

Making the Work Programme work for ESA claimants

**Analysis of minimum performance levels and
payment models**

A report as part of the *Fit for Purpose* project

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Contents

Executive Summary	4
1 Introduction	8
2 Background	11
The Work Programme payment groups and payment model	11
Work Programme referrals and performance	12
3 What should performance expectations have been?	18
Payment Group 6 – the ‘Minimum Performance Level’	18
Payment Groups 5 and 7 – illustrative performance levels	25
4 How much under-spend has there been?	26
Per participant spend	26
Whole programme spend	29
Conclusion	29
5 Implications for delivery	31
What does DWP’s investment pay for?	31
Costing a more intensive system of support	32
6 Reforming funding for ESA participants in the Work Programme	34
Bringing funding back into line with intentions	34
7 Conclusion	38
8 Annex 1 – Financial model inputs	39
9 Annex 2 – Provider costs model inputs	40

Executive Summary

The Work Programme aims to offer tailored support to claimants who are long-term unemployed or otherwise disadvantaged in the labour market. Within this, it is intended to support claimants of Employment and Support Allowance (ESA) that have a prognosis of being ready for work within a year, or that volunteer to join the programme.

Both the numbers of ESA participants on the Work Programme, and performance in finding them jobs, have been below the levels expected by the Department. There are likely to be a number of reasons for this lower performance:

- The economy has been generally weaker than was forecast at the time that the Work Programme was commissioned;
- Lower referrals have reduced economies of scale, and the scope for specialist organisations to provide services;
- The eligibility for the Work Programme among ESA claimants was widened in order to increase the number of participants – which has led to more participants that are substantially further from work;
- There has been variation in provider performance, which may in part reflect a ‘vicious circle’ of lower performance leading to fewer payments for job outcomes, leading to lower funding and then still lower performance; and
- Finally, the targets themselves may have been set too high.

What should performance expectations have been?

The Government has not said how it calculated ‘counterfactual’ performance for Work Programme participants, so we have used an alternative method that can also take account both of the changes to eligibility and of the impact of the weaker economy. This uses the old Jobcentre Plus target regime to model job outcomes for people with a health condition and disability as a proportion of all claimants of ESA and the benefits that it replaced. This approach includes claimants that would be significantly more disadvantaged and also those significantly less disadvantaged than those on the Work Programme.

This analysis suggests that around 10.7% of ESA claimants required to take part in the Work Programme would have achieved Job Outcomes under an equivalent of

this regime. In the event, actual performance (for those that have completed the Work Programme) has been 11.7% achieving job outcomes on a comparable basis.

By contrast, the Government's estimate of 'counterfactual' performance was 15%. It is difficult to understand how the Government's estimate could be so much higher.

How much under-spend has there been?

Lower than expected performance means lower than expected funding, as the Work Programme is largely funded through payments for employment outcomes. This was inadvertently hard-wired into the Work Programme at the point that it was commissioned – as high targets combined with an outcome-based funding model led to low funding when those targets were missed.

Overall, our modelling suggests that over the course of the Work Programme, DWP's actual spend on ESA customers is likely to be 40% less than the levels implied by the Work Programme Invitation to Tender. Based on current performance, per participant spend is likely to be £690, compared to £1,170 based on ITT data.

In addition, spending per participant is going to fall significantly as time goes on. This is a result of decreases in 'attachment fees' throughout the life of the programme – from £600 in the first year to zero for those joining now. For this latter group, we estimate that spending by Government will fall to on average £545 per participant. This will make it harder for providers to maintain and improve service levels in future.

Funding is also lower than expected due to lower numbers of ESA claimants joining the Work Programme. Across the whole programme, we estimate that expenditure for supporting ESA claimants on the Work Programme will be less than half the level intended by the Government, with total expenditure of £350 million over the life of the programme against an estimated forecast of £730 million at the time the programme was commissioned – a difference of £380 million.

Implications for delivery

Our modelling suggests that, if only £690 was spent on supporting ESA participants, then this would mean participants would be seen on average every two months, with virtually no additional support and adviser caseloads of nearly 400 participants.

However, in practice Work Programme providers are spending more than they are being paid by the Government for supporting ESA customers, by cross-subsidising

internally. This cross-subsidy has clearly not been sufficient to substantially increase performance, but may have enabled a minimum level of support to be maintained.

Our modelling suggests that bringing funding up to broadly in line with the original intent of the Work Programme would be sufficient to ensure that participants are seen monthly on average, have access to support with managing their condition, and can receive additional funded support.

Reforming funding for ESA participants

There is a strong case for restoring Work Programme funding for ESA participants to the levels originally intended. We recommend doing this for those joining the programme now (from April 2014), which will also help to counteract the fact that funding will fall significantly for these groups with the loss of the attachment fee.

We propose a new funding model based on four key assumptions:

- Spending the same amount on supporting ESA claimants as was originally intended – so restoring funding to around £1,170 per participant
- Increased funding should lead to increases in performance – for modelling purposes we have assumed a 20% increase in performance (broadly in line with the assumptions made when the Work Programme was commissioned)
- A strongly outcome-based payment structure – based around an attachment payment, a new 'job entry' payment, and a shorter 'tail' of sustainment payments, which will make funding more immediate without increasing risks for Government
- Funding per participant should be highest for former IB claimants where performance is lowest, and broadly similar for ESA volunteers and mandated ESA claimants

Our proposed payment model is below. This shows attachment, entry, outcome and sustainment payments for each Payment Group, modelled to achieve an overall average per participant of £1,170 based on current performance plus 20% stretch.

This proposal would be substantially outcome funded (71% of payments on achieving and sustaining jobs). This is broadly in line with the Government's intentions for the whole programme when it was commissioned – which based on our modelling were for 25% of expenditure to be made for attachment fees and 75% on outcomes and sustainment payments.

Table 6.1 – Proposed Work Programme payment model for ESA claimants

	PG5 - ESA Volunteer	PG6 - ESA Flow	PG7 - ESA ex-IB
Attachment payment	£350	£350	£350
Job entry payment	£600	£900	£1,250
Job outcome payment (three months in work)	£1,150	£1,400	£4,000
Maximum job sustainment payment*	£2,300	£4,700	£9,620
<i>Cost per attachment</i>	<i>£1,018</i>	<i>£1,181</i>	<i>£1,413</i>

* Same overall levels as current model, but paid over 9 months after job outcome payment.

Conclusion

Without reform, the Work Programme funding model is set up to offer a minimal service and poor employment outcomes for participants who claim Employment and Support Allowance. The reasons for this are complex but include a weaker than expected economy, participants with higher levels of need than anticipated, low volumes leading to a loss of specialist support and disinvestment, and likely targets that were set too high – leading to payments that were too low when these targets were not achieved.

All of these issues and learning will need to be addressed in the design of any future programme. In the meantime however, ESA claimants will continue to be supported through the Work Programme until 2017. In our view, steps should be taken now to reform the funding model and restore funding to the levels originally intended.

This report sets out how such a reformed funding model could work. It would cost no more, per participant, than the Work Programme was originally designed to cost. It would not make any claim to the under-spends that have already been foregone. And in return, it would expect providers to support more participants in sustained employment.

Fit for Purpose

This is the interim report of a wider project called *Fit for Purpose*, looking at current best practice and the future of employment support for people with health conditions and disabilities. The final report for the Project will be available in the summer.

1 Introduction

1.1 This paper presents analysis on:

- How Minimum Performance Levels were set for Employment and Support Allowance (ESA) Payment Groups in the Work Programme;
- How much is now being spent on ESA claimants on average and overall, and the level of under-spends by DWP on support for ESA claimants as a consequence of performance being below expectations;
- What the implications of this under spend are in terms of what services providers can deliver to ESA customers; and
- How a revised funding model could work, for future ESA claimants who are on the Work Programme.

