

alright  
**for**  
some?

FIXING THE  
WORK PROGRAMME,  
LOCALLY

**REPORT**

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June 2014  
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## ACKNOWLEDGMENTS

The authors would like to thank the boroughs of Southwark, Lambeth, Lewisham and Islington and the councils of Sheffield and Hull for generously supporting our research. Particular thanks go to Stephen Gaskell for his thorough engagement during the life of the project.

In addition, we would like to thank our colleagues Nick Pearce, Ed Cox, Graeme Cooke, and Graeme Henderson for their comments on the draft.

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## EXECUTIVE SUMMARY

The Work Programme, intended to help people facing labour market disadvantage, is letting down people and places with weak labour market prospects.

Introduced at speed, the government's flagship Work Programme has not delivered what its commissioners had hoped for. Emerging from a framework with two separate programmes for quite different claimants – Flexible New Deal for jobseekers' allowance (JSA) claimants and Pathways to Work for claimants on incapacity benefits (IB) or employment and support allowance (ESA)<sup>1</sup> – transformed into one, the Work Programme was formulated with the ambition of unleashing the creativity of a competitive private market, with incentives to encourage contractors to deliver tailored but broadly equal support for all participants.

However, evidence shows that the Work Programme is not supporting these quite different sets of claimants equitably, and that those needing resources most appear to be receiving least (Meager et al 2013). With only one in 20 ESA claimants finding a sustained job while on the Work Programme, the remainder will most likely return to the job centre after two years, with no better (and perhaps worse) labour market prospects than when they joined the programme. Even those with low expectations of labour market programmes should regard that as an unacceptable outcome of a two-year 'employment' programme.

Just as the Work Programme lets down certain categories of claimant, there are wide locational variations in its performance. In parts of Sussex, one in three young jobseekers on the Work Programme have been helped into sustained employment; in Devon this figure is less than one in 10. A jobseeker in Melton Mowbray will be half as likely to successfully leave the Work Programme as someone in Reigate (DWP 2014a). Where you live impacts on your employment prospects, and employment services should be designed to better reflect the strengths and weaknesses of local labour markets. These challenges feed through into the counterproductive funding regime of the Work Programme, where locations with higher levels of long-term unemployment receive declining levels of programme investment. Inadequate funding hinders Work Programme contractors and disadvantages yet further those they should be supporting. People in weak labour markets face many other challenges without the commissioning of employment support creating yet more inequalities.

However, the Work Programme is not a complete failure – for some claimants it is performing as adequately as the initiatives that preceded it, and on the face of it, at substantially lower cost. For these claimants the programme requires modest reforms; for others more fundamental changes are needed to ensure that active labour market policies (ALMPs) meet the expectations of both those trying to get work as well as those commissioning back-to-work support.

Neither the commissioning process, nor ALMPs more broadly, will deliver full employment in the UK; but they can deliver more than the current set-up will allow. To get the most out of the commissioning process, and with the overarching objective of achieving more appropriate support for the unemployed, policymakers must confront the Work Programme's major flaw: the assumption that one programme can work for all claimants, and all labour markets. We propose a replacement programme guided by four principles.

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1 Incapacity benefit was reconfigured as ESA in 2008 and existing claimants have been transferred onto this new regime incrementally.

1. The current 'work first' philosophy does not work for everyone. A replacement for the Work Programme needs to explicitly recognise the differing support needs of diverse claimants. The recommissioned Work Programme needs to address separately the challenges faced by mainstream jobseekers and those who experience more complex employment barriers.
2. Local labour market variations are strongly indicative of how an employment programme will perform. A replacement programme should recognise and work to narrow differences in labour market performance.
3. Local services that could support jobseekers hardly feature in the Work Programme, but for some categories of claimant these will be essential. A complex array of supplementary support is available at the local level, offering health services, skills training, and even wage subsidies. Any new employment support initiative should be better integrated with such services, for both mainstream jobseekers and those with more complex needs.
4. Employability programmes are not a cure for all long-term unemployment. People and places with weak labour market prospects should be supported with a 'job guarantee' to compensate for market failure.

A new employment support strategy must recognise the diverse challenges facing claimants and local economies, by offering different levels of support for people with more complex needs and a range of demand-side interventions for places with the weakest labour markets. In doing so, any serious joint commissioning strategy must seek the input of local government and health authorities, and use their resources and infrastructure in employment, skills training and health services to much better effect. Doing so will help to deliver more responsive, and personalised support for the unemployed.

# INTRODUCTION

The Work Programme is the Coalition's flagship active labour market policy, introduced by the Department for Work and Pensions (DWP) in June 2011 to replace a number of existing welfare-to-work schemes. The Work Programme is designed to reduce long-term unemployment by paying private companies and voluntary organisations to identify and connect the long-term unemployed to job vacancies.

Fundamentally a 'work-first' operation, the programme is intended to connect the long-term unemployed to the labour market by the fastest and cheapest possible means (Sol and Hoogtanders 2005). Contractors are financed primarily on the basis of moving participants into sustained employment, with small (depreciating) attachment fees and larger job outcome payments. In order to ensure the job taken up is for a 'sustained' length of time, the providers of the programme are paid larger rewards when the individual has been employed for a required timeframe.<sup>2</sup> Under a so-called 'black box' approach, contractors are relatively free to choose what employment support services to offer.

The approach largely continues the trend of employment policy in the UK, deploying conditionality and intensive job search arrangements to tackle frictional unemployment. Taking forward the policy implemented by the previous government – the Flexible New Deal, Pathways to Work and employment zones as well as some elements of previous New Deal programmes – the Work Programme is delivered by a series of private contractors (called 'prime' providers) commissioned by the DWP.

What distinguishes the programme from previous initiatives is a clientbase that incorporates a wider range of jobseekers than any previous ALMP. In particular, alongside 'mainstream' categories of claimant receiving JSA, the Work Programme engages ESA recipients, formerly those receiving incapacity benefit.

The DWP invited companies to bid for any of the 40 contracts in 18 designated 'contract package areas' (CPAs). Contractors are expected to work with all claimant types in all the CPAs. In total, there are nine different claimant categories on the programme (configured as payment groups in the differential pricing regime), ranging from young jobseekers to those who have recently left prison.

With such an array of potentially different claimant support needs, DWP was concerned that contractors would concentrate on helping the easiest claimants to the neglect of those with more challenging support requirements. Consequently, the funding system was designed to attempt to tilt the payment incentives towards helping each group to equal effect, by funding contractors more for those perceived as more challenging cases, and less for those considered more straightforward (see Finn 2013).

If contractors meet DWP performance expectations for each of the claimant categories for a stipulated timeframe, the total value of the contracts would be around £650 million per annum (NAO 2012). As a supply-side labour market initiative, the likelihood of success for contractors (and therefore of their own profits) will depend on many variables, including the skills and employment histories of participants, labour market elasticity, broader local and national economic conditions, and the strategies that the firms themselves choose to deploy.

The effectiveness of the Work Programme has, since its inception, been a matter of some debate, but after two and a half years of operating there is sufficient data to provide an informed assessment of its performance for different types of claimants across the country.

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<sup>2</sup> For payment groups 1, 2 and 9 this is 26 weeks, for groups 3–8 this is 13 weeks.

## Methodology and structure

Our research asked the following questions:

- How effective is the Work Programme at the national level for different claimant categories (payment groups)?
- How effective is the Work Programme across different labour markets?
- How much does the Work Programme cost, and how much is spent nationally and locally on support programmes?
- What policy measures can be introduced to compensate for labour market weaknesses?
- How can commissioning be used to better account for differences in employer demand?

The analysis used a quantitative methodology to identify programme performance, at both a national and subnational level. Statistics have been drawn from a number of sources: DWP administrative data; Work Programme performance data provided by the Employment Related Services Association (ERSA); labour market data provided by the NOMIS labour market series; and further data from the local authorities supporting this project.

