2007). The introduction of Pathways to Work, also aimed at incapacity benefit claimants, introduced the concept of 'supply chains' with Prime contractors commissioned by the DWP to either provide services themselves or subcontract to others. By the time national coverage of the programme was achieved in 2008, 60% of the total service was provided by 900 private or third sector providers (Finn, 2009). The third sector won 13% of the Pathways Prime contracts and 44% of subcontracts (McDonald, 2007).

Pathways reflected ideas outlined in the influential DWP-commissioned report by David Freud which called for even greater private and voluntary sector involvement in a prime subcontractor model, with a more personalised flexible approach and greater conditionality (Freud, 2007). In 2008 the DWP's 'Commissioning Strategy' officially endorsed contracting as 'business as usual' and pledged to implement Freud's recommendations with further consolidation of the number of Primes and extending the size and length of contracts. Creating market conditions was paramount and the department spelt out that it would 'not prescribe volumes or shares of business that should be directed at either smaller, specialist or third sector providers' (DWP, 2008 p 13). At the same time, there was growing consensus that Payment by Results (PbR) – where subcontractors were primarily rewarded for the results or 'outcomes' they achieved – should be central to any contracting approach; which was in turn presaged on the long-term savings to the public purse of greater numbers being in work. The first project to run under the new strategy was the Flexible New Deal in 2009, the final year of Labour's term in office. It was estimated that around half of its delivery organisations were from the third sector (Armstrong et al., 2010) primarily at the subcontractor level although the market share held by the sector was difficult to determine (Simmonds, 2011).

The third sector's role in the delivery of employment services has thus undergone a period of transformation, firstly in terms of its significantly increased role and profile in the initial period of change after 1997 but then in terms of its apparent subordination to the subcontractor side of the supply chain after Pathways. This shift in the nature of the delivery model has meant TSOs are no longer securely contracted to DWP but must attempt to sell their services to large, mainly private sector 'Primes'. These changes have raised concerns about the sector's ability to compete in the evolving welfare to work market. The Pathways to Work evaluation and other reports that followed highlighted a number of apparent issues for the sector. The nature of its market share and question of whether TSOs were being 'squeezed' out of both Prime and subcontracted delivery was a key concern

for policy makers and the sector (Work and Pensions Select Committee, 2009). An inquiry commissioned by ACEVO (Association of Chief Executives of Voluntary Organisations) argued that the sector had lost out in the Pathways prime contracts for reasons that included the increased capacity and appetite for risk required to deliver these large contracts, and a lack of commissioning expertise within the sector (McDonald et al., 2007). Later research by the National Audit Office suggested that not all Primes were contracting as expected (National Audit Office, 2010a).

Policy makers worried that third sector organisations were being used as 'bid candy' and then dropped but also that Primes were monopolising provision of services in house, excluding smaller, more specialist providers and that organisations which did secure subcontracts were treated poorly by their Primes (Work and Pensions Select Committee, 2007; 2011). In particular one report found that risk, inherent in the Payment by Results funding model now being developed and implemented, was being passed on to small subcontractors rather than being absorbed by the larger Primes (Hudson et al., 2010). Third sector subcontractors themselves complained about the excessive financial burden caused by having to bid to several different potential Primes (Crisp et al., 2011). In addition it can be argued that TSOs faced structural barriers to participating in the new contracting environment, in particular their lack of access to capital and slow moving governance structures.

Gaming was also increasingly being viewed as a problematic side effect of Payment by Results models with evidence emerging that providers tended to focus on the easy customers and park the 'hardest to help individuals' (Work and Pensions Select Committee, 2010) This was an issue for the third sector in a number of ways. In particular there were concerns that Primes might cream off the easy customers whilst referring harder to help customers to their (potentially third sector) subcontractors making it hard for them to cover their costs (Hudson et al., 2010; Work and Pensions Select Committee, 2010). In addition the hardest to help were seen to constitute the third sector's main customer group and it was possible that TSOs may themselves be pressured into similar gaming behaviour by the programme (Hudson et al., 2010). These issues were intensified by the low overall level of funding available within programmes as targets and payment structures become progressively more challenging and Prime contractors attempted to underbid each other by discounting their fees (National Audit Office, 2010b).

Despite the mounting criticisms by the sector the extent to which these are sector specific issues or more widespread effects of welfare to work programmes on their providers is difficult to establish (Third Sector Task Force, 2009; Work and Pensions Select Committee, 2009; Crisp et al., 2011). In particular there is a lack of comparative research that examines differences between sectors. The following section examines the Work Programme in more detail and in particular its supply chain structure, the position of different sectors within that structure, and the different types of organisation involved in delivering services.



### 3. The structure of the Work Programme

The Work Programme implemented by the new Coalition government in June 2011 replaced not only the Flexible New Deal (FND) but almost all of the welfare to work programmes overseen by DWP. It provides a single programme for claimants of Job Seeker's Allowance (JSA) and the Employment Support Allowance (ESA) (which is gradually replacing Incapacity Benefit). It represents an almost complete implementation of the Freud report's recommendations; with DWP contracting with a relatively small number of large Prime contractors who manage a supply chain of subcontractors operating within a strict Payment by Results (PbR) regime.

The Programme was implemented in the context of considerable macro-economic uncertainty and fiscal retrenchment (Taylor Gooby and Stoker, 2011). The creation of a single generic programme combined with a wider financial squeeze on public services created a commissioning environment where the Work Programme was seen by several of those we interviewed as 'the only game in town'. The fiercely competitive commissioning stage saw significant price discounting by organisations bidding for Prime contracts and general agreement that the DWP had commissioned primarily on cost (Simmonds, 2011).