1.2 The paper draws on analysis conducted using *Inclusion's* 'Work Programme Financial Model' and 'Provider Costs Model'. In addition, Work Programme providers who are involved in funding this project (representing over 80% of all Work Programme prime contracts) have provided input through discussions, workshops and provision of data.

Fit for Purpose

1.3 This report is a part of a wider project called *Fit for Purpose*, which aims to examine what the future of employment support for people with health conditions and disabilities should look like.

1.4 *Fit for Purpose* is being 'crowd funded' by 22 organisations¹ and aims to:

- Develop the evidence-base on 'what works' in supporting disabled people and those with long term health conditions to move into work;

¹ A4e, Avanta, CDG Shaw Trust, ESG, i2i, Ingeus, Interserve, Intraining, Kennedy Scott, learndirect, Maximus, Prospects, Randstad, Reed in Partnership, RNIB, Salvation Army, Seetec, Serco, St Loyes, Wheatsheaf Trust, Work Solutions and Working Links.

- Identify ways in which the Work Programme can better support disabled people and those with health conditions through its funding and delivery models; and
- Explore the options for extending access to employment support to all workless disabled people – including the 'missing million' in receipt of Employment Support Allowance or Incapacity Benefit who are currently receiving no employment support but may be willing or able to work.

1.5 The final report for the Project will be available in early summer 2014.

Inclusion's Work Programme Financial Model and Provider Costs Model

1.6 Much of our analysis is based on Inclusion's **Work Programme Financial Model**. The model is a powerful instrument for understanding Work Programme finances, and allows users to profile claimants joining the Work Programme and to measure the financial implications of different volumes, performance levels and funding models.

1.7 The model is based on: forecasts for eligible claimants; eligible groups by type of claimant; quarterly cohorts which are tracked by user-controlled job outcomes and sustainment; costs for services as input by the user; and a payment structure which can be user-controlled and/or based on the DWP structure. The main outputs of the model are: cashflow based on inflows and performance with break-even points; rate of return indicators; breakdown of cashflow for each eligible group; share of benefit savings between provider and government.

1.8 We have also conducted analysis using our **Provider Costs Model**. This allows us to input all the different costs associated with providing support to customers including: Personal Adviser, managerial and support staff costs; rent and overheads, including IT costs; support costs including travel and childcare reimbursement, discretionary budgets and specialist support and communications; staff training; and the costs of borrowing. The model provides overall and per customers costs based on projected customer flows, service periods and performance levels, and allows the user to vary the support regime to determine what is and is not affordable.

Job outcomes for disabled people and those with health conditions

- 1.9** The focus in this report is on the performance of the Work Programme for participants who are claiming Employment and Support Allowance (ESA). However, many more Work Programme participants have health conditions or are disabled (in fact a majority of those with a health condition or disability are JSA claimants).² Analysis by *Inclusion* has illustrated that disabled people are far less likely to achieve job outcomes in the Work Programme than non-disabled people,³ and addressing this gap must be a key priority for the Government and for those organisations providing support to participants. This will be a central focus of the wider *Fit for Purpose* review, reporting this summer.

² Source: DWP Tabulation Tool

³ 'Work Programme statistics: Inclusion analysis', Centre for Economic and Social Inclusion, March 2014

http://www.cesi.org.uk/sites/default/files/response_downloads/WP_stats_briefing_Mar_14_MASTER.pdf

2 Background

The Work Programme payment groups and payment model

2.1 The Work Programme aims to offer tailored support to claimants who are long-term unemployed or otherwise disadvantaged in the labour market. There are now nine 'Payment Groups' within the Work Programme, comprising:

■ **Jobseeker's Allowance (JSA) claimants:**

- Payment Group 1 (PG1), jobseekers aged 18-24 referred after nine months of claiming JSA
- PG2, jobseekers aged 25 and over referred after a year of claiming JSA
- PG3, jobseekers of any age referred after three months of claiming JSA as 'Early Access' cases
- PG4, jobseekers who were previously claiming incapacity benefits, referred after three months of claiming JSA
- PG9, prison leavers, referred on the date of their claim for JSA

■ **Employment and Support Allowance (ESA) claimants:**

- PG6, ESA claimants with a prognosis of being ready for work within 12 months, referred following the outcome of their Work Capability Assessment (WCA)
- PG7, ESA claimants who previously claimed incapacity benefits and with a prognosis of being ready for work within 12 months, referred following the outcome of their Work Capability Assessment (WCA)

□ PG5, other ESA claimants, who can volunteer following their WCA outcome⁴

■ **Incapacity Benefit or Income Support claimants**, who can volunteer at any time (PG8 – England only)

2.2 Each Payment Group has their own **payment model**: with a job outcome payment made at different rates and after different lengths of time in work (3 or 6 months); and sustainment payments made for each subsequent four weeks in work (again paid at different rates and for different lengths of time). Outcome payments were intended to be generally higher for those claimants deemed furthest from work – to encourage providers to invest in supporting these groups. Attachment fees were also paid for participants who started on the Work Programme up until the end of March 2014.

2.3 At the time that the Work Programme was commissioned, the Department published **forecasts** of the numbers of claimants who would be referred within each Payment Group, and **performance expectations** – in the form of contractual 'Minimum Performance Levels' (MPLs) for three of the Payment Groups (PG1, PG2 and PG6), and 'illustrative performance levels' for Payment Groups 3, 4, 5 and 7.

2.4 By taking together all of this information – the payment model, the referral forecasts and performance expectations – both the Government and Work Programme providers could estimate:

- How much funding would be spent/ available through the Work Programme;
- How much would be spent/ available for each Payment Group; and
- How much would be spent/ available on average per participant within that.

Work Programme referrals and performance

2.5 In the event, however, referrals to the Work Programme for ESA Payment Groups have been well below the levels forecast, and performance in achieving job outcomes has also been below expectations. As a

⁴ Some volunteers, such as ESA claimants with young children, are classed as PG6 or PG7

consequence, funding for ESA groups has been lower than anticipated – both overall and per participant.

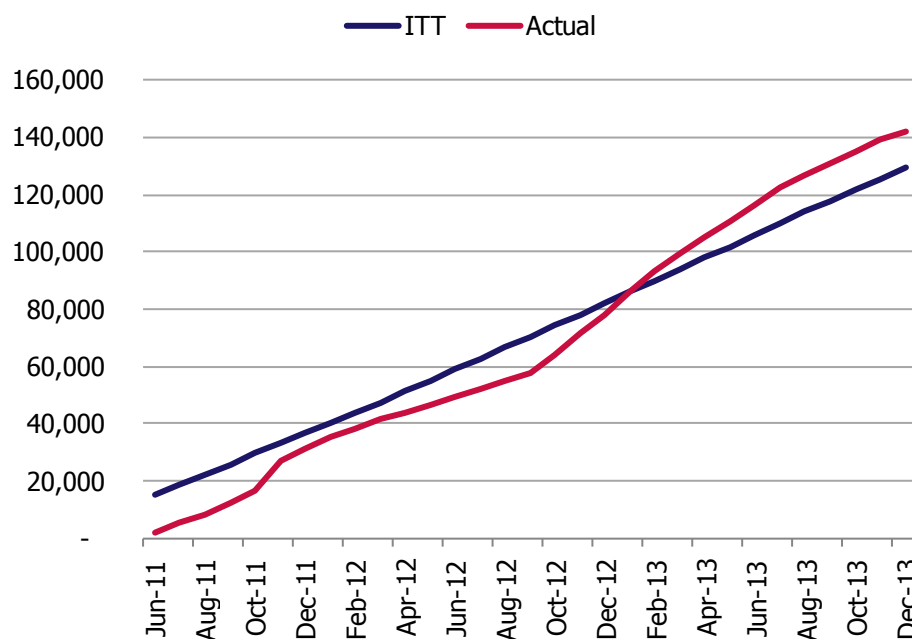
Referral volumes

2.6 The numbers of ESA claimants referred to the Work Programme during its first year was far below expectations – with the combined referrals for Payment Groups 5, 6 and 7 running at just 41% of forecasts. By contrast, referrals for JSA Groups were significantly above expectations. In response, the Government twice widened the eligibility for the main ESA Payment Group that are required to join the Work Programme (PG6) from the initial definition of those judged to be ready for work within three months:

- First in October 2011, those with a prognosis of being **ready to work within six months** were required to join the Work Programme;
- Then in November 2012 those with a prognosis of being **ready to work within twelve months** were required to join.