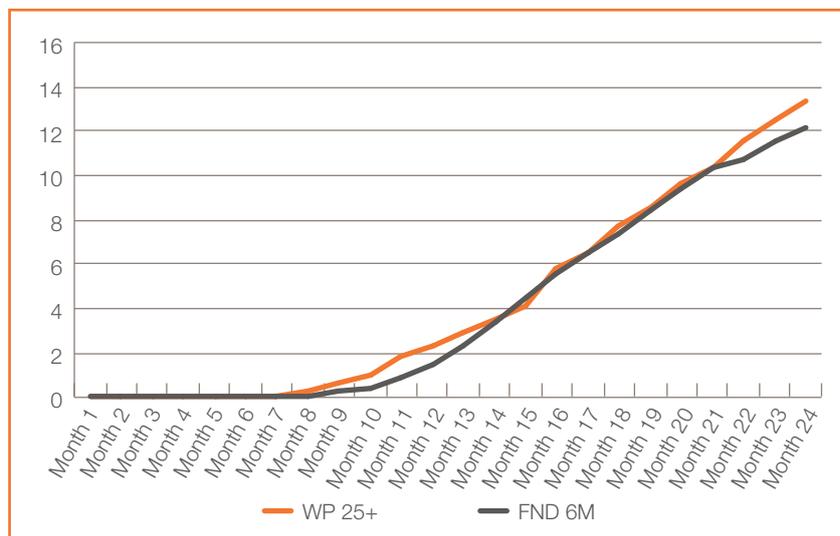
Data is used to demonstrate the performance of the Work Programme at the aggregate and contract level. We will then break it down into different claimant categories (payment groups) and different contractor organisations. We have also taken Work Programme data for local authorities and contractors, and plotted this against a selection of labour market indicators, to identify labour market variables on the efforts of individual contractors across the UK.

# 1. AGGREGATE PERFORMANCE

Nearly 1.5 million people have joined the Work Programme in the past two and half years, and around 17.5 per cent of these have found sustained employment.

In recent years, the private-sector-led model of employment support has been a growing feature of the UK policy landscape. Employment zones or more recently the Flexible New Deal both shared the same fundamental features of the Work Programme. When we measured the programme's performance within this context, for the main category of jobseekers, the Work Programme appeared to perform as well as the Flexible New Deal that preceded it. Comparative performance over the same number of months of operation is illustrated in figure 1.1.

**Figure 1.1**  
Comparative performance of Work Programme payment group 2 and Flexible New Deal employment outcomes over 24 months



Source: Authors' construction derived from DWP 2011 and DWP 2014a

The two programmes are not directly comparable due to differing clientele, so we have measured the JSA 25+ cohort of the Work Programme (payment group 2) against the full Flexible New Deal caseload. On this measure, the Work Programme appears to be doing just as well as the Flexible New Deal for its core set of participants.

The cumulative figures show the growing number of 'steady' jobs recorded as accessed by jobseekers on the programme, but they do not provide the full picture. Further analysis of DWP statistics (see figure 1.2) shows proportions of those starting on the Work Programme each month and obtaining a sustained job outcome (whichever payment group they may be in) within 12 months of participating in the programme.

These figures indicate a more nuanced scenario: that the Work Programme took time to establish itself after contracts were awarded. This slow start appears to have occurred also with previous programmes (Mulheirn 2011), and suggests that contractors do need time to develop relationships with local employers and local employment support infrastructure. Contractors did improve performance gradually over the first year to the extent that 14 per cent of those starting the programme in April 2012 had found sustained employment a year later. However, since April 2012, the proportion of jobseekers starting the programme and finding employment within a year appears to have fallen away again.

**Figure 1.2**  
Proportion of those achieving a sustained job outcome on the Work Programme, by monthly cohort

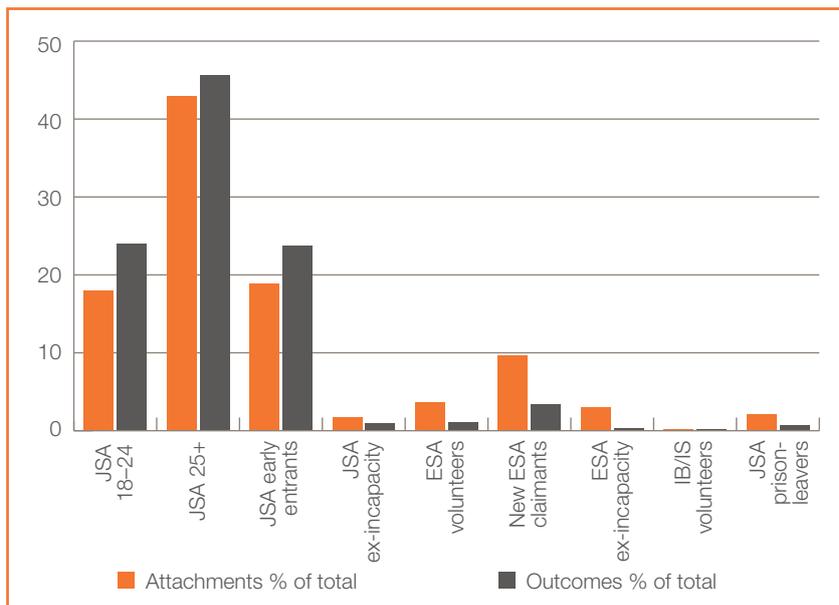


Source: DWP 2014b

This deterioration is troubling for a number of reasons, not least because this later fall in outcomes has occurred when labour market conditions have been improving. Also of concern is that the DWP itself did not expect performance to weaken until the sixth year (see NAO 2012).

More troubling still is that the programme is delivering markedly different outcomes for different clients. There are nine different categories (payment groups) of participant, determined by previous benefit receipt and other characteristics. Figure 1.3 shows the diverse claimant categories that comprise the payment groups of the Work Programme and their share of all employment outcomes.

**Figure 1.3**  
Proportions of Work Programme participants and job outcomes by payment group

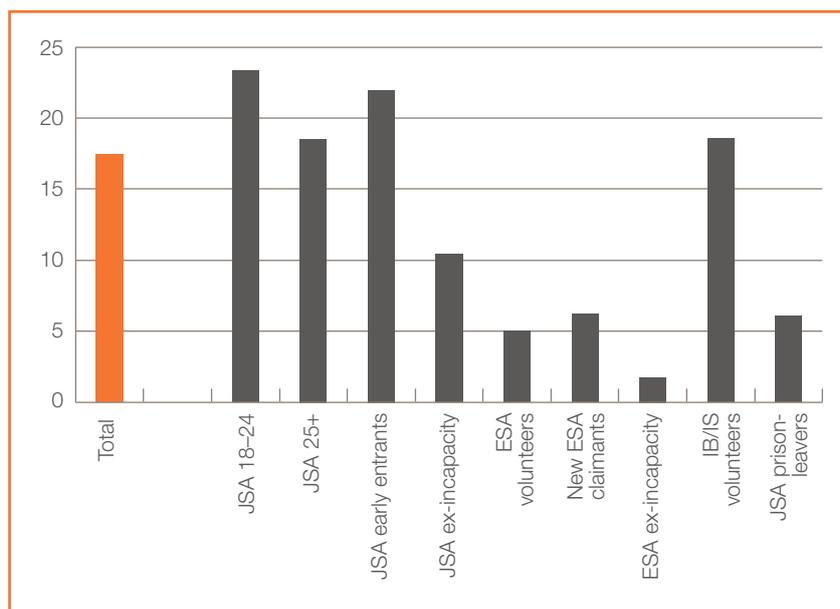


Source: DWP 2014c

The largest cohort of Work Programme clients are the long-term adult unemployed (JSA 25+, unemployed for more than one year, or payment group 2); young long-term unemployed (under 25 years of age); and JSA claimants granted early entry to the programme. These claimant categories cover most of the ‘stock and flow’<sup>3</sup> of long-term JSA claimants. Other participants are drawn largely from either current or former incapacity-related benefit claimants (either the previous incapacity benefit regime, or ESA).<sup>4</sup> Despite the numbers of claimants seeking social support due to ill health in the UK, relatively few former incapacity benefit and ESA claimants will be referred to the Work Programme itself. Of those who do, most will have been required to attend as a result of a work capability assessment (see DWP 2014c).

Figure 1.4 shows that there are some clear differences in programme outcomes for different claimant categories, suggesting that the category a claimant is assigned to is an important signal of their chances of leaving the programme with a steady job.

