Interpreting Work Programme performance

Background

The Work Programme is the Government's flagship back-to-work scheme, aiming to help **2.4 million long-term unemployed people** and sickness benefit recipients find work between 2011 and 2018. 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.

As the Government seeks to introduce payment-by-results to other policy areas, particularly offender management, the Work Programme is seen as a trailblazer for this kind of commissioning method.

Private and not-for-profit organisations are contracted to deliver the scheme in eighteen regions across England, Scotland and Wales. On 27 June the Government will be releasing the next tranche of official statistics showing how providers have been performing against what is expected of them by the Department of Work and Pensions for the 2012/13 financial year.

The first official Work Programme figures were published in November 2012, looking at how successful providers had been in getting the long-term unemployed referred to them into sustained jobs. These highlighted that **over twelve months, just 2.2% of this group had secured sustained work**. This was considerably below the Government's minimum performance expectations for Year 1 of the scheme. Performance for sickness benefit claimants was even worse, at 0.9%.

Thursday's release will provide us with fresh data on how successfully providers are performing against the criteria set out in their contracts. The Government has made clear that **failing to meet minimum levels of performance can lead to contract termination**.

This short briefing provides a guide to interpreting the official figures when they are released on Thursday. We examine what the likely performance levels will be, based on past performance; explore the impact both of the economic context and the set-up of the scheme, and draw broad conclusions about what the data release will and will not allow us to conclude about this flagship programme.

It seems likely that providers will achieve performance levels much closer to the Government's minimum requirements than they did back in November. However, we find that it is **unlikely that providers will, on average, perform above the minimum levels for the main jobseeker group**, raising serious questions about the design of the scheme.

What will the official figures measure?

The official Work Programme figures, to be published on 27 June, will provide information on the first 22 months of the scheme, enabling us to evaluate the scheme's success in its first two contract years. It should be noted that the contract years run from April to March, so although the scheme itself did not begin until June 2011, Year 2 of its operation actually runs from 1 April 2012 to 31 March 2013.

We will receive data on **referrals** to providers and **job outcomes** in Year 2 of the scheme. A referral occurs when a jobseeker is referred from Jobcentre Plus to a Work Programme provider. A job outcome for the main group of jobseekers occurs when someone referred to the Work Programme completes six months' employment, either cumulatively or in one job, during their time on the programme. Jobseekers have to be in employment for over 16 hours a week to qualify as being 'in work'.

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 ratio below:

$$\frac{\text{Job outcomes over twelve months}}{\text{Referrals over the same twelve months}} = \text{Key performance measure}$$

The ITT sets clearly the DWP's **minimum performance levels** for the main scheme. This is the lowest performance that providers must achieve if they are to meet their contractual obligations. It is **not a target** or performance goal for providers.

For Year 2 of the programme, the DWP expects providers to achieve minimum performance of 27.5% for the main group of jobseekers (Jobseekers Allowance 25+), 33% for the JSA 18 to 24 group (youth unemployed) and 16.5% for those on Employment and Support Allowance. This briefing focuses on the main group of jobseekers (JSA 25+) because this group comprises almost half of all jobseekers.

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. This was reiterated by the Employment Minister Mark Hoban who wrote in a leaked letter to MPs in November: *"If provider performance is poor, we can intervene to tackle this, and if necessary, remove providers' contracts."*

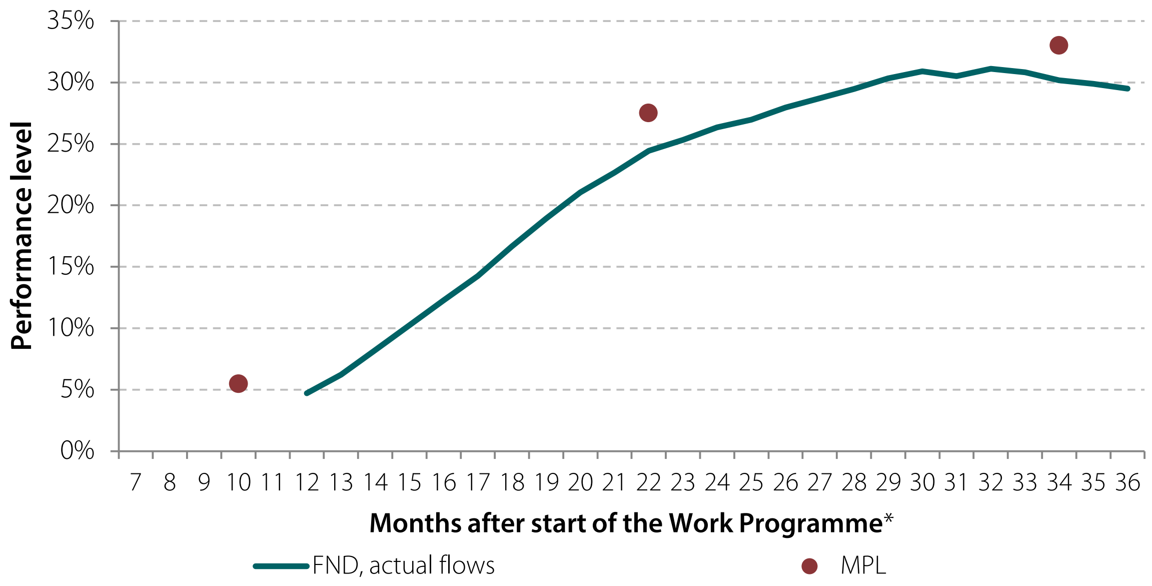
What will the figures say about Year 2 performance?