Key features of the Programme include:

- Arm's length management regime – a clear intention that Primes manage supply chains on a more 'commercial' basis, with more determined transfer of financial risk away from DWP and the state, in return for which providers are permitted a 'black box' in which to choose delivery methods. DWP implemented the Merlin Standard<sup>2</sup> to regulate this more hands off contracting environment.
- Payment by Results – like in previous programmes the payment profile is 'back-ended', that is it seeks to reward contractors for achieving job outcomes. However, in the Work Programme these are even longer-term (over two years), and the initial attachment fee is a relatively small proportion of the overall likely income; and the attachment fee itself is being gradually phased down over the lifetime of the Programme. Thus most of the payment is only triggered when a customer has been in work for 24 months. This extension of the payment window significantly increases the financial risk for all providers.
- Differential payments – in order to incentivise providers to achieve outcomes for the 'hardest to help' and minimise creaming and parking the Work Programme offered differentiated payment levels depending on which benefit a claimant had received. Again this was a key recommendation of the Freud Report.
- Supply chain model – the UK is divided into 18 very large geographical Contract Package Areas (CPAs) with 2-3 Primes operating in each area. Customers are randomly allocated to a Prime

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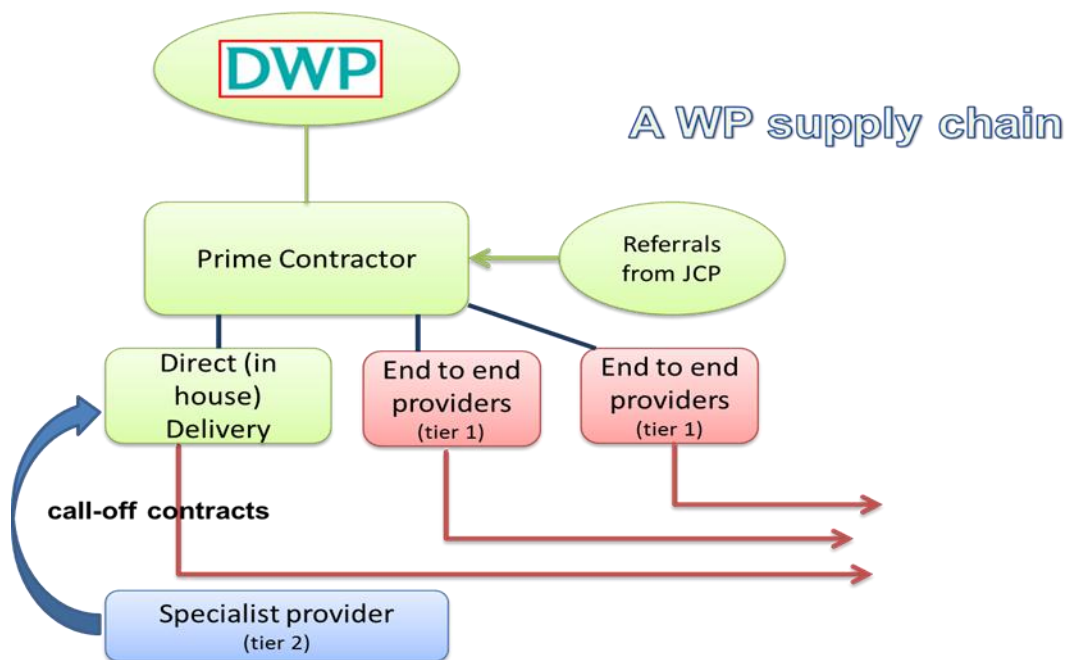
<sup>2</sup> The Merlin Standard (DWP, 2011c) was designed by DWP with providers and representative bodies to strengthen the Code of Conduct (that was originally part of DWP's Commissioning Strategy document).

from Job Centre Plus (JCP).<sup>3</sup> Each Prime then subcontracts some or all of the delivery to their supply chain consisting of tier 1 (end to end) and tier 2 (specialist) providers (see Figure 1). This is explained in more detail in the following section.

#### 4. The position of different sectors in the supply chain

In general numerical terms the Programme is dominated by third and private sector providers with a smaller role for the statutory sector. However breaking it down by supply chain position or tier reveals a more complex picture, one that can be measured in terms of the number of organisations involved or the contracted proportions of delivery. With regard to the Primes the numbers are unproblematic. 18 organisations won 40 contracts and of those 18 Primes only two were TSOs and one was a statutory organisation, the rest were large private sector companies such as Ingeus, G4S and A4e.

**Figure 1: Work Programme supply chain model**



At the top of the chain Primes can either deliver employment support themselves via their own 'in house' services, and/or subcontract to tier 1 or 'end to end' providers who effectively take a customer on the complete journey from unemployment to a two year sustained job outcome. They have service contracts with the Primes which specify market share and predict a certain flow of customers over the period. Some Primes operate with just two or three end to end providers in their supply chain, others have over 20. These different proportions reflect the different geographical profile of a CPA as well as

<sup>3</sup> Random allocation enables the evaluation of Primes' performance (i.e. by comparing job sustainment rates for the Primes as a whole).

the 'delivery model' preferred by a Prime. Those who are specialist welfare to work providers deliver a large proportion of the end to end services themselves (in-house delivery); outsourcing specialists refer on all or most of their customers and simply manage a 'supply chain'. Analysis of DWP's subcontractors list (see Table 1) found that tier one providers were a fairly equal mix of third and private sector with a smaller number of statutory providers.

End to end providers (Primes and tier 1s) can then subcontract to tier 2 specialist providers who provide support for particular issues such as substance misuse or customers such as ex-offenders. The customer, having received the specialist service, then returns to their end to end provider for the rest of their employment support 'journey'. Unlike tier 1, this group is more likely to have a 'spot-purchase' or 'call off' arrangement, which gives no guarantee of flows and is not linked to outcome payments. The proportion of tier 2s in individual supply chains also varies significantly from 4 or 5 organisations to around 30 or 40. At tier 2 level the third sector has the most substantial role but still with high numbers of private sector and a very small number of statutory sector.

**Table 1: Proportion of sub-contracts held by each sector, by tier.**

| Organisational sector | Tier 1       | Tier 2       | Total        |
|-----------------------|--------------|--------------|--------------|
| Private               | 160<br>43.1% | 336<br>37.8% | 496<br>39.4% |
| Public                | 58<br>15.6%  | 98<br>11.0%  | 156<br>12.4% |
| Voluntary             | 153<br>41.2% | 454<br>51.1% | 607<br>48.2% |
| Total                 | 100%         | 100%         | 100%         |

Source: authors' calculations (based on DWP 2012, a subcontractor list published in November 2012). NB: calculations do not include Prime contracts.