**Figure 1.4**  
Work Programme outcomes as a proportion of attachments, by claimant category



Source: DWP 2014a

A breakdown of the bulk of success cases shows that while 80 per cent of Work Programme participants come from the three main JSA payment groups, which accounted for 94 per cent of sustained employment outcomes. The data also shows vastly divergent results for the individual claimant categories. For the main JSA payment groups, the programme is performing to DWP expectations (and for JSA claimants aged 18–24, above expectation (see NAO 2012). However, for those who have claimed inactivity benefits, the Work Programme is performing very poorly. For example, there have been 261,000 participants who have joined the programme from payment groups 4–8 since June 2011. Of these, only 5.7 per cent (15,000) have secured sustained employment.<sup>5</sup>

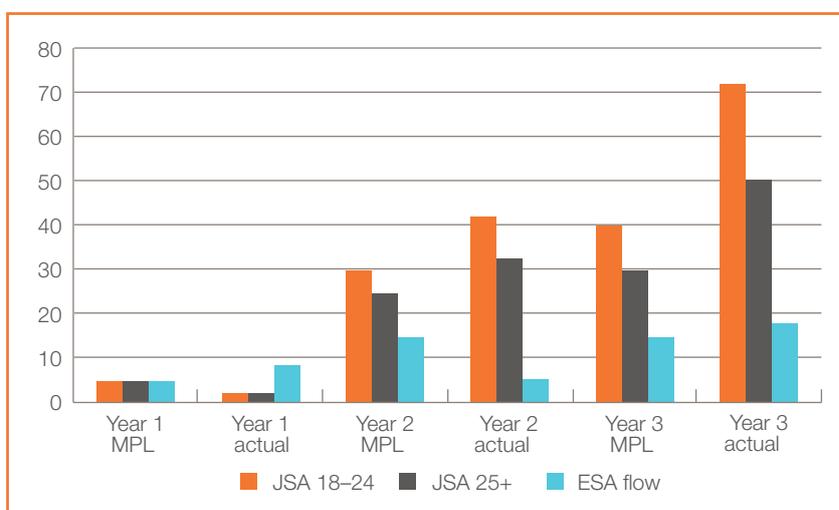
3 ‘Flows’ of long-term unemployed are comprised of those who have been out of work for 12 months and are thus eligible for the programme. ‘Stock’ refers to people who were already eligible when the programme was first implemented as they had been unemployed for more than 12 months already.

4 Payment group 9 includes those leaving prison and in receipt of JSA.

5 We expect that within these client categories there are further subtleties: where work capability assessment splits people into different prognoses, those identified as having shorter-term health problems are probably

DWP expectations were much higher. In commissioning the Work Programme, the department assigned targets (minimum performance levels) intended to pressure suppliers into achieving certain levels of outcome and to act as a performance benchmark (see NAO 2012).<sup>6</sup> Yet only three payment groups were assigned targets: JSA claimants aged 18–24, JSA 25+ and new ESA claimants.

**Figure 1.5**  
Minimum performance levels (targets) and actual performance achievements



Source: DWP 2014a

Figure 1.5 shows that despite underperforming in the first year across the three main payment groups, the Work Programme comfortably exceeded the targets defined for the second year across the two main JSA categories. ESA outcomes are also, at last, catching up with DWP expectations, despite significantly lagging in years one and two. The data appears to indicate that the numbers of young jobseekers aged 18–24 leaving the programme has nearly doubled from year two to year three. In fact this has not actually happened. If the monthly figures for those leaving the programme for steady jobs are compared in year two and year three (they are more or less identical).

Using DWP performance statistics is deeply problematic: they misrepresent actual achievement, depressing and inflating the figures depending on the number of referrals in a reference period (CESI 2013). Rather than calculate the success rate for each cohort, the DWP divides the number of outcomes in a particular year by the number of starts in that same year. This means that the two sides of the equation used to measure performance refer to different groups of people. For example, an increase in the number of ESA claimants in a particular year would deflate the annual performance rate, as many people who found sustained employment will not have joined in the same year. If flows of new entrants had been stable, month on month, year on year, the measurement could have been viable. However, DWP figures (2014c) show a large initial on-flow at the start of the programme, and since then a gradual decline in caseloads.<sup>7</sup>

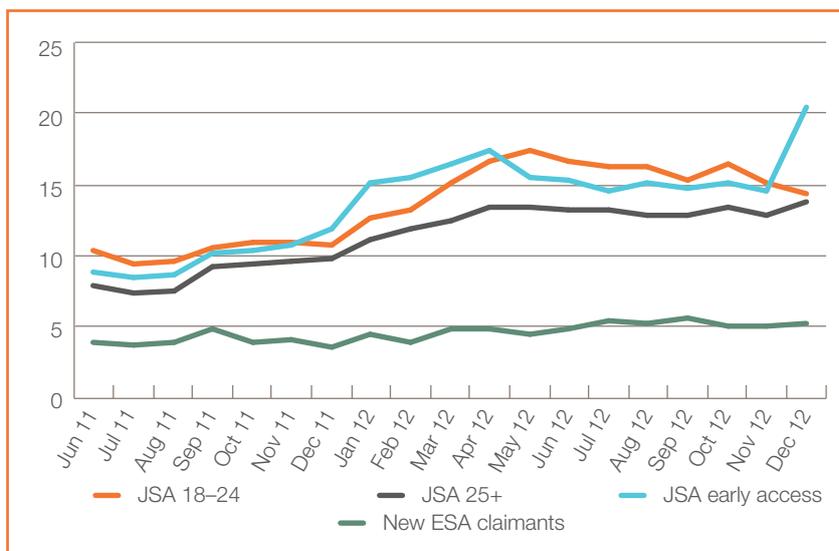
much more likely to find work than those suffering identified longer-term conditions. ERSA are due to report on this soon (see ERSA 2014). Data on primary health condition and age presented below provides some indication of this divergence.

6 Minimum performance levels were calculated at the non-intervention rate plus 10 per cent. Levels are adjusted according to the year of contract, and have recently been reviewed by Paul Lester for the DWP (Lester 2013).

7 For a more comprehensive discussion of the flaws inherent in DWP minimum performance levels, see [http://stats.cesi.org.uk/Measuring\\_WP\\_Performance.pdf](http://stats.cesi.org.uk/Measuring_WP_Performance.pdf).

For a clearer indication, it is better to look at monthly cohort statistics. Figure 1.6 shows the proportion of people joining in each month who have gone on to find sustained employment within 12 months of being on the scheme.

**Figure 1.6**  
Job outcome rates for monthly cohorts by payment group



Source: DWP 2014b

Several points stand out in this figure. First, that those who joined the programme later on had more success in finding sustained employment than earlier cohorts. Second, that despite significant improvement in outcomes over time, results for two of the main jobseeker categories appear to be flattening out or declining; and this is discouraging so early into the life of the contract. Third, and arguably the most troubling feature, is that not only are core ESA claimants suffering poor outcomes, but there are few signs of improvement feeding through as time has passed. Against a backdrop of improving economic conditions across the country with falling unemployment, rising business confidence and expanding vacancy rates, it might be expected that employment outcomes for all participants should be improving too.

## 2. PROGRAMME EFFICIENCY

The costs of the Work Programme are substantial, but opaque. IPPR estimates that expenditure up to December 2013 was approximately £1.2 billion<sup>8</sup> using the combined figures for attachment fees, outcome and sustainment payments.

**Table 2.1**  
Work Programme  
expenditure by type

	Total
Attachments	£513,317,500
Outcomes	£302,978,000
Sustainment	£396,323,950
<b>Total</b>	<b>£1,212,619,450</b>

Source: DWP 2013a, 2014a

These costs are low compared to previous national labour market interventions. Table 2.2 shows a price-adjusted list of expenditure per participant for several major UK employment initiatives.

**Table 2.2**  
Expenditure on  
UK employment  
programmes per  
participant, adjusted for  
inflation

	Programme spend per participant adjusted for inflation	
	2007	2014
New Deal for Young People (NDYP)	£866	£1,017
New Deal 25+ (ND25+)	£983	£1,155
Private-sector-led NDYP	£1,177	£1,383
Private-sector-led ND25+	£1,177	£1,383
Employment zones 18–24	£1,296	£1,522
Employment zones 25+	£1,167	£1,371
Work Programme		£841

Source: Work and Pensions Committee 2010; DWP 2013a, 2014a

The Work and Pensions Committee's data shows that the Work Programme costs around a third as much as previous initiatives. It costs less than half the participant costs (£1,800) of the Flexible New Deal, the employment programme immediately preceding it and identical in its fundamentals (see Davies 2013). Yet, the more the Work Programme fails for harder-to-help jobseekers, the more it looks as if the Coalition is making a false economy. The Work Programme has a strong focus on payment by results, therefore by extrapolation, the weaker the results the cheaper the programme. Moreover, an underfunded programme may deliver poor results precisely because resources are too scarce to support those with more complex (and therefore more costly) needs.<sup>9</sup>

When identifiable expenditure is broken down by payment group, it is clear where the money from the programme is made (see figure 2.1). Contractors' main income is derived from the three key categories of core jobseekers. Of the total programme expenditure (as mentioned, approximately £1.2 billion to date), 86 per cent comprised payments for these three JSA categories. Of these payments, 63 per cent were for job outcomes or sustainments. For the harder to help, the reverse is true: payments totalling £146 million were made for payment groups 4–8, but the vast majority of these (73 per cent) were attachment fees (that is, for entry to the programme only).