2.7 Widening eligibility in this way had the desired effect – with the gap between forecast and actual referrals for PG6 closing (and now actual referrals running ahead of forecasts). This is set out in **Figure 2.1** below. However, it also meant that the claimants being referred to the Work Programme were often significantly more disadvantaged (and therefore less likely to find employment) than had previously been the case.

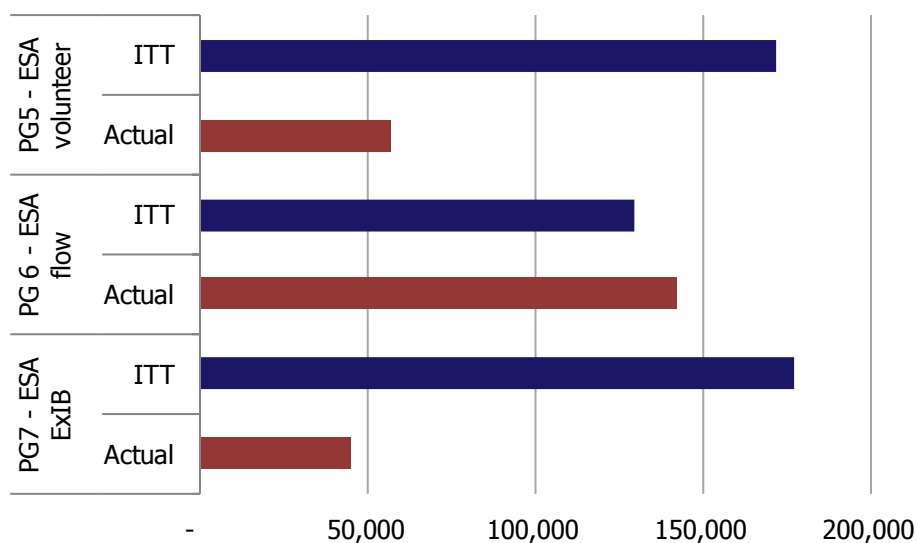
Figure 2.1 – Expected and actual referrals for Payment Group 6



Source: DWP: Information, Governance and Security Directorate; *Inclusion* calculations

2.8 Referrals remain well below forecasts for ESA claimants who previously claimed incapacity benefits (PG7) and for ESA 'volunteers' (PG5). The low referrals for PG7 stems in part from changes to the Work Capability Assessment process, which have led to relatively more former IB claimants being identified as not capable of Work Related Activity. The low referrals for volunteers are in spite of extensive efforts by the Government and providers to increase referrals. **Figure 2.2** sets out overall referrals against profile for all ESA groups.

Figure 2.2 – Referral volumes by payment group up to September 2013



Source: DWP: Information, Governance and Security Directorate; *Inclusion* calculations

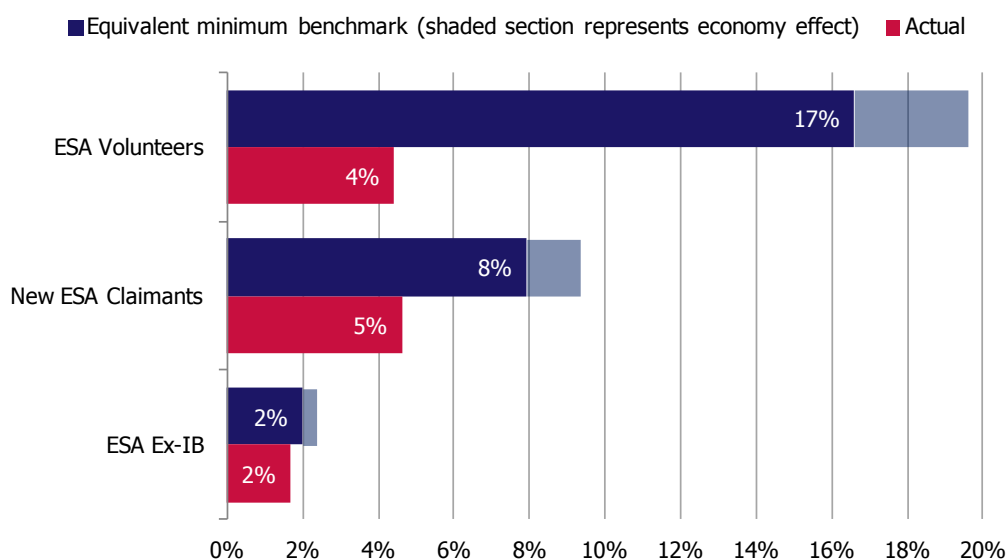
Performance

2.9 At the same time, the proportion of ESA claimants on the Work Programme finding work has been far below expectations across all Payment Groups. Previous work by *Inclusion* has set out the limitations with how performance is measured in Work Programme contracts⁵, so we use below our preferred measure of the proportion of referrals achieving a job outcome within twelve months of joining the programme.

2.10 On this measure, we estimate that the Department's performance expectations, and actual performance, were as follows.

⁵ 'Briefing Paper: Measuring Work Programme Performance', Centre for Economic and Social Inclusion, June 2013

Figure 2.3 – One-year job outcome measure – equivalent minimum benchmark compared to actual, by participant group (Jun 2011–Dec 2012 referrals)



Source: DWP: Information, Governance and Security Directorate; *Inclusion* calculations

2.11 There are likely to be a number of reasons for this lower performance:

- First, **the economy has been generally weaker than was forecast** at the time that the Work Programme was commissioned. This was particularly the case in the first year of referrals (2011-12), when forecasts had been for growth of around 2% per year but in fact the economy came close to re-entering recession (the so-called 'double dip'). The Government has acknowledged that the economy can affect the performance of Jobcentre Plus⁶ but has not reflected this in how targets are set or performance managed in its employment programmes. Work by *Inclusion* has demonstrated a clear link between GDP growth and programme performance⁷ and estimates that taking account of the economy would reduce performance targets by around 1.4 percentage points (on the 12-month outcome measure).
- Secondly, lower referrals may themselves have contributed to lower performance, by **reducing economies of scale** and the scope for

⁶ Stating that "in a recession, even if Jobcentre Plus is performing well, the off-flow rate is likely to fall" (Source: 'Rates of people moving from out of work benefits – DWP equality information 2013')

⁷ "Long term unemployment in 2012", Centre for Economic and Social Inclusion

specialist organisations to provide services. This was highlighted as an issue in the official evaluation of the Work Programme⁸.

- Thirdly, as noted in paragraph 2.6 above, **the composition of Payment Group 6** – the largest group of ESA participants – **has changed significantly** since the programme was commissioned. This will have affected performance from the second year of the programme in particular. No estimates have been made of the likely scale of the impact on performance of these changes.

2.12 These factors likely cannot explain all of the gap in performance though, so either the **targets themselves** or **under-performance** by providers must also be factors.

2.13 On the targets, this is explored in more depth in Chapter 3 below. On wider performance, there is some evidence that providers have not been as successful as they could have been in supporting ESA claimants into work. This is best illustrated by looking at comparative data. Within each Contract Package Area (CPA), there are either two or three competing providers with each randomly allocated equal numbers of participants. Therefore any difference in performance between providers within a CPA can be explained by their delivery models. The gap in performance between the highest performer and the others within that CPA is typically around 10%, but can be as high as 50%. However, even if each provider within a CPA was achieving performance in line with the best performer in that area, this would only raise performance by around **0.5 percentage points** – so well below the gaps shown in Figure 2.3 above. Under-performance cannot be explained by differences in provider delivery models alone. And poor performance may in part reflect a ‘vicious circle’ of lower than expected performance leading to lower payments leading to less funding, which in turn leads to lower performance. The impact of this is set out in more depth in Chapters 4 and 5.

