Analysing the Work Programme

November 2012

Background

Launched on 10 June 2011, the Work Programme is the Government’s flagship back-to-work scheme, which aims to help 2.4 million long-term unemployed people and sickness benefit recipients find work over the next seven years. Described by the Department for Work and Pensions as a “revolution in back to work support”, the scheme is designed to pay providers only when they succeed in getting unemployed people into sustained employment.

Eighteen organisations from the private and not-for-profit sectors are contracted to deliver the scheme in eighteen regions across England, Scotland and Wales. On 27 November the Government will release the first official statistics on the performance of these providers, examining how well they have been doing at getting people into sustained employment.

While monthly figures on the numbers of people referred to the Work Programme have been published since the start of the year, the 27 November release is the first time we will have official data on how well providers are doing at getting people into work. This will allow us to assess properly how Work Programme providers are performing against the benchmarks set for them by the Department for Work and Pensions. The Department has threatened to remove contracts from providers who fail to meet minimum performance levels.

In August 2011, the Social Market Foundation produced the first analysis of the challenges ahead for Work Programme providers. We examined how providers fared under the last Government’s most similar employment programme for the long-term unemployed, the Flexible New Deal. Our analysis showed that if providers’ success at finding people work under the new scheme was similar to that of the previous scheme, adjusting for the differences between the two policies, most Work Programme providers would fail to meet the minimum performance levels expected of them by the DWP, threatening the collapse of the programme.

In January this year the National Audit Office produced research with very similar conclusions. More recently, leaked performance figures, obtained by Channel 4 News, suggested that at least one major provider is struggling to achieve the job outcomes required of them by the DWP.

This short briefing explores:

- What the official Work Programme statistics will show, and how to interpret them;
- What the SMF and others have found in analysis of likely Work Programme performance; and
- What solutions there may be if the figures indicate that the scheme is not going to plan.

The Social Market Foundation will publish a response to the figures on 27th November. To discuss the Work Programme with Ian Mulheirn, SMF Director, please contact us on 0207 227 4401 or email lmerry@smf.co.uk
What will the official figures tell us?

The official Work Programme figures to be published on 27 November will provide information on:

- The number of successful **job outcomes** there have been in the first thirteen months of the scheme;
- The sum of **sustainment payments** paid to Work Programme providers; and
- The number of jobseekers for whom providers have been paid one or more sustainment payments.

An **attachment fee** of £400 (rising to £600 for some) is paid to providers for each jobseeker they work with during the first year, regardless of whether that person finds work. This payment was reduced to £300 from 1 April 2012. All other payments in the scheme are made in respect of job outcomes achieved or sustained.

A successful **job outcome** for the main group of long-term unemployed jobseekers on Work Programme is defined as someone referred to the Programme, and attached to a provider, who has found and sustained employment for at least six months, either cumulatively or at once. For people claiming sickness benefits, the job outcome is achieved after three months. Jobseekers have to be in employment for over sixteen hours a week to qualify as being ‘in work’.

A **job outcome payment** refers to the money paid to providers on achieving a job outcome. For the main group of long-term unemployed people, the payment is up to £1,200 per person. But having got people into work, providers are then paid to help them stay there.

A **sustainment payment** refers to the money paid to providers for each subsequent four-week period their client remains in employment after achieving a job outcome. For the main group on the scheme, sustainment payments are £215 for each four-week period completed, up to a maximum of £2,800.

Interpreting the figures

Key to assessing this data is an understanding of how provider performance is measured. According to the Work Programme Invitation to Tender (ITT) the **Key Performance Measure** is calculated by comparing job outcomes achieved in the previous twelve months to the number of jobseekers referred to providers in the same period. This is represented in the equation below:

\[
\frac{\text{Job outcomes over twelve months}}{\text{Referrals over the same twelve months}} = \text{performance level}
\]

The **minimum performance level** sets the lowest performance that providers must achieve if they are to meet their contractual obligations. For the first twelve months of the programme, the DWP expects providers to achieve a minimum performance level of **5.5%** for the main group of jobseekers (Jobseekers Allowance 25+). The relevant time period for these figures is therefore June 2011 to May 2012 inclusive.

In subsequent years this performance minimum rises to 27.5% in year two and 33% in year three. In the ITT, DWP made it clear that they expected providers to significantly out-perform these minimum levels, and failure to achieve them is punishable by contract termination. From year three onwards providers are expected to achieve 40% performance for the main group of jobseekers.

**Why is the first year’s minimum performance level of 5.5% so low?** There are two main reasons for this. In order to meet the definition of job outcome (six months’ work, either cumulatively or at once), people who have moved...
into work any later than the first six months of the scheme will not have had enough time to achieve a successful job outcome by month twelve of the scheme’s operation. Second, while jobseekers are on the programme for up to two years, only a proportion of any one cohort of referrals will have found work in the first six months on the scheme. For these reasons the performance level in the first six months of the Work Programme will be 0%, rising steadily from then on, and reaching a steady state some time in the third year of the programme’s operation. A low absolute performance figure in the first twelve months is therefore not necessarily a sign of poor performance; rather, what matters is the performance figure relative to the minimum expectations set out by the DWP.