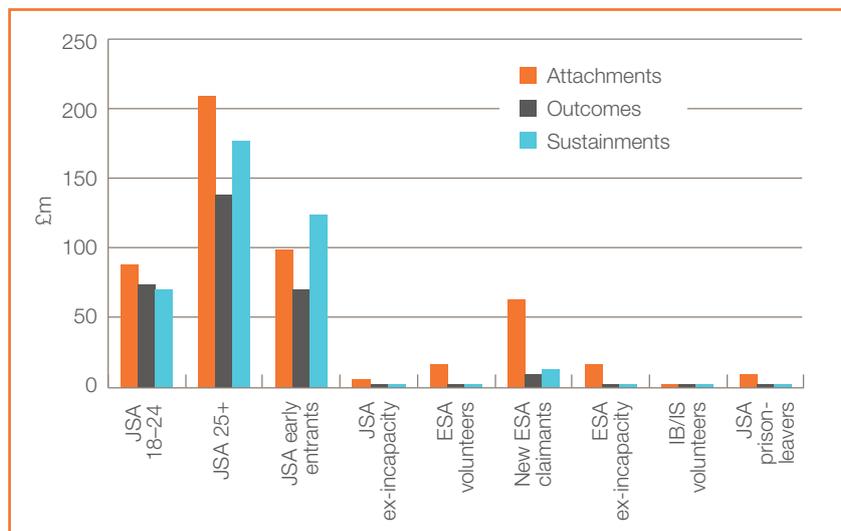
Further analysis is needed to establish where this expenditure goes: how much has been invested by contractors on the different client categories, and how much has been spent

<sup>8</sup> These estimates do not include discounts that are offered by companies as part of the contracting process.

<sup>9</sup> Evidence from the OECD (2013) shows consistently that the UK is among the lowest investors in welfare-to-work programmes of the developed economies.

by the DWP in securing job outcomes. The nature of the contracts means that cross-subsidy is not transparent. Yet, incentives can be best understood by examining spending on primary payment groups. If, as we have claimed, the strongest source of income for contractors will be derived from JSA claimants, it seems logical that this will influence the actions of profit-seeking companies. We will return to this below.

**Figure 2.1**  
Expenditure by payment group and type (£m)



Source: Authors' calculations derived from DWP 2013a, 2014a

Further analysis of DWP expenditure per participant<sup>10</sup> and per job outcome is set out in table 2.3. It is important to stress that these calculations do not reflect how much (and quite possibly more) has actually been spent by contractors.

**Table 2.3**  
Expenditure by payment group, per capita and outcome

	Estimated spending	Number of attachments	DWP spend per participant	Number of outcomes	DWP spend per outcome
<b>Total</b>	<b>£1,212,619,450</b>	<b>1,441,340</b>	<b>£841</b>	<b>251,640</b>	<b>£4,819</b>
JSA 18-24	£233,788,500	258,990	£903	60,400	£3,871
JSA 25+	£527,433,250	618,820	£852	114,680	£4,599
JSA early entrants	£293,096,500	271,780	£1,078	59,700	£4,909
JSA former incapacity benefit	£13,365,000	24,000	£557	2,500	£5,346
ESA volunteers	£20,840,500	53,940	£386	2,690	£7,747
New ESA	£87,685,000	138,110	£635	8,600	£10,196
ESA former incapacity benefit	£22,356,000	43,020	£520	760	£29,416
IB/IS volunteers	£2,008,700	2,640	£761	490	£4,099
JSA prison-leavers	£12,046,000	30,030	£401	1,820	£6,619

Source: Authors' calculations derived from DWP 2013a, 2014a

The column to the right of table 2.3 shows very large job outcome costs that are a result of the failure of Work Programme contractors to secure the anticipated volume of jobs for some claimant groups. To understand why the programme is performing so badly for these claimants, we need to consider the way it has been set up.

<sup>10</sup> Discounts not included.

### 3. WORK PROGRAMME FRAMEWORK AND PERFORMANCE

Employment outcomes of, and expenditure on, the different payment groups are inherently linked – higher payments are made for those the DWP sees as being harder to move into work, while lower payments are made for those deemed closer to the labour market (this is known as differential pricing). The lower cost of the programme relative to past initiatives may illustrate some evidence of efficiency, but having nine claimant categories in one low-cost programme appears to have created distorting incentives that could be influencing the performance of contractors in relation to certain payment groups.

International experience suggests that welfare markets encouraging contractors to compete on price can lead to unintended consequences, such as the ‘cherry-picking’ of those participants closest to the labour market, while ‘parking’ or sidelining the more difficult cases (Finn 2008). Yet although differential pricing attempts to limit this, there is mounting evidence that those deemed least likely to access sustained employment are getting a limited, and often inappropriate, service.

A review by the Work and Pensions Committee (2013) heard evidence that the payment group to which participants were allocated did not seem to affect the *type* of service they received. In addition, the committee took evidence from CDG (a prime provider) that 60 per cent of their staff felt that the differential pricing did not accurately reflect the challenges of working with claimants with diverse needs. This was supported by evidence from the DWP’s second programme review, which found little evidence that the differential payments system had led contractors to target different support for different client categories (Lane et al 2013).

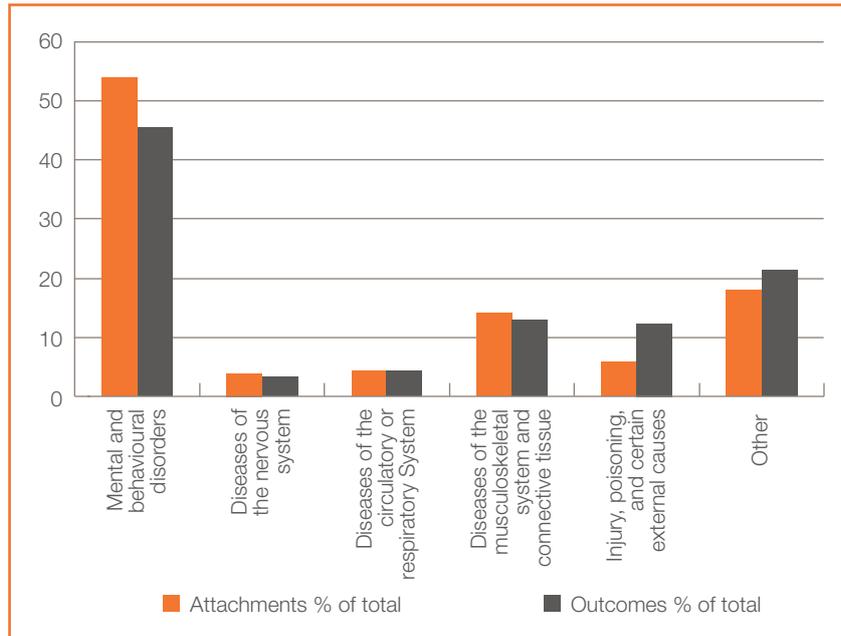
In a clear example of the ‘parking’ of clients, an unpublished review for the DWP found that those ‘[i]ndividuals who reported little contact during their six months on the programme were nearly all ESA claimants’ (Meager et al 2013). Another report for the DWP seems to offer some insight as to why this might be the case, by suggesting that specialist disability providers had pulled out of the programme because they were being subcontracted to deliver support that was not financially viable (Purvis et al 2013). If private contractors cannot make money out of delivering specialist support, it is no surprise that this support is rarely forthcoming.

Specialist support is essential, given the strong evidence showing that health conditions recorded under ESA are associated with different employment outcomes. For instance, as figure 3.1 shows, more than half (53.7 per cent) of clients with a recorded health problem suffer from mental and psychological disorders, and are less likely to secure sustained employment than those with other identified health conditions.

Indeed, comparing the totals of those identified within the programme as having a mental health condition, less than one in 20 were able to access sustained employment. Sadly, successive DWP initiatives, most notably the work capability assessment, have been found wanting when it comes to supporting people with mental health issues (Harrington 2013).

There was also evidence of participants being inappropriately referred onto the programme. Providers delivering the DWP’s specialist support for people with disabilities (Work Choice) operating alongside the Work Programme, found that clients with severe conditions intended for Work Choice support often ended up on the Work Programme instead – some contractors noted that this was more likely where participants had more complex mental health needs (Purvis et al 2013).