Many numbers have appeared from various sources purporting to illustrate the performance of the Work Programme. However, as we have seen there is only one measurement that counts in assessing how providers are doing in terms of the Department's expectations: the **Key Performance Measure**.

In the past, the SMF has forecast provider performance for the main group of unemployed jobseekers. The Labour government's Flexible New Deal scheme for this group was similar to the Work Programme, allowing us to make a reasonable **projection of likely Work Programme provider performance** based on past evidence from a similar programme, adjusted for differences in the two schemes.

Drawn from this model, the green line in the chart below shows how average provider performance for the main jobseekers group might evolve over time if providers succeed at the same rates as they did in the previous programme.[1] The red dots show DWP's minimum performance expectations for providers in years one, two and three of the Work Programme. The official statistics released on Thursday will be for the second year of the programme, when DWP's **minimum performance level** for the main client group is 27.5%.

Chart: Expected performance levels based on previous performance



* The Work Programme started two months into the first contract year

[1] This assumes that labour market conditions under work Programme were comparable to those when FND operated between October 2009 and May 2011. ILO unemployment was broadly flat under FND, around 2.5m. During year two of the work Programme it fell from around 2.6 to 2.5 million.

Our model suggests that if providers perform as they did under FND, the year two performance figure will be **around 24-25%** for this group. This estimate is intended as a rough guide to the likely performance of Work Programme providers as a whole, rather than an accurate forecast. It suggests that we can draw the following conclusions about provider performance in year 2 of the Work Programme:

- While some providers are likely to exceed the 27.5% *minimum* performance benchmark, on average providers seem likely to fall short of it.
- Providers will be far below what DWP *expected* them to achieve.
- None of this tells us whether providers, or the overall Work Programme, are performing well or poorly in absolute terms; only that DWP's minimum performance standards appear to have been hugely over-optimistic.
- There are likely to be serious financial implications for providers, and hence for the level of spending on this key service for long-term unemployed people.

Year 2 figures in context

While performance minima were set out in 2011, the minimum levels for Year 2 are affected by two unpredictable factors: the **numbers of people flowing onto the scheme** in the first two years; and the **economic situation in the UK labour market**. A quick look at these suggests that the former has the result of making performance minimums easier for providers to hit in Year 2, while the latter pulls in the opposite direction. The net effect of these forces is unclear.

The first year of the Work Programme saw a higher than expected number of people flowing onto the scheme in its early months, while the second year saw fewer people entering the scheme than expected when it was commissioned. The DWP expected 308,000 people in the main jobseeker group to flow onto the Work Programme in Year 1 and 236,000 to flow on in Year Two. In fact, over the first twelve months of the scheme the actual numbers flowing on exceeded expectations, with over 350,000 entering the scheme – 18% up on expectations. By contrast the numbers flowing on Year 2 were lower than expected, with just over 200,000 entering the scheme – 14% down on expectations.

Providers have two years to find clients work, but outcomes are measured on referrals and job outcomes achieved over just twelve months. Higher than expected on-flows in Year 1 therefore created a bigger pool of people for year 2, allowing a higher number of job outcomes. Meanwhile the falling number of referrals in Year 2 reduces helps to push up the performance measure. The scale of this effect is unclear but it will have made the Year 2 results better than they would have been if on-flows to the Work Programme had gone to plan.

However, the state of the economy pulls provider performance in the opposite direction. When the ITT was drawn up in 2010, the Office for Budget Responsibility predicted unemployment in 2013 to be 1.3 million. But the OBR's latest Economic and Fiscal Outlook suggests that unemployment will stand at 1.58 million by the end of 2013 – an increase of

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22% on their 2010 forecast. Higher than expected unemployment makes it harder for providers to find work for claimants, reducing sustained job outcomes and therefore their performance.

Conclusion

Thursday's figures on the Work Programme will allow us to evaluate how well providers have been performing against the minimum performance levels set out for them by the DWP in the invitation to tender.

Our analysis suggests a significant improvement in Work Programme provider performance in the scheme's second contract year compared to terrible figures from its first. Nevertheless it is likely that, on average, providers will fall short of the minimum performance levels expected of them by the DWP.

The minimum levels are meant to be exactly that – a minimum level of performance, below which provider performance cannot fall without risk of contract termination. But poor performance against the DWP's minima cannot be taken as evidence that the scheme is not working or offering poor value for money: we simply do not know what an alternative approach would fare better or worse in current economic conditions.

However, it does show that the scheme was poorly designed. Since providers are paid primarily for job outcomes there is a significant risk that vital services for long-term unemployed people are unsustainable in a period of economic stagnation.

Since low levels of job outcomes cut provider revenues, spending on frontline services inevitably falls in such conditions, and with it support to jobseekers. Last year DWP underspent £248m on the Work Programme – a measure of the cut to services that occurred. Past experience in previous recessions has shown that this is exactly the opposite of what should be done to avoid substantial human, social and economic costs lasting well into the future. The Government should therefore review the Work Programme model and develop ways in which a properly funded employment service can be sustained at a time of persistently high unemployment.