⁸ Lane, P., Foster, R., Gardiner, L., Lanceley, L. and Purvis, A. (2013) *Work Programme evaluation: Procurement, supply chains and implementation of the commissioning model*, Department for Work and Pensions Research Report 832

3 What should performance expectations have been?

Payment Group 6 – the ‘Minimum Performance Level’

Estimating minimum and ‘counterfactual’ performance

- 3.1** The ‘Minimum Performance Levels’ for the two main JSA Groups and the group of ESA claimants referred automatically (Payment Groups 1, 2 and 6) were set at levels intended to reflect the job outcomes that would be achieved without any **additional support (over** and above regular adviser contact), plus an additional ‘stretch’ of 10% on top. This formulation – of a ‘counterfactual’ of basic adviser support plus a minimum acceptable level of additional performance – was inevitably complicated. However it was considered necessary both because of the high levels of outcome funding (which meant potentially high costs and risk if performance levels were set too low) and the mechanics of how the programme was being funded between the Department for Work and Pensions and HM Treasury.
- 3.2** In the case of the two JSA Payment Groups (1 and 2), counterfactual performance could be estimated with some confidence by modelling data on Jobseeker’s Allowance that was available back to the late 1990s and more recent, ‘matched’, employment data from HMRC.
- 3.3** For the ESA Payment Group however (PG6), there was insufficient data available on which to directly estimate performance. By late 2010, when DWP made their assessments, the most recent ESA caseload and Work Capability Assessment (WCA) data was up to and including February 2010⁹. ESA itself had only existed since October 2008, so the maximum

⁹ Caseload figures available at November 2010 can be found on the National Archives: <http://webarchive.nationalarchives.gov.uk/20101121111344/http://research.dwp.gov.uk/asd/index.php?page=esa>; WCA figures available in October 2010 can be found here: <https://www.gov.uk/government/collections/employment-and-support-allowance-outcomes-of-work-capability-assessment>

period the first ESA claimant could have claimed ESA was 16 months (and approximately one year after their WCA), while the majority of claimants for whom DWP would have had data would have been claiming for just a few months. The Work Programme, by contrast, has a service period of two years, plus a possible further supported period of up to 22 months in work.

3.4 This means that DWP had to patch together information from different sources relating to different groups of claimants of different benefits in order to make an estimate for the Work Programme Invitation to Tender. This was further complicated by the fact that Payment Group 6 was (at that time) limited to those with a prognosis of being ready for work in 3-6 months, which had no counterpart within the previous Incapacity Benefit (IB) 'Personal Capability Assessment' data.

3.5 The Government has never explained precisely how it calculated the counterfactual. Our understanding is that the counterfactual was calculated through a combination of:

- Available ESA data projected forward,
- An estimated relationship between ESA off-flows and employment, and
- Estimates of job outcomes from IB claimants.

3.6 Our assumption is that DWP did **not** include:

- Off-flows during the assessment process for ESA – around one third close their claim before the completion of the WCA¹⁰ and this information was available in 2010. However, it has never been confirmed that this group was excluded. Clearly if they were not excluded then this in itself would have significantly inflated the counterfactual.
- Any assumed additional impact on performance of adviser interventions, as DWP evaluations had by that time concluded that

¹⁰ Source: Employment and Support Allowance outcomes of Work Capability Assessments statistics, DWP

the previous Pathways to Work regime had not led to a statistically significant impact on employment.¹¹

3.7 The spreadsheet supplied with the Invitation to Tender identified that the estimated counterfactual for Payment Group 6 was 20% of each group of starters achieving a payable job outcome during their time on the Work Programme. In the actual ITT document, the counterfactual was then reduced to 15%. This means that **the Minimum Performance Level was set at 16.5%** - the counterfactual, plus a 10% 'stretch' to reflect minimum expectations.

3.8 As set out in Chapter 2, performance has been below this level for a combination of reasons: an economy effect in 2011-12; the inclusion of people who were further from work from 2012 onwards; and under-performance by (some) providers. It is also possible that the counterfactual itself was incorrect. In the absence of any detailed explanation of how the counterfactual was calculated, it is hard to critique the Government's figure. However the fact that ESA flows data was only available for a few months for most claimants will undoubtedly have led to uncertainty in the estimates of counterfactual off-flows. There are two further areas of uncertainty:

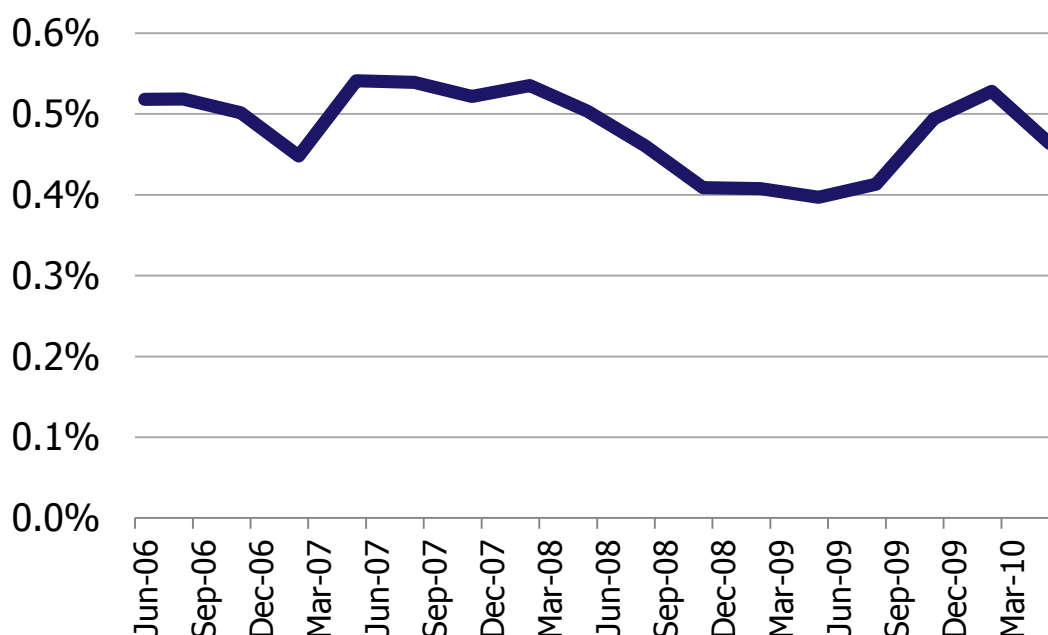
- First, it is not clear how the Government adjusted its estimate to account for the fact that participants were intended only to be those ESA claimants with prognoses of being ready to work within a relatively short (3-6 month) period of time; and
- Secondly, it is unclear how Pathways to Work data (used to estimate the relationship between off-flows and jobs) was adjusted to allow for the fact that Pathways participants included those volunteering for support and those in the assessment phase – and so generally closer to work and with a higher likelihood of leaving benefit and returning to their previous employment.

11 Bewley, H., Dorsett, R. and Salis, S. (2009) *The impact of Pathways to Work on work, earnings and self-reported health in the April 2006 expansion areas*, Department for Work and Pensions Research Report No 601

An alternative approach to estimating performance

- 3.9** DWP have not provided their data or methodology on how counterfactual performance was estimated, so we have used alternate methods to come up with an independent estimate that can also take account both of the new wider eligibility for PG6 (as compared with when the Work Programme was commissioned) and of the impact of the recession.
- 3.10** We have looked initially at information on the **Jobcentre Plus target regime** from 2005 up to 2010. This covers both a period of strong growth and recession. For this period, Jobcentre Plus used a points-based system with each job 'outcome' – a job start by a benefit claimant – accorded a points score based on a priority scale. "People with a Health Condition or Disability" (PHCD) had the highest point score of 12 points per job start. Job start information came from matching benefits data with HMRC P45 data on jobs. We have compared the numbers of recorded PHCD job 'outcomes' with the combined Incapacity Benefit/ Severe Disablement Allowance/ ESA caseload. This gives a job outcome rate as a proportion of claimants.
- 3.11** **Figure 3.1** below shows that, in the pre-recession period, the proportion of the combined caseload who achieved a job outcome in these terms was approximately 0.5% each month. This rate fell with the recession to approximately 0.4% - a fall of 20%, which was similar to that for other Jobcentre Plus target groups at that time.