**Figure 3.1**  
Clients with an identified primary health condition and their employment outcomes



Source: DWP 2014a

The poor results for ESA generally, and claimants with mental health conditions specifically, are unintended outcomes – the programme was set up to engage with the diverse health challenges facing participants and support them with personalised and flexible services as determined by the contractor and companies in their supply chains. Yet research for the DWP stresses that the emphasis within the programme is on employability interventions such as CV classes and supervised job search. The specialist personalised provision that was written in appears to be seen by contractors as too expensive (Lane et al 2013).

Statements from Work Programme participants back up this assertion. Meager et al (2013) found that those identifying a health condition as a barrier to their finding work received little support specifically related to their health condition.

**Table 3.1**  
Participants not offered support, by perceived impact of health condition on employment outcomes

	Health condition makes it difficult to work (%)	Health condition does not make it difficult to work (%)	Total
Not offered support related to health condition or disability	70.6	85.1	<b>75.3</b>
Offered support related to health or disability	29.4	14.9	<b>24.7</b>
<i>Number of respondents</i>	<i>1,580</i>	<i>358</i>	<b><i>1,938</i></b>

Source: Meager et al 2013

This evidence presents two major concerns. First, there is the manifest injustice of claimants being ‘parked’ on the basis of their health condition. The Work Programme, designed to give different, but broadly equitable, levels of support to all jobseekers is clearly failing to do so. Second, it is also possible that this situation is self-reinforcing –

claimants with complex needs are clearly badly supported by the programme: not only do they face greater labour market barriers than other jobseekers, but they are not getting appropriate employment support from the programme. Both issues make clear, however, that the Work Programme has failed to ensure that the right support gets to the people who need it.

Whichever way the Work Programme or its replacement is configured in the future, it is difficult to conclude that throwing more money into an opaque 'black box' system and hoping for better results is the way forward. Claimants have varying support needs, and these require different levels of targeted investment. Certainly, offering very different claimants the same services does not yield equitable outcomes.

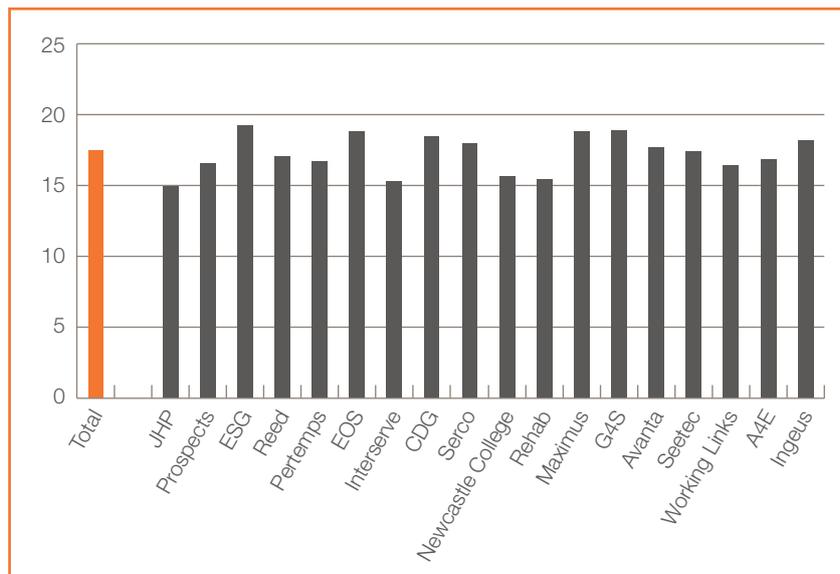
More generally, there are profound tensions for contractors in delivering a single cost-effective employment service while also being mandated to offer equitable support for people with very different labour market challenges. The next chapter addressing differences between contractors' performance finds little evidence to dispute this.

## 4. VARIATION IN PRIME PROVIDER PERFORMANCE OUTCOMES

The results nationally support the general picture of a programme working well for some claimant categories and labour markets, and poorly for others. However, when looking at more detailed data, some further nuances can be observed.

Comparing the performance of lead contractors is problematic as results are affected by labour market variations. In an attempt to level out these inequalities, we took an aggregate sample of performance data from those providers who were given multiple contracts. We found the best performing Work Programme contractor to be ESG, working in Staffordshire, Coventry and the Marches. At the other end of the spectrum, Newcastle College, operating in the challenging labour markets of the north east and Birmingham, has persistently delivered among the weakest employment outcomes, and has since had its contract withdrawn by the DWP (McVey 2014).

**Figure 4.1**  
Aggregated contractor  
job outcome rates

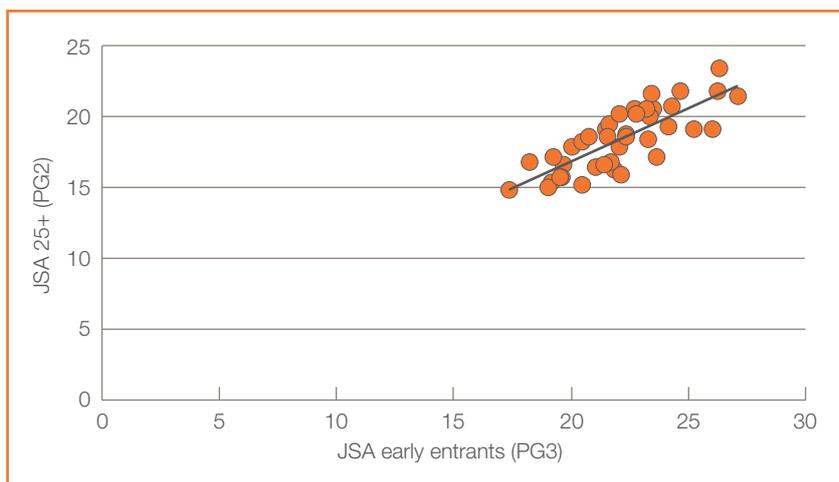


Source: DWP 2014c

For all of the emphasis on contract management, across the 18 Work Programme prime providers, the variation from the national average is +/- only two percentage points, and the gap between the weakest performing contractor (JHP) is only four percentage points behind the strongest (ESG). As the services offered to the majority of claimants are similar across all contractors, this is not surprising (Newton et al 2012).

When broken down by different claimant categories, analysis provides some additional insights. Building on our earlier evidence of a programme not effective for those more disadvantaged when seeking employment, there is further data to show that contractors successful with employability interventions for mainstream claimants are not necessarily equally effective at supporting claimants deriving from the inactivity-related categories. Where a contractor is performing well with one of the mainstream payment groups, there is a moderate correlation to suggest that the contractors were successful with the other mainstream claimant categories. For instance, those contractors who were successful at helping JSA 25+ (the majority of long-term unemployed), were also effective with those who chose to join the programme early, as shown in figure 4.2.

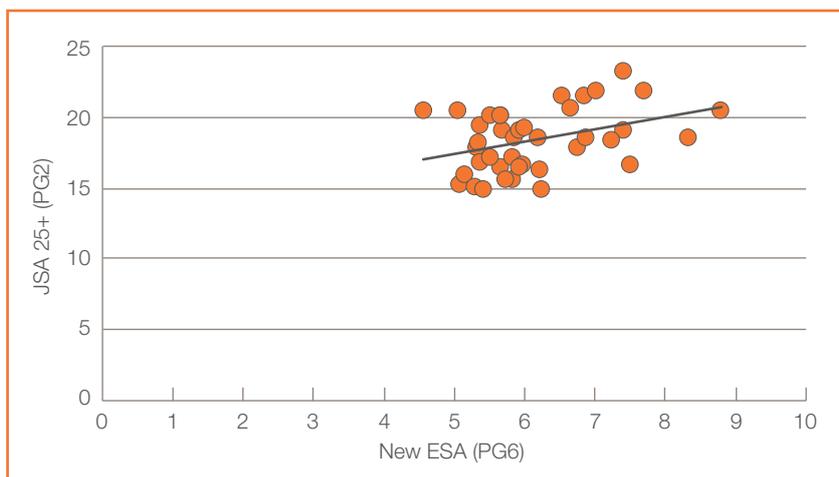
**Figure 4.2**  
Contractor performance  
for two payment groups  
(JSA 25+ and early-entry  
JSA)



Source: DWP 2014a

However, the relationship is much weaker when linking the performance of the mainstream claimant categories to harder-to-help jobseekers, such as ESA claimants. This is shown in figure 4.3, which compares the relationship between contract performance for the JSA 18–24 payment group and new ESA claimants.