**What performance can we expect?**

While no official data on job outcomes has been available, there have been a number of useful indicators of the likely performance levels under the Work Programme.

*Will the Work Programme Work?* The Social Market Foundation, August 2011

Our analysis assessed how providers operating under the most similar recent programme - the Flexible New Deal - would fare in getting comparable groups of people into work under the Work Programme.

Our analysis showed that, on past performance, almost all providers would fail to meet minimum performance expectations in the first two years of the Work Programme. We predicted average performance levels in the first twelve months of 4.1% (compared to the DWP's minimum of 5.5%) and 20.5% in year two (compared to the DWP’s minimum of 27.5%) for the main group of jobseekers. This, we concluded, was likely to be down to a combination of the weak state of the UK economy and unrealistic minimums set by the DWP.

*The introduction of the Work Programme* National Audit Office, January 2012

The NAO study also used Flexible New Deal performance to assess likely Work Programme performance for the main group of jobseekers. Using minimum performance standards as published in the ITT and presenting a similar methodology to the SMF’s, the NAO calculated likely average performance after twelve months to be around 4%.

*Channel 4 News* Leaked figures, October 2012

In October 2012 Channel 4 News reported that it had obtained job outcome figures for the first twelve months of the Work Programme contracts operated by A4E, one of the scheme’s biggest providers. According to Channel 4 News, A4E had had 94,000 referrals in the first twelve months of the scheme, and had found six-month jobs for 3,400 of them, suggesting a performance level of 3.6%.

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Performance level after 12 months (%)</th>
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</thead>
<tbody>
<tr>
<td>Social Market Foundation (projection)</td>
<td>4.1</td>
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<tr>
<td>National Audit Office (projection)</td>
<td>c.4</td>
</tr>
<tr>
<td>Channel 4 News (actual)</td>
<td>3.6</td>
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<tr>
<td>DWP minimum performance level</td>
<td>5.5</td>
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For further information, please contact Leonora Merry, Head of Media and External Affairs:
020 7227 4401 | 07968 974589 | lmerry@smf.co.uk
Consequences and alternatives

If performance levels for providers under the Work Programme are lower than the minimum expected by DWP, this will have a significant implications for the viability of the scheme. If, as looks likely, most providers fail to meet the minimum, it will not be credible for the DWP to threaten to remove all of their contracts. Nor does that seem appropriate as average performance suggests that the minimum levels were unrealistically ambitious. But even if providers avoid having their contracts removed, the scheme’s purpose - to help the long-term unemployed back into work - is at risk of being seriously undermined.

Not only will the programme be serving jobseekers poorly but, since providers are paid primarily for job outcomes there is a significant risk that the cost of providing any decent level of service to jobseekers is economically unsustainable in a period of economic stagnation. Poor performance figures will cut revenues, forcing providers at all levels to cut spending on frontline services, and hence support to jobseekers.

The financial consequences of failure may be most strongly felt not among the eighteen large prime-contractor organisations, but among the sub-contractors many of whom are not-for-profit organisations. The National Council for Voluntary Organisations has already highlighted worrying signs that Work Programme subcontractors are bearing a large amount of financial risk in the scheme.

Depending on what the performance figures tell us on 27 November, it may be necessary to review the Work Programme model and develop ways in which a properly funded employment service can be sustained at a time of high unemployment. In the SMF’s view, three radical changes should be considered.

1. If a large number of providers fail to meet the minimum performance expectations, the Government should consider introducing a relative performance measure among providers. This would entail a proportion of providers' payments being based on their performance relative to that of other providers. Such a model would have two advantages: it would force providers to work hard for their jobseekers regardless of the economic conditions; and it would ensure that neither the performance of the economy nor inflexible and unrealistic absolute performance levels could derail the scheme by choking off funding.

2. A re-engineered Work Programme should also examine how to prevent excessive financial risk of failure being passed down from prime contractors to sub-contractors. It makes little sense for DWP to prohibit small organisations from bidding for prime contracts on the grounds that they cannot bear the financial risk, only to allow prime contractors to offer even more financially risky deals to their sub-contractors. DWP should therefore look at setting limits to how much outcome risk is passed on to sub-contractors.

3. Finally, a review of the Work Programme should consider reducing the amount of the payment that is provided on an outcome basis while unemployment remains high. The principles behind the 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.

Further information

Leonora Merry, Head of Media and External Affairs, Social Market Foundation
020 7227 4401 | 07968 974 589 | lmerry@smf.co.uk

www.smf.co.uk | @smfthinktank

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020 7227 4401 | 07968 974589 | lmerry@smf.co.uk