However the phone survey of the subcontracted providers in our two CPA case studies revealed inaccuracies in the DWP's data around allocation of sector, the inclusion of organisations who were not actually providers and the absence of others who were. In any case a more telling picture of different sectors' involvement would come from the actual volumes of clients being allocated to subcontractors. There is little publically available data on this but a one off 'stock take' by the DWP around a month into the Programme found 20% of all attachments had been referred to voluntary sector organisations (2011b). Analysis of indicative flows across the Programme specified in original

contracts (and thus likely to be out of date) suggests the proportion of delivery is 43.1% self-delivery by Primes, 30% private subcontractors, 18.3% voluntary subcontractors, and 8.5% public subcontractors (Simmonds, 2011). In other words the private sector, due to its position at the Prime level, dominates in terms of numbers of clients supported and thus the likely share of financial rewards. Again, however, whilst these figures give us a broad picture they do not stand up to close scrutiny. For example many tier 2 providers may not have any contracted volumes so are not likely to be included in these calculations.

Whilst this has given an outline of how the supply chain operates and the proportion of organisations from different sectors involved, the interviews and subcontractor phone survey provide a more detailed picture of types of organisation involved and what sort of services they were delivering. The result is a provider typology (Table 2) with those at tier 1 offering a range of generic services that include one to one advice and guidance, work focused support with CV writing and confidence building, short courses, work placements and job brokering and sometimes in-work support. These tend to be large national welfare to work (W2W) specialists from the private and third sector often operating across several CPAs from local offices or branches. They include Prime contractors operating as subcontractors to other Primes. A second group were large regional or local private and third sector organisations operating in a single CPA or across two neighbouring ones. Whilst they offered much the same in terms of offering job search support, CV writing and interview skills they came from different backgrounds. Most private and third sector tier 1s had a background in welfare to work type activities but some were primarily training and education providers and a small group of private sector organisations had a background in recruitment. Statutory sector tier 1 providers were constituted by a mix of specialist welfare to work departments in local authorities and local further education colleges who had moved into welfare to work from employment training. Finally at tier 1 level there were also a small number of providers that could not be allocated a sector that included various types of cross sector consortia or partnership and hybrid organisations such as quangos.

At tier 2, organisations offered a range of specialist services to those facing particular barriers to work. These services might include counselling for those with mental health issues, drug and alcohol advice or even a qualification in forklift truck driving. These providers were constituted by a hugely diverse mix of organisations ranging from private multinationals to small local charities and businesses. Whilst the private sector organisations often had a training remit, including English as a foreign or second language, the third sector organisations displayed a wide range of specialisms that tended to be client focused rather than functional specialisms. These included mental health, Black Minority Ethnic (BME) groups, disability, ex-offenders, drugs and alcohol.

Unsurprisingly the DWP's supply chain tier categories were not entirely clear cut in practice. A second group (at this stage defined as 'other') emerged from those that are administratively labelled as tier 2 subcontractors. These organisations provided more of a support or consultancy role for the Primes or an intermediary role between the Primes and the customer. Mostly private or third sector, they offered, for example, advice helplines for customers, or assessment of customers with particular needs. They were also likely to have a national relationship with a Prime to deliver one of these services across all their CPAs.

**Table 2: Provider typology**

| <b>Sector/<br/>type</b> | <b>Private sector</b>  | <b>Public sector</b>  | <b>Third sector</b>  | <b>Other</b>  |
|-------------------------|--|---|--|---|
| End to end              | Primes, large national and smaller regional organisations, W2W and training remit  | FE colleges and employability/W2W units in local authorities            | Large national and smaller regional organisations, mainly W2W remit some specialist providers                              | Mixed or single sector consortia, large third sector orgs with private sector partner |
| Specialist              | Large national, smaller regional, and local organisations mainly with a training remit   | Further Education colleges and employability units in local authorities | National regional and local organisations with remits including mental health, BME groups, ex-offenders, drugs and alcohol | Mixed or single sector consortia  |
| Advice/<br>support      | National and multinational organisations offering consultancy, customer assessment/triage services; support and advice helplines (mainly health) | none  | National organisations offering advice services and helplines; intermediary/ infrastructure bodies                         | Sub-sector skills councils, cross-sector partnerships and consortia                   |

The phone survey also revealed that in practice, many of the tier Two organisations from all sectors were not involved in delivery. Some organisations could not be identified or contacted, potentially because they had shut down. In other cases, a contract or service level agreement had been negotiated, but no further contact or referrals were received from the Prime. Finally, some organisations were entirely unaware that they were listed as a subcontractor. This may have been because the member of staff involved in initial talks had moved on, or could otherwise not be identified.

What this unpacking of organisation type and supply chain position highlighted was the diversity of organisations involved, and the complexity of sector categories themselves. It is apparent that overarching statements about the nature of third (or indeed any sector) sector involvement are difficult to sustain. Private companies and third sector organisations operating in tier 1 may have more in

common in terms of their size and structure than do third sector organisations in the Programme as a whole. Equally for instance it is the public sector organisations that are in some ways more distinct in terms of their structure and remit since they tend to be departments that are part of a larger organisation rather than independent organisations although in reality Further Education colleges and Local authorities are quite different. At the very least this challenges one of the assumptions embedded in the policy debate – that all organisations in a given sector are ‘in the same boat’.

The next section goes on to explore the experience of different sectors in more detail by focusing on three particular issues that are seen to particularly affect the third sector providers in the Work Programme and other recent welfare to work provision. A closer examination of a) whether the sector is being squeezed out of the provision, b) the issue of the apparent lack of flows to subcontracted providers and c) the mechanisms for gaming in the Programme, enable a more robust discussion of the extent to which these issues impact in a sector specific way, how sectors respond to these pressures and constraints and whether sector is a defining characteristic in the Programme.

## 5. Squeezing out and pushing down the supply chain?

The extent to which TSOs are being squeezed out of welfare to work provision, and whether this is a sector specific issue, requires some untangling. Initially some of the disquiet in the third sector arose because of the small number of TSOs who gained Prime contracts in the Programme – although squeezing out could also be taking place at the tier 1 level. The qualitative data provided by our interviews sheds some light on provider’s motivations for participating in the Programme and whether they felt this was driven by capacity and resource issues or other factors.

