Will the Work Programme work?

The government's Work Programme is outsourcing the task of getting the unemployed back to work to private and voluntary sector providers. Ian Mulheirn, director of the Social Market Foundation, examines its prospects for success and the lessons for other 'payment-by-results' policies.

In June 2011, amid rising unemployment and anxiety over economic growth, the coalition government launched the Work Programme, its flagship back-to-work scheme. Boldly trumpeted by the Department for Work and Pensions (DWP) as a 'revolution in back to work support', the programme is an innovative new policy designed to help over 2.4 million long-term unemployed people find work over the next seven years.

By paying private and voluntary sector organisations for each person they get into sustained employment, the Work Programme encourages those providers to develop tailored solutions to different people's very personal barriers to employment. But our analysis shows that this excellent idea is at risk of failure due to over-optimistic assessments of what providers are able to achieve, excessively tight financing and a rapidly deteriorating economic environment (Mulheirn, 2011).

With similar 'payment-by-results' policies under consideration in policy areas ranging from offender management and family interventions to public health and Sure Start performance, it is important to understand the lessons of the Work Programme if the government's ambitious agenda of public service reform is to succeed.

Demanding minimum performance expectations

Under the Work Programme, employment service providers are set to be paid only when jobseekers find and retain work. Nevertheless, it is inevitably the case that most successful jobseekers on any back-to-work programme would have found employment of their own accord. Indeed, research suggests that even a successful employment programme is only likely to produce around 10% more jobs than would have been achieved anyway (for example, Hales et al, 2003).

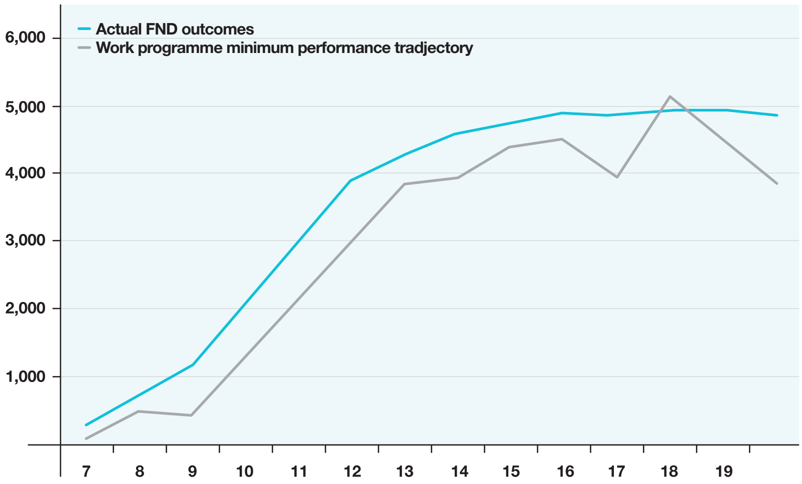
This marginal difference is worth paying for, given the huge costs that come with people disengaging from the labour market. But it was to safeguard against poorly performing providers that in designing the Work Programme, DWP combined the principle of paying for job outcomes with a threat to terminate providers' contracts should they underperform centrally determined minimum performance levels.

> The Work Programme is at risk of failure due to tight financing, a deteriorating economy and excessive optimism about what providers can achieve

These levels were set at 10% above DWP's estimate of how jobseekers would fare without any employment programme: the non-intervention or 'policy off' performance level. DWP's 'policy off' estimates and minimum performance levels for the main over-25 long-term unemployed group are shown in Table 1. DWP expects providers to 'significantly exceed' these minimum standards and those that fail to achieve them face contract termination (DWP, 2010).

Figure 1

Six-month job outcomes under the new Flexible New Deal compared with the performance required under the Work Programme



X: Months after start of new programme **Y:** Six-month jobs achieved by all providers

To be successful in the bidding process, providers were required to show that they would achieve the minimum standards. But how achievable are these targets? If they are possible for most, then only poor performers are likely to fall foul of DWP. And removing poor providers is an important part of a well-functioning scheme. But if the targets are too ambitious, providers risk either widespread contract termination or the whole scheme faces financial collapse. This would be a disaster for jobseekers as well as for the government's reform agenda.

Forecasting likely performance levels

While there are some new aspects to the Work Programme, the policy owes its basic structure to its forerunner: Labour's Flexible New Deal (FND), which ran from October 2009 to May 2011. Since bids were invited for the Work Programme, at the end of 2010, substantial new FND performance data have become available, allowing us to assess the likely performance of providers under the new scheme.