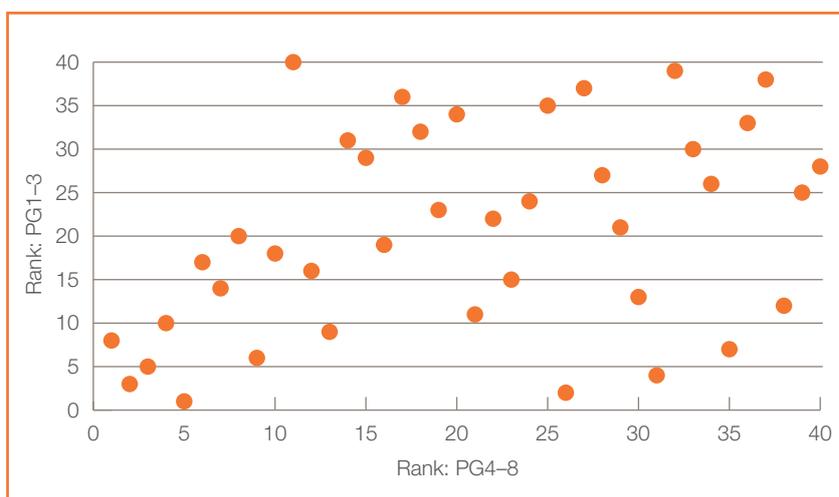
**Figure 4.3**  
Contractor performance  
for two payment groups  
(JSA 25+ and new ESA)



Source: DWP 2014a

To test this position further, we divided mainstream jobseekers from those with adverse health conditions, or a history of recorded ill health, into two different groups. We applied this to each contract within each CPA, and ranked them on a scale of 1–40 according to their performance with payment groups 1–3, and payment groups 4–8. Our results (in figure 4.4) show that there was no evidence of any relationship between the two.

**Figure 4.4**  
Contract ranking for  
payment groups 1–3  
and 4–8



Source: DWP 2014a

Finally, taking a breakdown across all of the payment groups, it does appear that the contractors best at delivering outcomes for mainstream jobseekers are not as successful with those at a greater disadvantage, shown in the following triangular correlation matrix. Positive relationships are more apparent when the correlations are closer to 1, and inverse relationships when they are closer to minus-1.

**Table 4.1**  
Payment group  
correlation matrix

	JSA 18–24	JSA 25+	JSA early entrants	JSA ex-incapacity	ESA volunteers	New ESA claimants	ESA ex-incapacity	IB/IS volunteers	JSA prison-leavers
JSA 18–24	1.00								
JSA 25+	0.66	1.00							
JSA early entrants	0.83	0.79	1.00						
JSA ex-incapacity	0.47	0.46	0.53	1.00					
ESA volunteers	0.43	0.19	0.36	0.34	1.00				
New ESA claimants	0.51	0.38	0.43	0.23	0.57	1.00			
ESA ex-incapacity	0.33	0.19	0.15	0.11	0.23	0.24	1.00		
IB/IS volunteers	-0.04	-0.34	-0.18	-0.22	0.12	-0.01	-0.18	1.00	
JSA prison-leavers	0.44	0.50	0.50	0.09	0.19	0.32	-0.14	0.07	1.00

Source: Authors' calculations derived from DWP 2014c

Correlations in the matrix illustrate that while contractors were successful in delivering effective employment support for the principal category of the long-term unemployed, this does not correspond with their ability to help those with identified mental or physical health conditions.

This is perhaps no surprise. Qualitative research has shown that despite the freedom to experiment with new approaches and a longer contract in which to do so, providers are largely delivering only basic employment services, with little innovative support for those finding access to the labour market more problematic. The DWP review of the Work Programme noted that:

**‘It is [...] clear from the evidence that ‘work first’ type approaches predominate (with support heavily skewed towards immediate job search, and CV preparation, interview training, etc). This is unsurprising given the strong tradition of these approaches in recent welfare-to-work measures in the UK and the large volume of international evidence of the effectiveness (and cost-effectiveness) of these approaches for large numbers of participants.’**

Newton et al 2012

In particular, despite mounting evidence that the more disadvantaged claimants need something other than routine employability support, the review referred to the fact that ‘relatively few providers and participants [were] reporting referrals to specialist provision’ (ibid). DWP’s own research now appears consistently to report that prime providers are not delivering personalised, condition-sensitive support for jobseekers. The discretionary flexibility and potential for personalised innovation of the ‘black box’ is not being deployed at the scale or with the frequency that was intended, apparently largely on account of the difficult financial environment.

Whatever the reason for this uniformity, the DWP is not getting what it set out to from Work Programme contractors, and while contractors may be performing adequately on delivering ‘work first’ interventions for mainstream claimant categories, even the more effective contractors are not producing convincing results for the hardest to help.

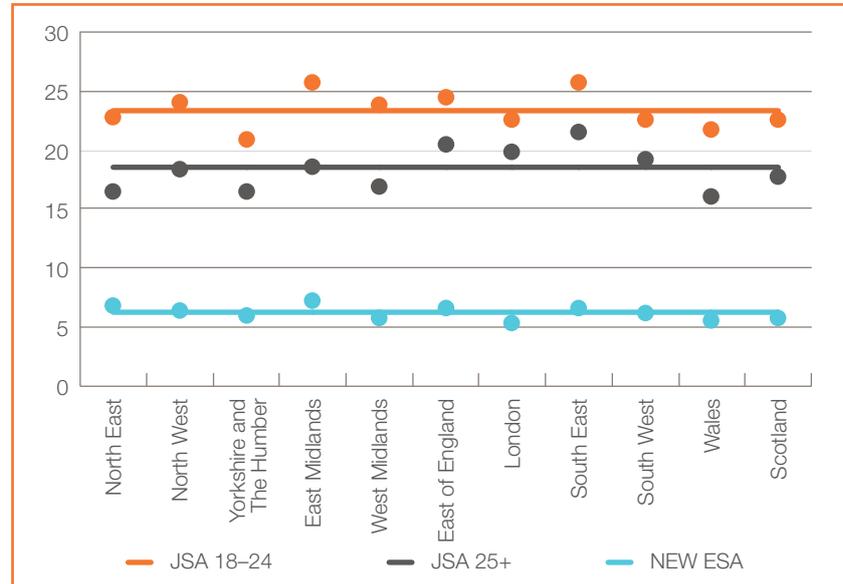
## 5. LOCAL ECONOMIC CONDITIONS

The spatial dimension of ALMPs is essential for understanding the effects of local labour markets on programme performance, and where the programme is performing better or worse than it should be. This chapter will analyse the significant local variations in Work Programme performance and highlight the degree to which local economic conditions should be considered in the process of commissioning. Our analyses have significant implications for local authority involvement in employment support. We begin by presenting these disparities, before moving on to analyse why they might exist.

### Subnational Work Programme performance

Beginning at the regional level, figure 5.1 illustrates the most basic assessment of Work Programme performance, by taking the ratio of job outcomes to attachments (new entrants to the programme) using DWP administrative data. Performance in different regions appears to reflect other regional inequalities, but not across all claimant categories (payment groups). The regions with well-documented and longstanding labour market difficulties perform the poorest for the main jobseeker cohort (JSA 25+), while the South East, London and the East of England tend to exhibit stronger outcomes. The new ESA claimants payment group shows no clear pattern – contractor performance is universally poor for this claimant category, as we noted in chapter 1.