The first issue is that establishing a baseline level of third sector activity is difficult, partly because the Prime model is a relatively recent innovation within UK employment services. McDonald et al. (2007) note that in Pathways to Work 13% of Prime contracts were held by third sector providers, and this was considered disappointing because 49% of contracts had been held by the third sector in NDDP (although it is arguable whether the latter was really a fully realised ‘Prime model’). Furthermore, data on the third sector’s market share at the Prime level is not publicly available for previous programmes. In any case previous market share does not by itself indicate what an ‘appropriate’ level would be. There seems no doubting though that the environment has become tougher for TSOs. Bennett argues that for DWP there has been an ideological move ‘away from using independent providers for their ‘superior client knowledge’ and ‘innovation’, towards a use of providers for ‘risk transference’ and ‘financial interests’ (Bennett, 2012, p11). To be accepted on to the bidding framework potential Prime contractors had to meet rigorous requirements that included demonstrating a turnover of £20 million. Effectively the large contract sizes and increased risk embedded in a PbR regime meant that Prime contracts became less viable for many organisations (Work and Pensions Select Committee, 2011).

Certainly some of the TSOs we interviewed admitted the risks were too high. One decided against bidding for a Prime contract despite the fact their turnover ‘easily surpassed the DWP requirement’ because they didn’t want to put their ‘core business at risk’ (TSO tier 1 provider 06). Another that did bid argued that they had been very strategic about only bidding for one CPA where they were well

established and entering into a partnership with a private sector Prime so they could deliver in other areas.

'The restraint we had in choosing one particular area was around cash-flow, because it was... you know, we can afford to bid for one contract to be a Prime provider, and therefore, we should fully focus on actually doing that and being successful in doing that.'

**TSO Prime provider 21**

Unlike private sector companies several of those we interviewed noted that third sector organisations had less opportunity to raise the necessary capital borrowing from banks or investors and fewer cash reserves or assets which they could use to demonstrate their capacity to absorb risk. However financial risk was not the only consideration. Several TSOs pointed out that bidding for Prime contracts was out of the question because they could not compromise their mission to the extent that this would require. "I don't think we could hold up and say, "We won't be associated with job outcomes and mandation, and sanctions," if we were a Prime, wouldn't quite work." (TSO tier 2 provider 27)

On the question of whether TSOs are being squeezed out of the sub-contractor market at the tier 1 level, delivery organisations from all sectors hoping for a subcontractor role found the process of selling their services to a large range of potential Prime contractors followed by the submission of multiple individual Expressions of Interest (EOIs) was viewed as burdensome, resource intensive and poorly designed (as pointed out in an early survey by Crisp et al., 2011, and echoing findings from a range of literature on commissioning and contracts, see Buckingham, 2009 for an overview). This respondent was typical in noting the huge number of staff hours that had gone in to submitting multiple speculative EOIs to Primes:

'every single one of them is saying "complete one of these" for each of the CPAs in which we were bidding, the resource behind that was tremendous for a charitable organisation. It caused me a nightmare and we probably had 20 people working on it, 90% of which we knew was worthless because it was only the small amount that would win those bids but we wanted to be in most bids.'

**TSO tier 2 provider 08**

Whilst providers from all sectors noted this issue, private sector providers were more sanguine seeing the resourcing of the bidding process as part of the game they needed to play to compete in the market. One company for example, had strategically bought another in order to improve their geographical coverage and saw this as critical to their success in securing an end to end contract.

A second issue for tier 1 providers was that the financial risks were still acute at the subcontractor level and in particular the potential pension liability for TSOs taking on ex-local authority staff via TUPE meant some struggled to compete. However it wasn't only TSOs that selected out of the Programme on the basis of the TUPE risks. A Prime noted that several Local Authorities who they had been keen to work with as subcontractors pulled out because they were unwilling to take TUPE'd staff "a lot of them wouldn't accept the responsibility that was involved in a DWP transfer" (Private sector Prime 03). Not all TSOs were put off by the financial risks at the commissioning stage. This TSO argued that they were able to participate because they had a substantial surplus at the time.

'We had to go back to our board and say to them, basically, look, we've made this massive surplus. [...] we actually took two really good years, and we banked the money.'

We didn't use it; we banked it. We knew we were coming into lean times, so we went into the Work Programme with £1 million in the bank.' **TSO tier 1 provider 24**

As with the issues at the Prime level, third sector subcontractors were particularly concerned about the risk of participation in the Programme with regard to what they saw as the substantial reputational risk. Organisations with a strong brand related to charitable mission and a campaigning role in relation to government expressed some anxiety that association with the Work Programme could damage their public reputation:

'this is the first time we've worked on something that's got such a high media profile, such a high political profile. The reputational risk potentially to us is enormous. And we've already had comments on our own Twitter and Facebook about why we are working with the Work Programme. So we are very, very conscious about the risk to us about being associated with the Programme.' **TSO tier 2 provider 20**

Similarly TSOs talked about internal concerns and discussion that went on prior to and during the commissioning stage that focused on the implications for bidding in terms of the organisation's mission. Taking mandated clients and implementing sanctions were developments that needed to be resolved:

'this was going to be a major change for us because now we were going to have mandated clients. People were going to be sent to us. Yeah? So a real step change I suppose, that's where a lot of the concerns and the conversations went about that, you know, internally as a third sector organisation do we want to be part of that?' **TSO tier 1 provider 26**

Another issue was raised by third sector representative bodies who argued that squeezing out of third sector organisations was happening at tier 1 level because of the functional separation of end to end and specialist into two tiers. Since TSOs were more likely to provide specialist support to customers they were being squeezed out of the end to end market.

'What you're seeing is a lot of charities that have been used to delivering end to end and now having to face the reality that they're just going to be called upon when their specialist area is needed.' **TSO stakeholder 01**

The squeezing out rhetoric implies that TSOs *in particular* are being pushed out of the Programme. At a structural level the contraction of the market, resulting in a smaller number of larger Prime and subcontractor contracts together with a heightened risk environment, has made the environment tougher for all potential providers whatever their sector. The qualitative interview data suggested a complex set of factors both structural and those arising from organisational priorities that shaped decisions around involvement as Primes or subcontracted providers. Third sector organisations do appear to face specific risks around mission and reputation and the structure of the Programme also appears to disadvantage those that are not primarily generic providers. As the next section makes clear many tier 2 level providers also have a very marginal role in the Programme but for a different set of reasons. However there is nothing to suggest that third sector organisations are the only ones to lose out as the market contracts.