Like the Work Programme, FND served Jobseekers Allowance (JSA) claimants who had been unemployed for at least one year, and providers were paid primarily by results for the job outcomes they achieved. But the two schemes also had a number of significant differences, most notably: that Work Programme providers have two years to work with their clients rather than one; that the definition of a job outcome is broader under the Work Programme than under FND; and that more of the outcome payments under the new programme are made for keeping people in work for longer.

Taking account of the major differences between the schemes, it is possible to estimate the likely performance of Work Programme providers under a set of assumptions. By combining evidence on the likely outcome profile of a cohort of jobseekers in the months after they are referred to a provider, it is possible to estimate the monthly performance trajectory of FND contractors if they had been delivering under Work Programme rules.

Unless providers can significantly improve their performance, almost all will fall well short of the Work Programme minimum performance levels

Figure 1 illustrates how the number of six-month job outcomes secured each month by FND providers was consistently well below the trajectory required for providers to achieve the minimum performance expected of them under the Work Programme.

Undershooting minimum performance levels

The results of this analysis are alarming. They suggest that unless providers can significantly improve their performance, almost all will fall well short of the Work Programme minimum performance levels. Even by year three, it is estimated that average provider performance will be around 28% compared with a minimum expected performance of 33%. Around nine out of ten providers look set to underperform the minimum.

What is even more worrying is that providers seem likely to undershoot even DWP's estimate of what would have happened had there been no programme at all. Since Work

Table 1
How minimum performance compares with predicted performance under the Work Programme

JSA 25+ group	Year 1	Year 2	Year 3
'Policy off'	5%	25%	30%
DWP minimum performance	5.5%	27.5%	33%
Performance estimate in Mulheirn, 2011	4.1%	20.5%	27.8%

Programme providers have less money per jobseeker and, at least for the foreseeable future, face significantly worse labour market conditions than under FND, it seems far from likely that they can buck past trends.

Clearly it would not be credible for DWP to terminate the contracts of 90% of job-brokers at a time of high unemployment. There is little publicly available information on how DWP arrived at these exacting minimum performance levels. But since the 'policy off' level of job outcomes can be expected to fluctuate with the performance of the labour market, it would seem sensible to adjust the minimum performance expectations in the light of changing economic conditions. But DWP has no plans to adjust the performance rates it expects from suppliers (Work and Pensions Committee of the House of Commons, 2011).

Providers seem likely to undershoot estimates of what would have happened had there been no programme at all

Moreover, even if contracts are not terminated for perceived underperformance, with Work Programme funding so dependent on achieving job outcomes, below-expected performance will create severe funding pressures for providers. This will leave them with the choice of either handing back their contracts or cutting spending on services to jobseekers, putting the entire programme at risk of failure. As unemployment mounts, this would be precisely the wrong time to allow services to be reduced due to low levels of funding.

Conclusions

For the Work Programme the combination of tight financing and excessively optimistic projections of what providers can achieve could have severe consequences, particularly if unemployment continues to rise. Past experience shows that rising long-term worklessness carries a high human, social and economic cost for years to come, unless people remain engaged with the labour market. So what options do policy-makers have?

First, it would seem sensible for DWP to ease up on its expectations for providers and ensure that they are revised in the light of the changing economic outlook. More realistic minimums would be a more credible incentive for providers and would remove a great deal of uncertainty in the market.

Second, DWP should consider whether it is trying to pile too much risk onto contractors by attaching all of its funding to success in getting people into jobs, regardless of the state of the labour market. Under these conditions, a deteriorating economic outlook is likely to mean that resources for frontline services are reduced as the need for them rises. This topsy-turvy design will have serious consequences for jobseekers as well as community sector subcontractors. These problems should be considered as part of a wider rethink about the finances behind the Work Programme.

All of this carries important lessons for other payment-by-results programmes. Most importantly, policy-makers should recognise that offloading all the financial risk for achieving good policy outcomes onto contractors is not the same thing as good risk management.

Done well, such policies can spur innovation and improve value for money. But done badly they can end up costing the taxpayer more and result in poorer services. It would be unfortunate if the government's exciting reform agenda were to be derailed by taking too many risks with risk.

Ian Mulheirn is the Director of the Social Market Foundation.

Further reading

DWP (2010) *The Work Programme invitation to tender: specification and supporting information* (http://www.dwp.gov.uk/docs/work-prog-itt.pdf)

Jon Hales et al (2003) *Evaluation of Employment Zones: report on a cohort survey of long-term unemployed people in the zones and a matched set of comparison areas*, DWP/National Centre for Social Research

Ian Mulheirn (2011) *Will the Work Programme work?*, Social Market Foundation

Work and Pensions Committee of the House of Commons (2011) *Work Programme: providers and contracting arrangements: government response to the committee's fourth report of session 2010–12*