

Briefing Paper 92

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

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The Work Programme was lauded by the Employment Minister as a 'triumph' for the Big Society because of the widespread involvement of the third sector in its delivery. Yet concerns about the sector's role and its perceived marginalisation in such large-scale high-risk contracts have dogged the Programme. This paper explores the experiences of different providers in the Work Programme, asking what, if anything, is distinctive about the experiences of third sector organisations (TSOs). It draws on interviews with key informants and subcontractors from all sectors to explore issues around the squeezing out of third sector organisations, low flows of clients to subcontractors and the 'creaming and parking' of hard to help customers.

Key findings

- Sector is not the most important factor in accounting for providers' experiences of the Work Programme. Organisational size, supply chain position, the strategy and management practice of their Prime contractor and location all shape the role subcontractors play.
- Position in the supply chain is key. Tier 1 end to end provision generally offers greater contractual certainty over client flows and higher numbers of referrals. Many tier 2 specialist subcontractors have received no or only very small numbers of referrals.
- The lack of referrals to tier 2 subcontractors appears to be a function of problems in an under resourced programme, as well as

doubts that as many clients in the health related benefit groups are entering the Programme as expected.

- It also implies that customers with specific needs may be being 'parked'.
- Gaming – including creaming and parking – appears to be embedded in the Work Programme. Many providers saw it as a rational response to Payment by Results (PbR).
- The financial stresses that the Programme is under creates doubt about the quality of services being delivered, particularly to those furthest from the labour market.

The research

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 were located in two areas chosen to provide geographical and labour market diversity and different supply chain models, and focused on exploring the experiences of subcontractor providers. In each area a brief 'mapping' was conducted to identify

the role and type of organisations in the supply chain. This was followed by a phone survey of subcontractors, which aimed to check their sector and supply chain location against publically available Department of Work and Pensions (DWP) data and ascertain the nature of their provision and to whom they provided. Finally interviews were conducted with four private sector primes and 14 subcontracted providers, of whom 10 were third sector, three were private sector, and one was public sector.

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).

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 transfer of financial risk and control away from DWP and the state.
- Payment by results – like in previous programmes the payment profile is 'back-ended', seeking 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 relatively small. This 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 been receiving.
- 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 from Job

Centre Plus (JCP).¹ 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. Tier 1 or 'end to end' providers have service contracts with the Primes which specify market share and predict a certain flow of customers. Tier 2 providers are more likely to have a 'spot-purchase' or 'call off' arrangement, which gives no guarantee of flows and is not linked to outcome payments.

Who delivers the Work Programme?

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.

For 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.

Analysis of DWP's subcontractors list found that tier 1 providers were a fairly equal mix of third and private sector with a smaller number of statutory providers. 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.

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). Interviews and the subcontractor phone survey provide a more detailed picture of types of organisation involved and what sort of services they were delivering (see Working Paper 92 for more detail).

¹ Random allocation enables the evaluation of Primes' performance (i.e. by comparing job sustainment rates for the Primes as a whole).

The phone survey also revealed that, in practice, many of the tier 2 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.

The key issues

Is the third sector being squeezed out?

The smaller number of large Prime and subcontractor contracts, together with a heightened risk environment, has made the environment tougher for all potential providers. 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 burdensome, resource intensive and poorly designed.

To be accepted on to the bidding framework potential Prime contractors had to meet rigorous requirements that included demonstrating a turnover of £20 million. Several of those we interviewed noted that, unlike private sector companies, third sector organisations had less opportunity to raise the necessary capital and fewer cash reserves or assets which they could use to demonstrate their capacity to absorb risk. 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.

Third sector organisations also face specific risks around mission and reputation. 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. At subcontractor level too, organisations with a strong brand related to charitable mission and a campaigning role expressed anxiety that association with the Work Programme could damage their public reputation.

The structure of the Programme also appears to disadvantage those that are not primarily generic providers. Since TSOs were more likely to provide specialist support to customers they were being squeezed out of the end to end market, which revolves around a more generic service for a wide range of customers.

Flows

Much of the third sector's concerns with the Programme have focused on what are perceived to be particularly low flows to third sector providers, contributing to a widespread belief that they have been included simply as 'bid candy'.

In fact, flows into the Programme (i.e. to Primes) have been reported by interviewees as both above and below the predicted numbers, inconsistent – with sharp peaks and troughs, and varying sharply between different CPAs. Flows through the Programme from Primes to tier 1 subcontractors have tended to reflect this diversity.

For Primes and tier 1s divergence from predicted flows caused difficulties, and reduced flows were particularly problematic as they mean less funding. But 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 have little room to negotiate.

Whilst lower numbers of customers in health-related benefit groups could partly explain low referrals to tier 2 providers, this was not seen as the only reason. 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.

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. This raises worrying questions about what happens to the customers in need of such provision.

Creaming and parking

Creaming and parking of customers was observed in previous employment programmes and deemed a negative side effect of the PbR model. 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 ties in with evidence from the New Deal for Disabled People, Pathways to Work and Employment Zones, which strongly suggested that the funding model dictates behaviour, not organisational motivations.

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, even if they might be more fine-grained than previous attempts to encourage providers to help the 'hardest to place'. But interviewees suggested that nominally 'harder to help' individuals can in fact be more work ready than a bureaucratically applied label suggests and vice versa. For instance some long-term customers on JSA may in fact be harder to help than customers on ESA because they have a very different approach to work.

A second 'gaming' issue in the Programme is 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 to specialist provision implies that

customers with specialist needs were indeed being parked both by Primes and tier 1 providers.

Conclusion

This research shows that what have often been perceived as 'third sector issues' are actually systemic programme design issues affecting organisations from all sectors. In particular, we need to understand how the Work Programme is structured. Within the Prime-led supply chains, tier is a key to 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.

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. At this stage in the Programme, the widespread experience for specialist (T2) providers, regardless of sector, is that they are not receiving referrals from Primes or end to end providers – and this does not necessarily reflect the level of experience in the welfare to work field. For organisations whose main remit is welfare to work, and DWP contracts their main source of funding, the effect could well be acute. Furthermore, the lack of referrals to specialist providers raises important questions about what happens to those with specific needs.

A message for Government is that the reduced funding levels and increasingly commercial and competitive environment, designed to increase innovation and efficiency, may be undermining the success of the programme even on its own terms. There seems considerable evidence that creaming and parking remains widespread. Interventions for many clients will be costly but may pay off in terms of better social outcomes and reduced worklessness.



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