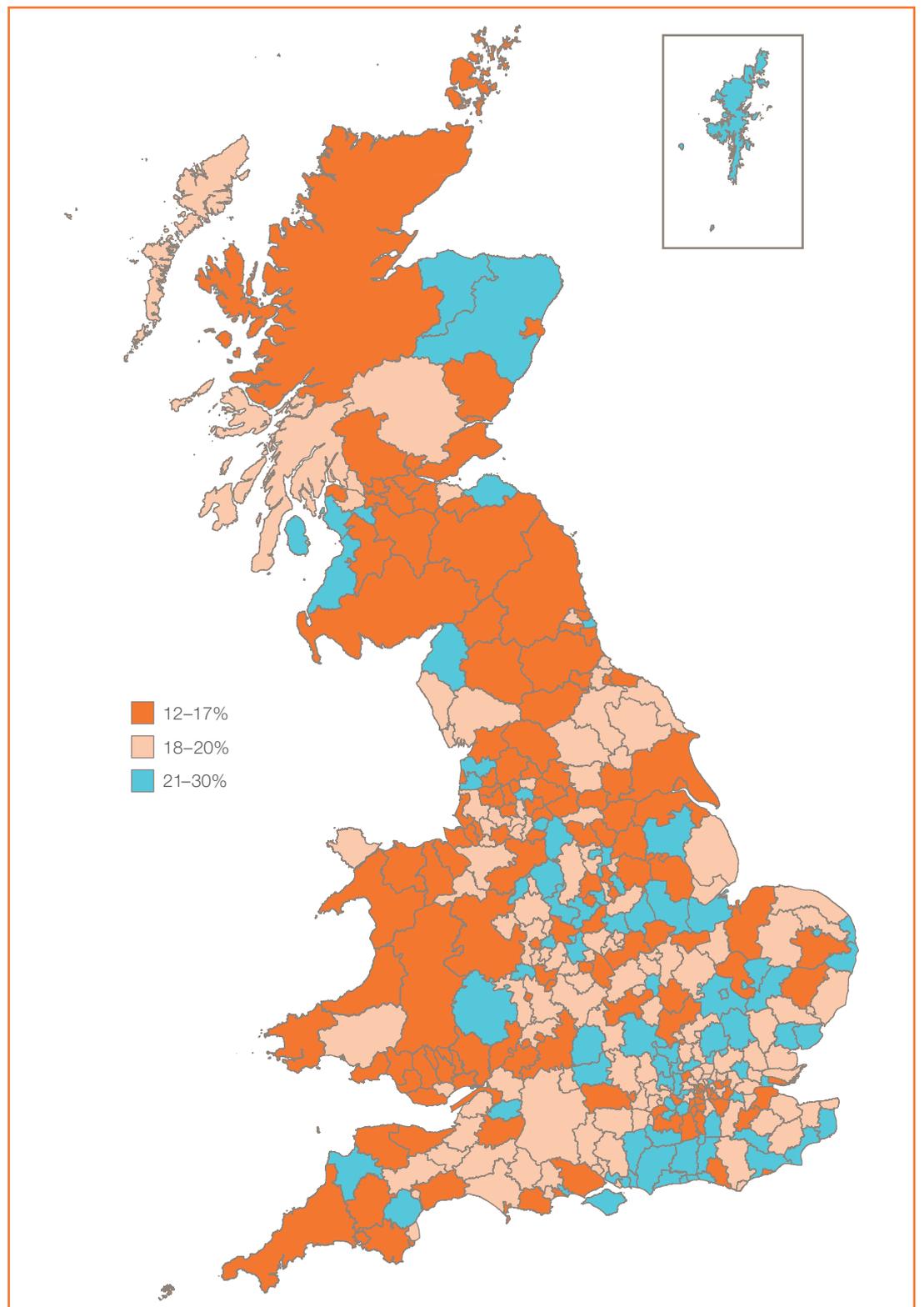
**Figure 5.1**  
Regional Work Programme performance for key payment groups



Source: IPPR North analysis of DWP 2014a

While performance at a regional level has some variation, at a local level the disparities are more striking. Figure 5.2 shows outcome rates for JSA claimants aged over 25 (payment group 2) in local authorities across the country, with the top and bottom five areas displayed in table 5.1. The range is remarkable: the outcome rate in the City of London (30 per cent) is more than twice that of Dundee City (12.1 per cent). However, performance of contractors in relation to different payment groups is even more striking: the JSA 18–24 outcome rate in Ribble Valley is 50 per cent, almost four times that of North Devon (13.3 per cent); the JSA 25+ group outcome rate in the City of London is 33.3 per cent, almost three times that of Dumfries and Galloway (11.6 per cent); and for new ESA claimants in South Buckinghamshire the outcome rate is 25 per cent, more than 10 times that of Lambeth (2.3 per cent).

**Figure 5.2**  
Payment group 2 (JSA  
25+) outcomes across  
the UK



Source: IPPR North analysis of DWP 2014a using Google Fusion tables

Although differences are striking, they are perhaps not surprising: Work Programme performance broadly reflects historic economic inequalities, and is far less successful in areas of the north, Wales and Scotland which have longstanding high unemployment rates (we analyse the programme’s relationship with local labour markets in more depth below).

**Table 5.1**  
Highest and lowest ranked local authorities by job outcome rates (percentages)

	Total	JSA 18–24	JSA 25+	New ESA claimants
<b>Top five</b>				
City of London	30.0	-	33.3	-
Mid Sussex	26.8	40.0	30.0	12.5
Horsham	26.4	37.5	29.5	10.0
Hart	25.5	33.3	25.0	16.7
Uttlesford	25.5	20.0	25.8	-
<b>Bottom five</b>				
Inverclyde	12.9	18.9	16.2	2.8
Cheltenham	12.8	15.2	15.8	4.0
Tewkesbury	12.8	20.0	14.6	-
North Devon	12.7	13.3	15.4	5.3
Pendle	12.3	16.2	13.4	5.7
Dundee City	12.1	19.2	12.6	3.2

Source: IPPR North analysis of DWP 2014a

Figure 5.2 provides an illustration of where the strongest and weakest Work Programme performances are being delivered, broken down by the JSA 25+ group. It shows that weaker performance is prevalent in parts of northern England, the Midlands, the west of Scotland, Wales, and parts of the south west. These patterns are broadly illustrative of long-term economic inequalities.

### Influences on performance

The inherent shortcomings of ALMPs are clear to see – the Work Programme was never designed to root out longstanding labour supply challenges which exist in parts of the country, let alone align with and account for employer demand. As such, at first glance, the analysis above seems to show that the areas with poor Work Programme performance are those that have always had weaker economies. To assess more robustly the impact of these factors, we drew on the work of the National Audit Office analysis of the New Deal for Young People (Jones et al 2002), and supplemented this with a wide range of measures of local labour market performance. These were:<sup>11</sup>

- JSA claimant rates
- unemployment rates
- employment rates
- economic activity rates
- residents’ occupational profile (percentage of employees in high-, medium- and low-skilled employment)
- relative size of private sector (as a percentage of total employment and of economically active population)
- ethnicity (percentage of attachments to the Work Programme who were white, broken down by age, 18–24 and 25+)<sup>12</sup>
- qualification levels (percentage with no NVQ qualifications).

11 Note that the sample size was too small for survey data from some local authority areas to have been included.

12 This was included because the National Audit Office had included this variable in their analysis of the New Deal for Young People (Jones et al 2002).

A preliminary analysis at the district level did not show a clear relationship between Work Programme performance and the strength of the local labour market. However, there were some weak indications that this was a factor, as negative correlations were observed with respect to low qualifications among the resident population as well as claimant and employment rates. Table 5.2 summarises the relationships, while figure 5.3 shows the relatively weak association between the overall JSA claimant rate and the outcome rate for the JSA 25+ payment group alone.

**Table 5.2**  
Simple preliminary analysis at local authority level (top 10 highlighted)\*

	JSA 18–24	JSA 25+	New ESA claimants
<b>Correlation (R)</b>			
Claimant rate (percentage of economically active)	-0.41	-0.56	-0.43
Unemployment rate	-0.31	-0.42	-0.36
Employment rate	0.35	0.46	0.42
Economic activity rate	0.33	0.41	0.39
Percentage of unemployed with no qualifications	-0.05	-0.14	-0.24
Percentage of unemployed with NVQ4+	0.04	0.15	0.06
Percentage of residents in high-skilled occupations	0.17	0.37	0.14
Percentage of residents in medium-skilled occupations	-0.03	-0.13	-0.01
Percentage of residents in low-skilled occupations	-0.16	-0.23	-0.15
Percentage of residents with NVQ4+	0.08	0.31	0.07
Percentage of residents with NVQ3+	0.09	0.31	0.11
Percentage of residents with NVQ2+	0.18	0.38	0.22
Percentage of residents with no qualifications	-0.28	-0.47	-0.37
Private sector as percentage of total employment	0.14	0.25	0.22
Private sector as percentage of economically active	0.25	0.41	0.38
Percentage of white attachments	0.12	0.04	0.21
Percentage of 18–24 white attachments	0.14	0.04	0.21
Percentage of 25+ white attachments	0.12	0.03	0.21
<b>Coefficient of determination (R<sup>2</sup>)</b>			
Claimant rate (percentage of economically active)	0.17	0.31	0.18
Unemployment rate	0.10	0.18	0.13
Employment rate	0.12	0.21	0.18
Economic activity rate	0.11	0.17	0.15
Percentage of unemployed with no qualifications	0.00	0.02	0.06
Percentage of unemployed with NVQ4+	0.00	0.02	0.00
Percentage of residents in high-skilled occupations	0.03	0.14	0.02
Percentage of residents in medium-skilled occupations	0.00	0.02	0.00
Percentage of residents in low-skilled occupations	0.03	0.05	0.02
Percentage of residents with NVQ4+	0.01	0.09	0.01
Percentage of residents with NVQ3+	0.01	0.10	0.01
Percentage of residents with NVQ2+	0.03	0.14	0.05
Percentage of residents with no qualifications	0.08	0.22	0.14
Private sector as percentage of total employment	0.02	0.06	0.05
Private sector as percentage of economically active	0.06	0.17	0.14
Percentage of white attachments	0.02	0.00	0.05
Percentage of 18–24 white attachments	0.02	0.00	0.04
Percentage of 25+ white attachments	0.01	0.00	0.05