## 6. Flows of clients and the importance of systemic design issues

In the early stages of Work Programme delivery, an ever-present issue for providers at all levels has been the level of 'flows' of clients into and through the system: both overall volumes over periods of time and the mix of customer groups compared to expectations. Much of the third sector's concerns with the Programme have focused on what are thought to be low flows to third sector providers contributing to a widespread notion that third sector organisations have been uniquely and disproportionately affected, buttressing the belief that they were included simply as 'bid candy'.

In fact flows into the Programme (i.e. to Primes) have been variously reported by interviewees as well below or well above the predicted flows, or as being inconsistent – with sharp peaks and troughs – over certain time periods, and between different CPAs. Flows through the Programme from Primes to tier 1 subcontractor have tended to reflect this diversity. At tier 2 level however it is probable that 'flow' is not the correct term since many tier 2 providers do not have contracts that give indicative numbers of referrals – instead they are operating with spot purchase agreements that do not give any promise of flows. In fact our phone survey of subcontracted providers found very few in this group that had received any referrals from Primes and of those who had the numbers were minimal. As one Prime pointed out the issue is that the numbers of customers in a locality with a particular issue is both small and difficult to predict:

'the number of clients that are coming in with those special [requirements] is deeply unknowable. You can statistically assess it across a range of things but by the time you get to fine grains, your local areas, predicting numbers coming through... And yet each number is an absolutely critical part of the income of a third sector organisation.' **Private sector Prime 03**

Primes in particular had modelled for variations in the predicted flows of customer groups in order to design their supply chain and calculate financial risk. For Primes and tier 1s divergence from predicted flows caused difficulties, and reduced flows were particularly problematic as they meant less funding, in the form of attachment fees and the potential for sustainment fees, coming in – particularly a problem if staff had been recruited on the basis of predicted flows:

'we all modelled Work Programme originally on something like about 30 per cent of our customers being from the ESA and health related benefit customer groups, which have a higher attachment fee, and they also have higher outcome payments... [...] If you end up in a situation where less than five per cent of your customers are from those groups, that has an absolutely massive impact on how much money we think we can generate.' **Private sector Prime 11**

The reasons why flows into the Programme have not been as expected and modelled by DWP and individual Prime providers vary. Some suggested that individual JCPs were administering the referral system differently which affected overall volumes going to Primes. This was particularly highlighted in one CPA where there was a feeling amongst subcontractors that JCP staff were working against rather than with the Programme and deliberately not referring customers as they should. There was a more general agreement that the proportion of ESA clients had been well below expectations due to the number of appeals being made to the Work Capability Assessment (WCA) which had held back

potential Work Programme entrants. The Centre for Economic and Social Inclusion (CESI) found that from the 2011 launch to April 2012, referrals for those on health related benefits were just 37% of DWP estimates (Simmonds, 2012). On the other hand, referrals overall were 15% higher than DWP estimated due to higher than expected JSA attachments. Simmonds believes almost all agents in the market have underestimated the difficulties of forecasting and maintaining steady levels of referrals, meaning Primes have to rapidly change capacity, and leading to ‘feast and famine’ for subcontractors.

Whatever the reasons, whilst the Primes and tier 1 providers had flows, albeit not always what they had planned for, the situation was worse for tier 2 specialist providers who found themselves with few or no referrals. Despite the large numbers of tier 2 organisations providing service on paper the reality appeared to be that the majority of this group had had little role in or even contact with the Programme since the commissioning phase. With most having only a spot purchase arrangement with Primes they had no room to negotiate, and no recourse to Merlin. This contributed to considerable frustration amongst many third sector tier 2 providers and the infrastructure bodies who supported them.

Yet crucially whilst third sector tier 2 providers were more likely to be providing services to ESA customers and thus were disproportionately affected by the reduced flows further up the supply chain it was not only third sector T2 providers that were not getting any referrals, and low referrals were not only seen to be a consequence of low numbers of ESA customers. One TSO argued that there were plenty of other customers in the system not getting referred to specialist help.

‘I don’t think it’s going to make any difference whether the ESA clients come though, there are still clients out there in the end to end volumes who would benefit from specialist intervention providers that are out there.’ **TSO tier 1 provider 06**

Interviews revealed a more fundamental issue with the supply chain structure. The general ‘resource squeeze’ within the Programme, initially exacerbated by the effects of price discounting by Primes, unpredictable and under-target flows, and the difficult economic conditions, all meant that advancing funding for specialist interventions was viewed as too risky by most end to end providers from all sectors.

Few tier 1 end to end providers were referring customers to specialist providers – either their own partners or the tier 2 providers listed by their Prime. Essentially they argued they could not afford to pay for their services. The back ended payment regime meant there simply wasn’t enough money in the system. “Nobody will pay because there’s so little upfront money, they won’t pay for specialist provision because it’s too big a risk” (Private sector tier 1 provider 29). One Prime acknowledged that whilst they needed the specialist providers, the model on which the Programme rests meant there was effectively not enough money to pay for them.

‘...we need organisations who can help with drug addiction, or small voluntary sector organisations who are experts, helping people with spinal injuries rehabilitate, and we need all that stuff. Actually, I think anybody who thinks the Work Programme can fund all that stuff has just not looked very closely at how the funding model works. There is no way that it can.’ **Private sector Prime 11**

It was noted that it had been standard practice for providers in previous programmes to refer their clients to a range of ‘effectively free’ services funded by complementary budgets available to support

employment services and several complained that these services were no longer available. Others however appeared to have uncovered these types of free service and described signposting services to local authorities, housing associations, PCTs and Citizens Advice, all of which they could do for 'free', rather than to contract with listed tier 2 providers.