Figure 3.1: Proportion of all ESA/ IB/ SDA claimants who achieve a Jobcentre Plus job outcome each month



Source: Department for Work and Pensions and *Inclusion* calculations

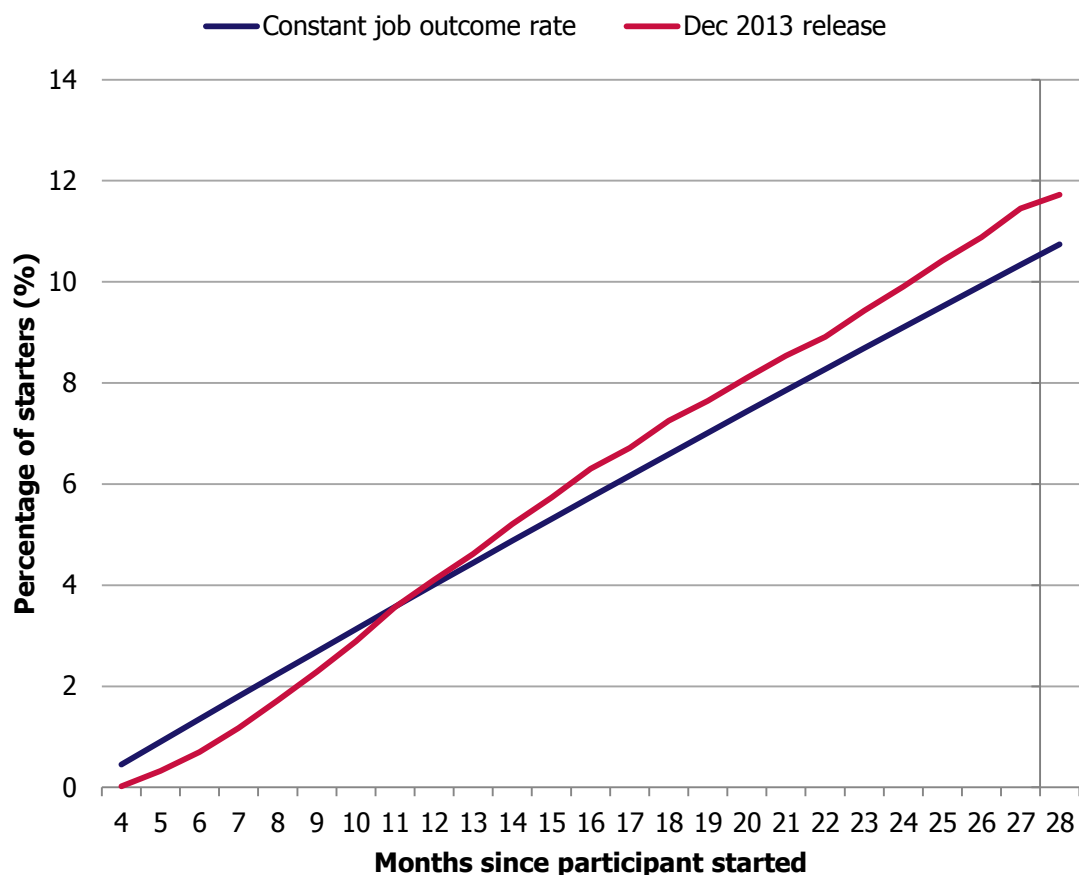
3.12 Therefore, an initial assumption that in a 'normal' labour market 0.5% of starters might get a job each month seems reasonable.

3.13 Figure 3.1 above shows the job start rate for **all** IB/ SDA/ ESA claimants. However we are interested specifically in new ESA claimants who have completed their WCA and have a prognosis of being ready for work within twelve months (the Payment Group 6 definition). Broadly, we would expect job start rates to vary as follows, from highest to lowest:

- Those who started a claim for IB or ESA but recovered and then left benefit before their assessment was completed (as noted, this is around 35% of ESA claimants)
- Those who did undertake a WCA but were found fit for work (around 40% of ESA claimants at this time, falling to 25-35% since mid-2011)
- Those assessed within the Work-Related Activity Group – which includes all claimants who are automatically referred to the Work Programme (but account for just 15-20% of new ESA claims)
- Those assessed within the Support Group (just 6-8% of all new claims in this period, rising to 15-20% since mid-2011)

- 3.14** Therefore, the WRAG group of ESA claimants would be somewhere below the middle of the range of job start rates for all new IB/ SDA/ ESA claims. Within the WRAG group, if prognosis groups were being defined accurately, then job start rates would vary by prognosis group with those 3-6 months having the highest job start rates, descending as the prognosis extends.
- 3.15** Applying this job start rate to the Work Programme, **Figure 3.2** below shows both:
- A 'constant job outcome rate' if PG6 participants were expected to start jobs at the rate of 0.5% each month, and 90% of these job starts went on to achieve Job Outcomes (which would be in line with the New Deal for Disabled People); and
 - Actual Work Programme performance for PG6 participants who have completed two years on the Work Programme plus the three months required to achieve a Job Outcome (in other words, combining the outcomes for all of those who joined the Work Programme before 30 September 2011).

Figure 3.2: Work Programme job outcomes for ESA claimants – actual outcomes compared with 0.5% starting employment each month



Source: DWP: Information, Governance and Security Directorate; Inclusion calculations

- 3.16** The vertical line is 28 months after joining the programme, which is the point at which the counterfactual estimate for the whole programme would apply. 28 months after starting the Work Programme, 11.7% of starters achieving Job Outcomes, compared with an estimate of 10.7% if it is assumed that 0.5% enter employment every month.
- 3.17** The model we have used is extremely simple. However it is difficult to see that it is so unreasonable that the Government's counterfactual estimate should end up 50% higher than this. Indeed if this had been set as the counterfactual for Work Programme Payment Group 6, then actual performance so far would be broadly in line with a 'minimum performance level' of 10% above the counterfactual.

Payment Groups 5 and 7 – illustrative performance levels

3.18 For most Payment Groups, the Government published ‘illustrative performance levels’ as part of their Invitation to Tender. These were not contractual Minimum Performance Levels. Rather, they were intended to support prospective bidders in financial modelling and in benchmarking their performance offers.

3.19 These illustrative performance levels were:

- For ESA volunteers (PG5), 48% of participants would achieve a job outcome; while
- For ESA former Incapacity Benefit claimants (PG7), 9% would achieve a job outcome.

3.20 These levels were not official estimates of ‘counterfactual’ performance with an additional stretch. However it is likely that they were derived from the previous (very high) performance of voluntary programmes for disabled people (particularly those who volunteered for New Deal for Disabled People support) and the (generally very low) probability of IB claimants leaving benefits for work (which is discussed above).

3.21 As noted in Chapter 2 (Figure 2.3), actual performance for PG5 participants is running broadly in line with performance for PG6 – so a long way behind the ‘illustrative performance level’. For PG7, performance is broadly in line with the illustrative level. This low performance is likely to be for similar reasons as those given previously: a weaker than expected economy and relatively more disadvantaged participants. In addition performance for these groups, and particularly PG5, will have been affected by far lower than expected funding – both:

- Overall, because of very low numbers of referrals compared with forecasts (around 100,000 participants so far against expected volumes of 350,000); and
- Per participant – with particularly low outcomes for PG5 translating into less outcome funding and therefore less money available to fund support.

3.22 These funding issues are explored in more detail in Chapter 4 below.

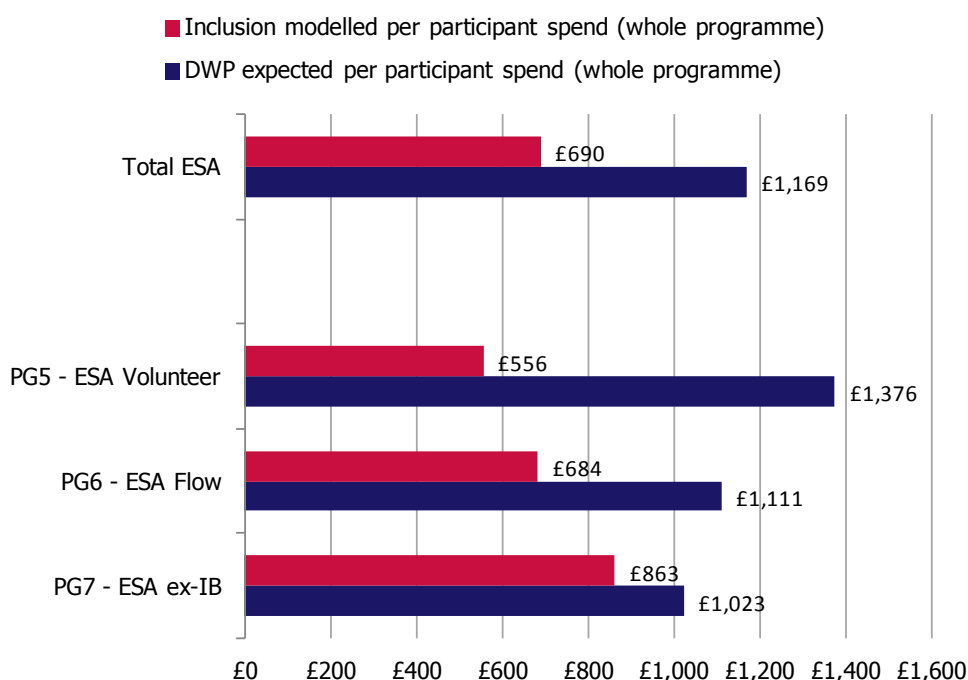
4 How much under-spend has there been?

- 4.1** This chapter sets out our estimate of the difference between:
- The levels of DWP spend on ESA customers **as expected when DWP issued its Invitation to Tender (ITT)** for the Work Programme; and
 - **Actual DWP spend based on latest performance.**
- 4.2** The modelling examines spend in terms of payments to providers from DWP (current and forecast), rather than the expenses providers themselves incur when supporting ESA customers (Chapter 5 explores this difference in more detail). As such, we are estimating the shortfall in investment in employment support for ESA claimants that has resulted from lower than anticipated performance and lower than expected volume of claimants.
- 4.3** This analysis was conducted using our Work Programme Financial Model – a discussion of the inputs into the model can be found in **Annex 1**.

Per participant spend

- 4.4** Overall, our modelling suggests that over the course of the Work Programme, DWP's **actual** spend on ESA customers is likely to be 40% less than the levels implied by the Work Programme ITT. Our modelling suggests that, based on current performance, **per participant spend is likely to be £690, compared to £1,170 based on ITT data**. This shortfall is the result of lower performance.

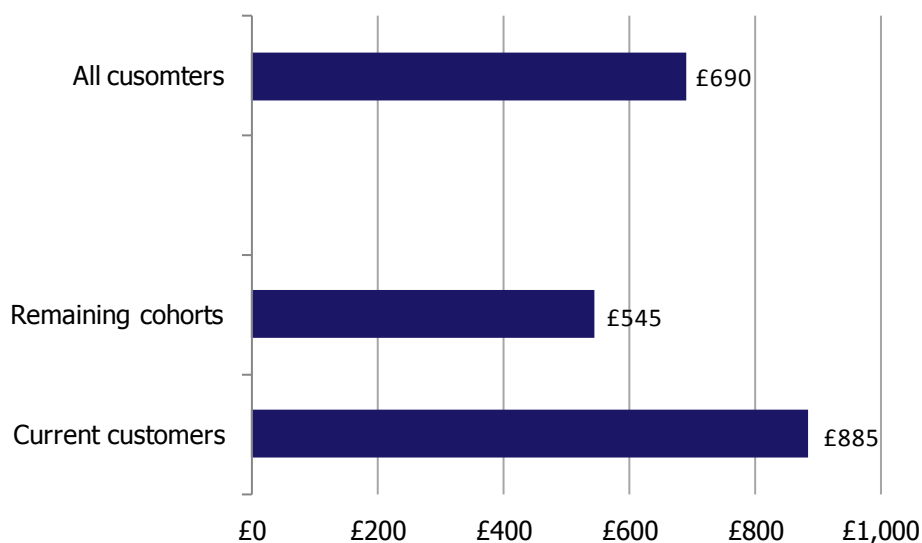
Figure 4.1 - Expected and actual spend per participant for ESA customer groups



Source: DWP: Information, Governance and Security Directorate; *Inclusion* calculations

- 4.5** In addition, DWP spend per customer is going to fall significantly as time goes on. This is a result of decreases in 'attachment fees' throughout the life of the programme – from £600 in the first year of the programme to zero for those joining now.
- 4.6** Our projection is that DWP spend per customer for those cohorts that joined the programme before October 2013 will be **£885**, compared to just **£545** for cohorts starting later. This will make it harder for providers to maintain and improve service levels in future (without either changes in the funding model or a significant increase in performance).

Figure 4.2 - Expected and actual spend per participant for ESA customer groups



Source: DWP: Information, Governance and Security Directorate; *Inclusion* calculations

Sensitivity analysis

- 4.7** We have tested our findings above against publicly available data from the Department for Work and Pensions on Work Programme spending up to September 2013.¹² Based on this DWP data we are able to calculate actual spend per attachment for ESA claimants *by a certain point in time*, rather than per participant spend over the two years that an individual is on the programme. Nonetheless, by using the DWP data on spend per attachment up to September 2013, and comparing this with estimated spend per attachment up to that point from the *Inclusion* Work Programme model, we can test how accurately the *Inclusion* model predicts actual expenditure.
- 4.8** This sensitivity analysis finds that the *Inclusion* model is accurate to within 3% of official DWP figures on spend per participant up to September 2013 (the DWP figure is £552, while the model generates an estimate of £535).

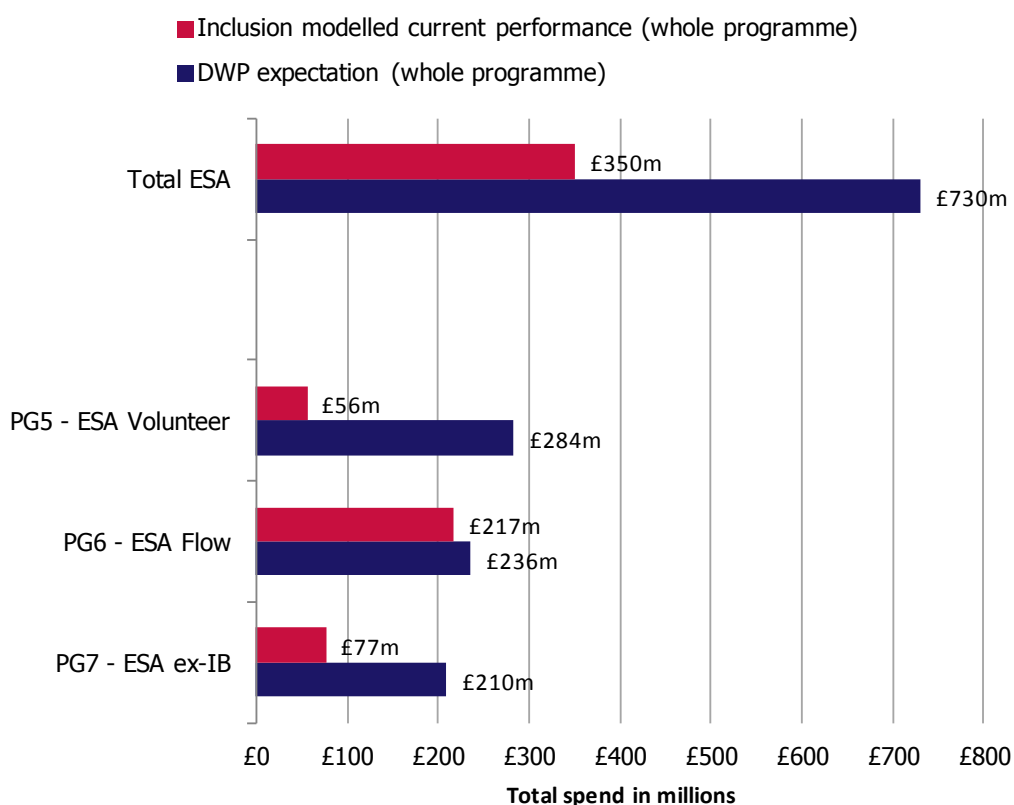
¹² Hansard Written Answers, 11 February 2014, Col 587W, available at: <http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140211/text/140211w0002.htm>