Primes and tier 1 providers acknowledged that the perception of the Programme – partly deriving from ministerial announcements and media coverage – was such that other agencies and potential specialist providers felt that Prime providers stood to make large profits and that there was a great deal of money available to those providers. This appears to have heightened tensions and bred distrust between organisations at all levels. However a large local third sector end to end provider suggested that part of the problem for private sector Primes and some tier one providers who had been 'parachuted' into a new area to deliver the Programme was that they did not have good relationships with local third and statutory sector providers and were not being given access to the free services because they were not trusted, or seen as not needing them as they were already well endowed with resources. In the words of one tier 1 TSO: "they're not going to give it to the big Primes, because they all... they're saying, the big Primes, they've got the money themselves" (TSO tier 1 provider 24). She added that since her organisation was embedded in the local community and commanded a lot of trust amongst other local providers, they had no difficulty accessing free services. The network of partners claimed by some local TSOs appears to suggest that they are part of what Aiken and Bode described as an 'integration-milieu', or 'network of engaged actors' (Aiken and Bode, 2009, p 212). It is arguable that many private sector or large TSOs who set up from scratch in a CPA after securing a tier 1 contract don't have the same ability to develop and participate in these local networks. One message here is that the nature and quality of the supply chain relationships (a 'vertical' ecology) is at least as important as a 'horizontal' sector level comparison. Certainly, a sense emerged from across the interviews that a 'history' in an area, and established networks and trust were a better guide than sector in how providers were viewed by others.

From the tier two providers' perspective it was difficult to understand why seemingly well-resourced Primes and tier 1s were not willing to pay them for services. One tier 2 provider for example was extremely frustrated when their Prime finally offered them 12 referrals but asked him to find funding from other sources, "that's the stupidity of it, they expect me to take them and do it and get funding from other sources which is not the point of being a sub-contractor." (TSO tier 2 provider 22)

Whatever the reasons, the back ended payment model and lack of resources in the Programme had serious consequences for specialist providers many of whom previously had a contracted role in supplying welfare to work services and expected and depended on payment by Work Programme providers. One private sector tier 1 provider was particularly forthright on the subject highlighting the implications for the third sector:

'if you're the call off purchase or specialist provider that are bought in for specialist interventions, that's a complete washout. And certainly for third sector providers that have a specialist niche, it's a killing zone.' **Private sector tier 1 provider 29**

Thus position in the supply chain largely defines the provider's experiences of customer flows and referrals in the Work Programme. The third sector may have been more affected by the low numbers

of ESA customers coming through and by their position as specialist providers but ultimately the lack of referrals to tier 2 subcontractors appears to be a function of an under resourced programme and subcontractors from all sectors are affected. The question this raises is what happens to the customers in need of such provision and this is explored in the next section.

## 7. Gaming behaviour: creaming and parking

Creaming and parking of customers was observed in previous employment programmes and deemed a negative side effect of a PbR model (Bredgaard and Larsen, 2008). Essentially ‘creaming’ refers to skimming off clients who are closest to the labour market and focusing service attention on them in the expectation that they are more likely to trigger a payment to the organisation. ‘Parking’ on the other hand refers to the opposite process, where those individuals deemed to be unlikely to generate an outcome payment are put to one side, perhaps receiving the bare minimum service (or even none at all) specified in an organisation’s contract. It can be seen as an issue for the third sector for several interrelated reasons. In the first instance the hardest to help are often perceived to be a key customer group for the sector (Third Sector Task Force, 2009; H of L European Committee, 2010 in Crisp et al., 2011), and whilst TSOs are assumed to be less likely to engage in gaming given their mission and focus on individual needs, they find themselves on the receiving end of it if Primes refer the hardest to help without adequate resources. However, again, the Work Programme’s supply chain structure confounds any over simplistic notion of sector difference in relation to gaming. Importantly it is end to end providers (Primes and tier 1s) who are likely to game the system since for most tier 2 providers payments are not linked to customer outcomes.

Providers with long experience of welfare to work provision argued that gaming was embedded in the Work Programme and could be seen as a rational response to PbR since a proportion of customers would always be very unlikely to get a job. This statutory tier 1 provider was uncomfortable with this but felt that it was the only way they could operate within the Programme.

‘So we are going to have these numbers of customers that perhaps may never find employment in the two years. We’ll never be paid for them either but we’ll be paid for the other 50% that are likely to go on into work so there’s a level of parking going on which we’re not particularly comfortable with but we also need to achieve what we need to achieve and what the Primes need to achieve so it’s trying to get a balance really.’

### **Statutory tier 1 provider FG1**

One Prime suggested that the RAG (red, amber, green) system used by some Primes and their end to end providers to ‘triage’ their clients and a feature of previous welfare to work programmes both in the UK and internationally, was effectively a ‘politically correct’ mechanism for creaming and parking since the green, easy to help customers got more attention than the red customers who were furthest from the labour market and in theory needed more support. .

The differential payments designed to reduce creaming and parking by rewarding (with higher outcome payments) work with harder to help customers, were seen by respondents as a blunt instrument, though they were not necessarily expecting a solution given that such groups are based on average employment return rates. Others noted that the groups were not necessarily coterminous

with a customer's distance from the labour market: "you can't determine by way of benefit receipt how employable somebody is" (Prime 07). In addition to the inevitable variance within customer groups, apparently 'harder to help' individuals can in fact be more work ready than a bureaucratically applied label suggests and vice versa. One TSO gave an example:

'we've got a guy who carries around a mirror in his pocket to ward off evil spirits. Okay he might be on JSA but he's a long way from the job market isn't he?' **TSO tier 1 provider 06**

Several providers noted that many long-term customers on JSA were in fact much harder to help than customers on ESA because they had a very different approach to work

'The customers [a job advisor] finds hard to work with are the really long term job seekers allowance claimers that we're getting by the bucket load, who actually don't want to work, have no interest in wanting to look for work, you know, and just generally trying to play the system for as long as they can, and actually the tough job there is to change an attitude, whereas with an ESA customer, often the issue isn't that they don't want to work, it's that they've got a bad back that's stopping them from working.' **Private sector Prime 11**