Whole programme spend

4.9 Our modelling suggests that across the whole programme, **expenditure for supporting ESA claimants on the Work Programme will be less than half the level intended by the Government.** We estimate that total expenditure will be £350 million over the life of the programme, against estimated forecast expenditure of £730 million at the time the programme was commissioned – a difference of **£380 million.**

4.10 This very large difference is driven both by lower performance and lower volumes. This is particularly the case for Payments Groups 5 and 7, as Figure 4.3 below sets out.

Figure 4.3 - Expected and actual overall spend for ESA customer groups



Source: DWP: Information, Governance and Security Directorate; *Inclusion* calculations

Conclusion

4.11 The Government's expenditure per participant, and overall spending, for those claiming Employment and Support Allowance is significantly lower

than was expected and budgeted for at the time that the Work Programme was designed.

- 4.12** Over the lifetime of the programme, per participant funding is likely to be 41% lower than anticipated (£690 compared to £1,170), and this figure will fall even lower as the programme continues. Combined with lower volumes, this means that the Department is likely to have invested £380 million less in providing employment support to ESA customers in the Work Programme than it had originally intended.

5 Implications for delivery

5.1 Clearly, the large under-spend on employment support for ESA claimants set out in Chapter 4 will have had a significant impact on the level of services that organisations can deliver. This in turn will have affected their ability to achieve job outcomes and in turn increase the funding available to support participants. This chapter models first what a delivery regime based **only** on the income that Work Programme providers receive from DWP would look like, and then what a more intensive regime might cost, drawing on *Inclusion's* Provider Costs Model. Our inputs into the model are outlined in more detail in **Annex 2**.

What does DWP's investment pay for?

5.2 The previous chapter found that over the life of the programme, the Government will spend around £690 for every Work Programme participant that claims ESA. Based on our analysis, **if this were the only funding used to support ESA claimants**, then this would be sufficient to provide:

- An initial assessment interview;
- One intervention every two months (typically lasting half an hour, with additional travel and childcare costs covered);
- One in twenty participants getting access to extra help with managing their condition; and
- On average, an extra £30 per participant that could be spent on providing any additional support during their two years on the programme.

5.3 Within this delivery model, the average caseload would be around **370 per personal adviser** across the lifetime of the programme.

Cross-subsidy

5.4 The analysis above presents modelled estimates of what support would be affordable within a funding envelope of £690 per participant. However, this is not the same as the amount that organisations actually spend on ESA participants. The organisations engaged as part of this

project – who hold over 80% of Work Programme prime contracts – report that they **spend more than they are being paid** for supporting ESA customers, by cross-subsidising internally from income from other, more job-ready Payment Groups. The extent of this cross-subsidy is not fully known, but we do know – from the Work and Pensions Committee¹³ and to a lesser extent the first evaluation of the Work Programme¹⁴ – that caseloads are significantly below the 370 level given above (and are likely to be around 120 to 180 participants per adviser).

- 5.5** This cross-subsidy, clearly, has not been sufficient to substantially increase performance – nor is likely to be restoring spending to the levels that the Government had intended. However it may have enabled a minimum level of support to be maintained for this group.

Costing a more intensive system of support

- 5.6** Using the *Inclusion* provider costs model, we have modelled two illustrative scenarios for what a more intensive regime might cost for supporting Work Programme participants. Both scenarios have the following in common:

- An initial assessment interview;
- Funding additional condition management for one third of participants (including counselling and therapy, pain management, support with physical problems, and generic support around relationships, communications, problem-solving and so on); and
- An average of £170 available per participant for further support (for example pre-employment training, financial incentives or transitional support).

- 5.7** In the first scenario, we have modelled that participants would receive on average one half-hour meeting every month (with additional travel and childcare costs paid), while in the second scenario we have modelled two half-hour meetings per month. The results are presented in the table below, with estimates of adviser caseload in these scenarios.

¹³ *Can the Work Programme Work for All User Groups?* Work and Pensions Committee First Report of Session 2013–14, May 2013

¹⁴ Lane, P., Foster, R., Gardiner, L., Lanceley, L. and Purvis, A. (2013) *Work Programme evaluation: Procurement, supply chains and implementation of the commissioning model*, Department for Work and Pensions Research Report 832

Table 5.1 – Costs and caseloads for more intensive support

	One meeting every month	Two meetings every month
Average cost per attachment	£1,288	£1,924
Average caseload per personal adviser	200	104

Source: *Inclusion* estimates

- 5.1** These are intended as illustrative scenarios, but are informed by discussions with the organisations supporting this project. For example in practice, many more than one third of participants might benefit from condition management support. However we would expect that much of this could and should be co-ordinated through existing local funding (particularly local health provision). Likewise it is possible that additional training costs could be met in large part through local provision funded through the Adult Skills Budget.
- 5.2** Nonetheless, the figures above suggest that it would be reasonable to assume that bringing funding up to broadly in line with the original intent of the Work Programme would be sufficient to ensure that participants are seen regularly, have access to support with managing their condition, and can receive additional funded support.

6 Reforming funding for ESA participants in the Work Programme

- 6.1** Chapter 4 has set out that funding for ESA claimants in the Work Programme is far below the levels intended when the programme was commissioned, driven by lower than expected volumes and performance. The Government had intended to spend around £1,170 per participant but is in fact spending around £690. As Chapter 5 shows, had spending been in line with the Department's expectations then this would have led to significantly more support for those participants – in terms of their access to condition management, the frequency of adviser support, and smaller caseloads for those advisers.
- 6.2** In our view, while performance has been low it has been broadly in line with what should have been expected based on off-flows to work for IB and ESA claimants between 2005 and 2010 (Chapter 3). In effect, lower payments were inadvertently hard-wired into the programme at the point that it was commissioned – as high targets combined with an outcome-based funding model led to low funding when those targets were missed.
- 6.3** We consider that there is a strong case for restoring Work Programme funding for ESA participants to the levels originally intended, for those ESA customers who join the Work Programme from April 2014. Focusing on those joining now will, in particular, help to counteract the fact that funding will fall significantly over the next two years.

Bringing funding back into line with intentions

- 6.4** Below we set out a proposed model, based on four key assumptions:
- We should aim to spend the same amount on supporting ESA claimants as was originally intended – so restoring funding to around £1,170 per participant. Given the fiscal climate, this proposal does not seek to access any of the under-spends up to this point (which have already been foregone).