One possible gaming scenario in the Work Programme was that Primes retained the easy to help customers within their in-house provision (where they offer it) and refer the harder to help customers to their subcontracted end to end providers. However the opportunity to cream off easy customers and offload harder to help customers onto subcontractors was not available to many of the Primes who used geography (postcode of customer) or a random allocation system to dictate which customers were referred to an end to end provider and which were retained in house. There were however specific examples of Primes creaming customers before referral to tier 1 providers where they had more unusual end to end contracts which specified a customer group. Providers noted that without a postcode or random referral system it was too easy for Primes to only refer on customers who were unlikely to get a job whatever their official customer group. One private sector provider with this type of contract was very clear that this was happening to them

'And what you tend to find is that when you've got a contract which specifies client groups you... umm... it's not being PC but I'll just say it as it is... you tend to get left with the rubbish; people who just aren't going to get a job. It doesn't matter if they're BME or graduates or whatever it was, if the people at [Prime] or their partners thought they could get them a job they wouldn't (refer them to) someone else to get a job.' **Private sector tier 1 provider 28**

A second gaming issue in the Programme was that Primes and end to end providers might park customers rather than referring them to specialist provision that they might benefit from – a common concern voiced by tier 2 third sector providers. In fact the low number of referrals of customers to specialist provision outlined in the previous section implies that customers with specialist needs were being parked both by Primes and end to end providers. Providers were unwilling to admit that they directly parked clients and talked more about the lack of resources in the system meaning that they couldn't give as much support as they would like to the hard to help customers.

All of which suggests that despite efforts to design gaming behaviour out of the Programme, it is still likely to happen, and all the more so in a system under immense 'commercial pressure' in a low resource environment set by the wider deficit reduction imperative. Successful job outcomes need to fund the provision for all clients in a differentiated payment group meaning that there are strong mechanisms within the payment model which encourage – or indeed dictate – parking within payment groups, and this is passed down the supply chain. This ties in with evidence from NDDP, Pathways and Employment Zones, which strongly suggested that the funding model dictates behaviour, not organisational motivations (Loumidis et al., 2001; Griffiths and Durkin, 2007; Hudson et al., 2010).

Sector differences in relation to organisations' experience of creaming and parking (either as 'perpetrators' or on the receiving end) are harder to determine. Whilst claims are made that the third sector are less likely to game the system because they have more commitment to their client group and less concern with the bottom line there was little evidence of this either way. Again position in the supply chain and the actual delivery model adopted by Primes continued to be the key factor in shaping how organisations experienced the Programme. Gaming is the domain of end to end providers and both Primes and tier 1s delivering these services are likely to be parking harder to help clients under pressure to produce outcomes that will fund their provision in the longer term. Primes operating with a client specific referral mechanisms may also be using this to offload harder to help customers to their supply chain but it is not clear that this is more likely to affect third sector providers. Providers in all sectors were not necessarily comfortable with this outcome but they felt they had little control or autonomy; to a certain extent it was the only way to perform at a level that would enable them to stay in the Programme.

## 8. Discussion and Conclusion

In answer to the question 'does sector matter?', the preceding analysis makes clear that whilst there is a very significant level of diversity in subcontractors' experience of the Work Programme, sector is just one factor amongst a range that include tier in the supply chain, organisational remit size and capacity in understanding the experiences of providers. Not only that but similar organisations can have different priorities which mean they respond differently to the pressure imposed by the model. This finding serves to question, for example, the lobbying position of third sector representative bodies – which in essence posit that TSOs are uniquely adversely affected by the Programme. What have often been perceived as 'third sector issues' are actually systemic programme design issues affecting organisations from all sectors. In particular we draw attention to the need to understand how the Work Programme is structured: within the Prime-led supply chains, tier is a key structural characteristic that dictates whether subcontractor organisations are receiving client flows or referrals that permit financial sustainability (or indeed profit) for the organisation. This doesn't mean that sector isn't relevant, but that, if used as the main lens to understand the Programme, it is likely to distort findings somewhat.

The research indicates that, generally speaking, tier 1 end to end provision is a 'better place to be' because there is both greater contractual certainty over volume of flow and higher volumes overall which permits greater financial sustainability. Conversely the experience for many tier 2 specialist

subcontractors is of having received no or only very small numbers of referrals which clearly does not permit financial security. Position within the supply chain is therefore crucially important to understanding the financial sustainability position that subcontractors are likely to be in. As noted, providers, regardless of sector, recognise that tier 1 involves greater security and certainty on the one hand – particularly over volumes, and closer relationships with Primes – but this is balanced by the risks attendant on being fully engaged in the payment model. Hence there is likely to be a strong relationship between position in the Programme (tier) and size, capacity, experience and what some Prime providers referred to as ‘maturity’. A third sector stakeholder explained that many providers in the sector had understood at the commissioning stage that they needed to aim for tier 1 if they wanted to fully participate in the Programme:

‘if we wanted to stay in the market, we had to offer an end-to-end service rather than just on a call off basis, which is where a lot of third sector organisations end up, as a tier two supplier, on a call off basis, with no guarantee of [referrals]... or indicative numbers.’ **TSO stakeholder 02**

Whilst the third sector has a reputation for providing specialist services those operating successfully in the Programme tended to be those offering end to end provision. One TSO talking about their discussion with Primes at the bidding stages noted the importance of being able to offer ‘end to end’ provision and getting into tier 1. “They used to say to me, what’s your specialty? I’d say, end-to-end.” (TSO tier 1 provider 24)

Conversely, at this stage in the Programme, the widespread experience for specialist (tier 2) providers, regardless of sector, is that they are not receiving referrals of clients from Primes or end to end providers – as explained in the ‘flows’ section above – and that this does not necessarily reflect level of experience in the welfare to work field. As the descriptive-typology advanced in this paper suggests, this structuring of the field – i.e. the dictates of the general supply chain model of the Work Programme – cuts across, and is more decisive than sectoral origin of organisations. These issues were heightened by the back-ended payment regime and reinforced by a political environment created by ministerial messages that the government was unprepared to renegotiate fees or the funding model, thereby transferring greater risk to providers. Further pressure is added because of the weakness of the wider economy and the failure of the labour market to generate new jobs, which is particularly relevant given that the targets embedded in the Work Programme were modelled on earlier expansionary conditions (see NAO 2012, Social Market Foundation, 2012). As Ian Mulheirne has put it: “The principles behind the Work Programme are sound for more normal economic times but the funding mechanism has the unfortunate side effect of cutting front-line unemployment services at times of high unemployment and increasing it when jobs are plentiful” (Social Market Foundation, 2012). And a Prime confirmed, the Work Programme has a truly different underlying ‘commercial’ ethos:

‘With FND, the upfront portion of the payment was so big – it was about a third of the contract value – that actually you could probably afford to not deliver very well, and still make ends meet, still stagger through the contract. In Work Programme you can’t. Categorically, if you don’t deliver, that attachment fee is not enough to run your business on.’ **Private sector Prime 11.**

On the other hand there might be a lessening of pressure over the next few years if more money enters the system via outcome payments or changes to the payment structure. For some organisations whatever their tier in the supply chain, welfare to work is their main remit and DWP contracts are their main source of funding so the stakes are high. For others, however, delivery of welfare to work services is a very small part of their portfolio/remit

‘We’re a fairly sizeable organisation, we probably turn over about £120 Million, but only a few million of that – probably £5 Million – is focussed on employment. Not even that probably’. **TSO 08**

For these organisations losing a Work Programme contract or not getting enough referrals will not jeopardise the whole organisation. The stakes are thus not the same for all organisations. For example one TSO tier 1 provider explained that apart from the loss of a few staff they could continue to run provision in some form in order to stay in the market. Another argued that welfare to work was just one department in their organisation.

‘We can turn it down, whereas other organisations who only exist as part of the Welfare to Work industry, they can’t be so choosy, because that’s... if they don’t win the contract, they will go out of business. I mean, our department may very well shut in the future, but [name of organisation] won’t go away.’ **TSO tier 1 provider 05**

Those organisations who will take the biggest hit from low customer flows or terminated contracts are organisations from the private and third sectors who have limited diversity of revenue streams where the loss of a contract could effectively mean the end of the organisation. Public sector organisations local authorities and colleges are also less at risk since their welfare to work provision is just a small part of the services they deliver and indeed of their funding so they too have less to lose. Tier 2 organisations face the additional problem that their agreements with Primes give them little power and no security. If they have been dependent on welfare to work income then there are likely to be losses in this group although again it might not be only the third sector who will be hit. This discussion, however, raises questions which would repay further research – not least around the extent to which organisations are vulnerable to underperformance in any one programme.

To conclude, the evidence presented here on the experience of subcontractors in the early stages of the Work Programme suggests that organisational sector explains only a small part of the undoubted divergence of experience of subcontractors in different levels of the supply chains. Instead, the most obvious predictor is position in the supply chain – that is, tier – and we suggest that the typology of organisations is a more accurate predictor still. A third sector specialist provider might have more in common – in terms of the issues it experiences in the Programme – with a private sector specialist than a third sector end to end provider (see Table 2). And equally, it is difficult to discern significant differences in terms of the sorts of service being delivered, between subcontractors that happen to be from different sectors, at the tier 1 level. We must stress however, that we have not considered this issue of the content of services or interventions in detail in this paper and it is an issue to which we will return. However, this grouping of subcontractors in a typology is complicated by the suspicion that organisations of a similar type may still vary considerably in size, organisational capacity, experience and ‘maturity’ – in other words, the structural factors like position in the supply



chain and the rigours of the payment model interact with what subcontractors bring to the contract and how they react and adapt to the pressures they experience. Size is a particularly problematic explanatory variable as though it would be tempting to suggest that end to end providers are more likely to be large, successful tier 1s can be relatively locally-focussed organisations; and equally many tier 2s are in fact large organisations 'dabbling' in the welfare to work field. Indeed, a useful research task would be to examine the relationship between size and position/role in the Work Programme. We might ask, for example, whether larger organisations are really more likely to be tier 1 subcontractors? Finally, we would like to know more about how individual Prime contractors view, and more importantly manage, subcontracting organisations and the role that sector plays in this. For example what is the effect of Primes' strategy and management practice? Whilst in this paper we have focused on the experience of subcontractors and found that sector is less relevant than is widely thought, our next paper will look in more detail at discourse, language and some of the subtle pressures operating on subcontractor organisations, which brings a slightly different perspective on the sector's involvement.

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## About the Centre

The third sector provides support and services to millions of people. Whether providing front-line services, making policy or campaigning for change, good quality research is vital for organisations to achieve the best possible impact. The Third Sector Research Centre exists to develop the evidence base on, for and with the third sector in the UK. Working closely with practitioners, policy-makers and other academics, TSRC is undertaking and reviewing research, and making this research widely available. The Centre works in collaboration with the third sector, ensuring its research reflects the realities of those working within it, and helping to build the sector's capacity to use and conduct research.

Third Sector Research Centre, Park House, 40 Edgbaston Park Road,  
University of Birmingham, Birmingham, B15 2RT

Tel: 0121 414 3086

Email: [info@tsrc.ac.uk](mailto:info@tsrc.ac.uk)

[www.tsrc.ac.uk](http://www.tsrc.ac.uk)

## Service Delivery

From housing, to health, social care or criminal justice, third sector organisations provide an increasing number of public services. Working with policy makers and practitioners to identify key priorities, this work will cut across a number of research streams and cover a series of key issues.

Critical understanding service delivery by the third sector is important to policy making as the third sector now provides a major - and very different - option for public services, which may be more responsive to the needs of citizens and service users. At the same time, there are dangers inherent in the third sector becoming over-dependent on funding from service contracts – particularly in terms of a potential loss of its independence. The centre's research will help to inform the debate on the way in which service delivery is developing, the potential role of the third sector in commissioning as well as contracting, and the implications of different approaches to service delivery on the overall impact of the third sector.

## Contact the authors

**James Rees**

[j.rees@tsrc.ac.uk](mailto:j.rees@tsrc.ac.uk)

0121 414 3673

**Rebecca Taylor**

[r.taylor@tsrc.ac.uk](mailto:r.taylor@tsrc.ac.uk)

0121 414 6212

**Chris Damm**

[cwd136@bham.ac.uk](mailto:cwd136@bham.ac.uk)



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