- Increased funding should lead to increases in performance. For modelling purposes, we assume that restoring funding to ITT levels would increase job entries by 20% over current performance. This is broadly in line with the assumptions made around performance uplifts when the Work Programme was commissioned (that the performance gain would “significantly exceed” the 10% increase at Minimum Performance Level)¹⁵.
- The payment structure should be strongly outcome-based, but should also more closely follow need (and therefore provider expenditure). We propose an attachment payment, a new ‘job entry’ payment, and a shorter ‘tail’ of sustainment payments (over nine months instead of 22). Taken together, this will make funding more immediate without increasing risks for the Government.
- Funding per participant should be highest for former IB claimants where performance is lowest (PG7), and broadly similar for ESA volunteers (PG5) and mandated ESA claimants (PG6).

6.5 Our proposed payment model is below. This shows attachment, entry, outcome and sustainment payments for each Payment Group, modelled to achieve an overall average per participant of £1,170 based on current performance plus 20% stretch.

Table 6.1 – Proposed Work Programme payment model for ESA claimants

	PG5 - ESA Volunteer	PG6 - ESA Flow	PG7 - ESA ex-IB
Attachment payment	£350	£350	£350
Job entry payment	£600	£900	£1,250
Job outcome payment (three months in work)	£1,150	£1,400	£4,000
<i>Current max outcome payment</i>	<i>£1,000</i>	<i>£1,200</i>	<i>£3,500</i>
Maximum job sustainment payment*	£2,300	£4,700	£9,620
<i>Cost per attachment</i>	<i>£1,018</i>	<i>£1,181</i>	<i>£1,413</i>

¹⁵ Source: Work Programme Invitation to Tender: <http://webarchive.nationalarchives.gov.uk/+/http://www.dwp.gov.uk/docs/work-prog-itt.pdf>

* Same overall levels as current model, but paid over 9 months after job outcome payment

6.6 Table 6.2 below shows what proportions of **total expenditure** (not expenditure per participant) would be spent on attachment, job entry, job outcome and sustainment payments under our proposed model, and compares this with the proportions:

- Implicit at the time that the Work Programme was commissioned;
- For those who have joined the Work Programme so far (with attachment fees); and
- Those joining from now on (without attachment fees).

Table 6.2 – Proportion of expenditure on constituent parts of payment model – original ITT, current and proposed approaches

	Whole programme - original DWP expectations	Estimated actual spend – those joining before April 2014	Estimated actual spend – those joining from April 2014	Remaining cohorts - <i>Inclusion</i> proposal
Attachment	25%	32%	0%	29%
Job Entry	0%	0%	0%	14%
Job Outcome	23%	20%	26%	14%
Sustainment	52%	48%	74%	42%

6.7 This shows that the *Inclusion* proposal would be substantially outcome funded (71% of payments on achieving and sustaining jobs). This is broadly in line with the Government’s intentions for the whole programme when it was commissioned – which based on our modelling, were for 25% of expenditure to be made for attachment fees and 75% on outcomes and sustainment payments. By comparison, 70% of Work Choice expenditure is paid in attachment fees with 30% paid for outcomes.¹⁶

6.8 If this payment model were adopted for future Work Programme participants, then the Government may also want to consider what if any

¹⁶ Thompson, A., Trenell, P., Hope, M., McPhillips, A. (2011) *Work Choice Evaluation: Commissioning and Transition of Clients to the Programme*, Department for Work and Pensions In House Research No 6

additional requirements could be put in place as a condition of this increased funding. In our view, any future programme should include clearer common guaranteed service standards for participants, as are common in many other contracted-out markets. However there are arguments either way on introducing these for the current Work Programme. If any such requirements were introduced, then options could include: a minimum frequency of contact between advisers and participants; a guaranteed work-focused health assessment (which was part of the Work Capability Assessment until 2010 but removed on the assumption that this would happen as part of Work Programme support); or ring-fencing of an element of the funding against specified support (such as rehabilitation or condition management programmes).

7 Conclusion

- 7.1** Without reform, the Work Programme funding model is set up to offer a minimal service and poor employment outcomes for participants who claim Employment and Support Allowance. Service levels and performance levels would in all likelihood be even lower if spending was not being topped up by providers, drawing on income from jobseeker participants who are more likely to find and keep work.
- 7.2** The reasons for this happening are complex but include a weaker than expected economy, participants with higher levels of need than anticipated, low volumes leading to a loss of specialist support and disinvestment, and likely targets that were set too high – leading to payments that were too low when these targets were not achieved.
- 7.3** As a consequence, instead of spending around £1,170 per participant, the Government is spending closer to £690 – to provide support for at least two years. With the loss of attachment fees from 1 April 2014, average spending per participant by Government will fall to £545 – further reducing the support and services that participants can receive.
- 7.4** All of these issues and learning will need to be addressed in the design of any future programme. In the meantime however, ESA claimants will continue to be supported through the Work Programme until 2017 (and many of those that find work will continue to be supported for longer still). It should not be an option to allow funding and support simply to tail away. In our view, steps should be taken now to reform the funding model and restore funding to the levels originally intended.
- 7.5** This report has set out how such a reformed funding model could work. It would cost no more, per participant, than the Work Programme was originally designed to cost. It would not make any claim to the under-spends that have already been foregone. And in return, it would expect providers to support more participants in sustained employment.

8 Annex 1 – Financial model inputs

- 8.1** This Annex explains the inputs used in our Work Programme Financial Models.
- 8.2** In Chapter 4, analysis is based on two scenarios. The first examines our expectations of the costs the DWP would have expected to incur based on the data laid out in, or implied by, the DWP Work Programme Invitation to Tender. This included projected customer flows, minimum/indicative job outcome and sustainment rates, and attachment rates.
- 8.3** The second scenario examines the actual costs we estimate that DWP has incurred, based on the latest data available. To model this we have used actual referral numbers where these are available (up to September 2013), and the latest DWP expectations from then on (from October 2013). Job outcome rates are based on analysis of cohort data from the DWP, and sustainment rates are based on Inclusion's modelling. The attachment rate has also been recalculated based on the actual proportion of attachments, rather than the DWP expectations.

9 Annex 2 – Provider costs model inputs

9.1 This Annex provides details about the assumptions inputted into the Provider costs model and reported in Chapter 5.

Staff costs

9.2 We have made the following assumptions about staff costs:

- We have assumed that PAs spend 70% of their time in interviews, and are absent from work or training seven days a year.
- 15 PAs are managed by one manager, and 15 managers are managed by one senior manager. One administrator is employed for every 20 PAs, and 1 other ancillary member of staff for every 40 PAs.
- Other fixed staff are two business development and two employer engagement staff per prime contract, one operations director per prime contractor, and three admin staff per prime contract.
- We have set all salaries in line with the ERSA 2012 Employment Related Services Salary and Benefits Survey.

Delivery costs

9.3 We have made the following assumptions about delivery costs:

- Customers will claim back travel expenses worth on average £5 for 50% of interviews.
- Customers will claim childcare expenses for 10% of interviews. The value of each childcare payment will be 3 hours of childcare, with each hour costing £4.26.¹⁷

¹⁷ Daycare Trust (2013), *Childcare Costs Survey 2013*, http://www.daycaretrust.org.uk/data/files/Research/costs_surveys/Childcare_Costs_Survey_2013.pdf, p.2.

- Condition management programmes cost £500 per customer. The frequency with which these are used varies between the different scenarios we modelled.
- Discretionary budgets are a maximum of £200 per customer. The frequency with which these are used varies between the different scenarios we modelled.
- Assessment interviews take 40 minutes.
- Subsequent one-to-one interviews take 30 minutes.
- In-work support takes 5 minutes per customer per month.

Overheads

9.4 We have made the following assumptions about overheads:

- Recruitment costs of 2.5% of staff salaries.
- Rent costs of 90% of the median office rental in Great Britain (£194 per square metre), and fifteen square metres per member of staff.¹⁸
- IT costs are £1,100 per member of staff per year.
- Other overheads are 20% of staff wages.
- Prime providers will need to make 10% interest payments on loans used to finance provision.

¹⁸ 'Property Market Report 2011', Valuation Office Agency, available at: http://www.voa.gov.uk/dvs/downloads/pmr_2011.pdf