Source: IPPR North analysis of ONS 2014 and DWP 2014a

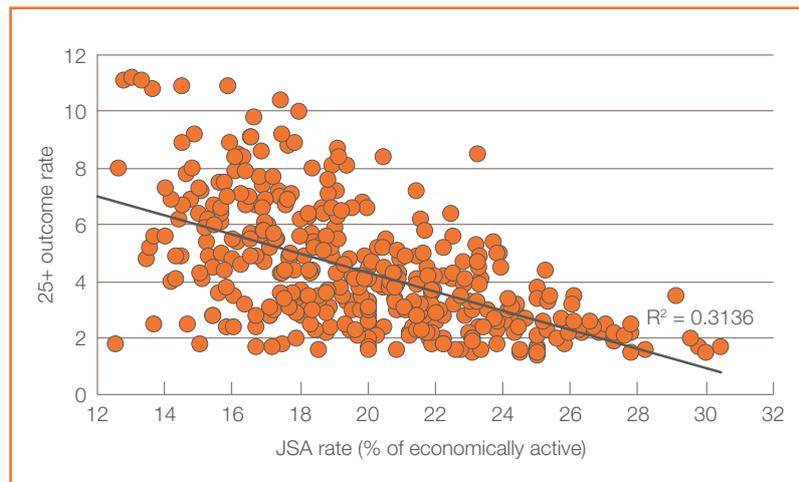
\* R measures the degree to which the two variables are interrelated; R<sup>2</sup> measures how closely the data fits the regression line.

**Table 5.3**  
Multivariate regression  
of payment group  
2 and key labour  
market variables, local  
authorities

Regression statistics				
Multiple R	0.580			
R-squared	0.337			
Adjusted R-squared	0.332			
Standard error	0.030			
Observations	375			
	Coefficients	Standard error	T stat	P-value
Intercept	0.19089	0.02350	8.12260	0.00000
Claimant rate (percentage of economically active)	-0.00637	0.00116	-5.47752	0.00000****
Percentage of residents with no qualifications	-0.00152	0.00061	-2.51138	0.01245*
Private sector as percentage of economically active	0.06707	0.02875	2.33304	0.02018*

Source: IPPR North analysis of ONS 2014 and DWP 2014a

**Figure 5.3**  
JSA claimant rates  
compared to outcome  
rates for payment group  
2, by local authority area



Source: IPPR North analysis of ONS 2014 and DWP 2014a

The relationships are apparent, but not particularly strong, with much variation around the line of fit. This is not surprising, as economies are not constrained by local authority boundaries: few jobseekers would think twice about crossing from an area with a high unemployment rate, to a neighbouring authority with a lower rate in order to work. This is obviously a common occurrence for those seeking work, and especially so in large cities with functional economic geographies which span several local authority districts (CLG 2010). This is likely to be highly significant when analysing the importance of local labour markets – it means that our analysis does not compare Work Programme performance with the local economy on which its performance may depend.

To account fully for the local labour market in the analysis, wider geographies than local authority boundaries must be adopted. There is a debate about where to draw the line around a local economic area: regions tend to be too large, and historically travel-to-work areas and European subregions<sup>13</sup> have been adopted. However, recently local enterprise partnerships (LEPs) have been defined around travel-to-work areas and this notional limit has become widely accepted as the preferable geography for economic policymaking (HM Government 2014).<sup>14</sup>

<sup>13</sup> Known as NUTS-2 and NUTS-3 regions.

<sup>14</sup> See <https://www.gov.uk/government/publications/local-enterprise-partnerships-map>.

Analysis of LEP geographies showed a far clearer picture, summarised in table 5.4. Here, local labour markets appear to have a relationship with Work Programme performance, but this is only strong for the JSA 25+ group. The skills profile of the local labour market, and also claimant and unemployment rates are closely related to contractor outcome rates. While there is some correlation with the new ESA and JSA 18–24 payment groups against some measures, this is far too weak to be conclusive.

**Table 5.4**  
Simple preliminary  
analysis at LEP level (top  
10 highlighted)\*

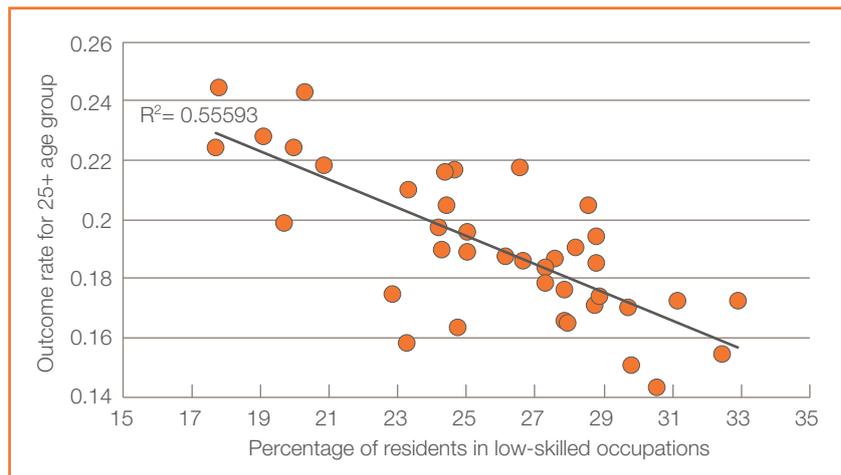
	JSA 18–24	JSA 25+	New ESA claimants
<b>Correlation (R)</b>			
Claimant rate (percentage of economically active)	-0.38	-0.69	-0.31
Unemployment rate	-0.34	-0.65	-0.26
Employment rate	0.34	0.59	0.38
Economic activity rate	0.31	0.49	0.41
Percentage of unemployed with no qualifications	-0.23	-0.59	-0.35
Percentage of unemployed with NVQ4+	0.35	0.58	0.00
Percentage of residents in high-skilled occupations	0.37	0.67	0.34
Percentage of residents in medium-skilled occupations	-0.26	-0.34	-0.35
Percentage of residents in low-skilled occupations	-0.36	-0.75	-0.24
Percentage of residents with NVQ4+	0.30	0.65	0.23
Percentage of residents with NVQ3+	0.27	0.66	0.26
Percentage of residents with NVQ2+	0.30	0.71	0.28
Percentage of residents with no qualifications	-0.27	-0.68	-0.42
Private sector as percentage of total employment	0.26	0.28	0.38
Private sector as percentage of economically active	0.25	0.41	0.31
Percentage of white attachments	-0.07	-0.07	0.00
Percentage of 18–24 white attachments	-0.04	-0.06	-0.02
Percentage of 25+ white attachments	-0.16	-0.04	-0.07
<b>Coefficient of determination (R<sup>2</sup>)</b>			
Claimant rate (percentage of economically active)	0.14	0.47	0.09
Unemployment rate	0.12	0.42	0.07
Employment rate	0.12	0.34	0.14
Economic activity rate	0.09	0.24	0.17
Percentage of unemployed with no qualifications	0.05	0.35	0.12
Percentage of unemployed with NVQ4+	0.12	0.33	0.00
Percentage of residents in high-skilled occupations	0.14	0.45	0.11
Percentage of residents in medium-skilled occupations	0.07	0.11	0.13
Percentage of residents in low-skilled occupations	0.13	0.56	0.06
Percentage of residents with NVQ4+	0.09	0.42	0.05
Percentage of residents with NVQ3+	0.07	0.44	0.07
Percentage of residents with NVQ2+	0.09	0.50	0.08
Percentage of residents with no qualifications	0.07	0.46	0.18
Private sector as percentage of total employment	0.07	0.08	0.15
Private sector as percentage of economically active	0.06	0.17	0.10
Percentage of white attachments	0.01	0.00	0.00
Percentage of 18–24 white attachments	0.00	0.00	0.00
Percentage of 25+ white attachments	0.03	0.00	0.01

Source: IPPR North analysis of ONS 2014 and DWP 2014a

\* R measures the degree to which the two variables are interrelated; R<sup>2</sup> measures how closely the data fits the regression line.

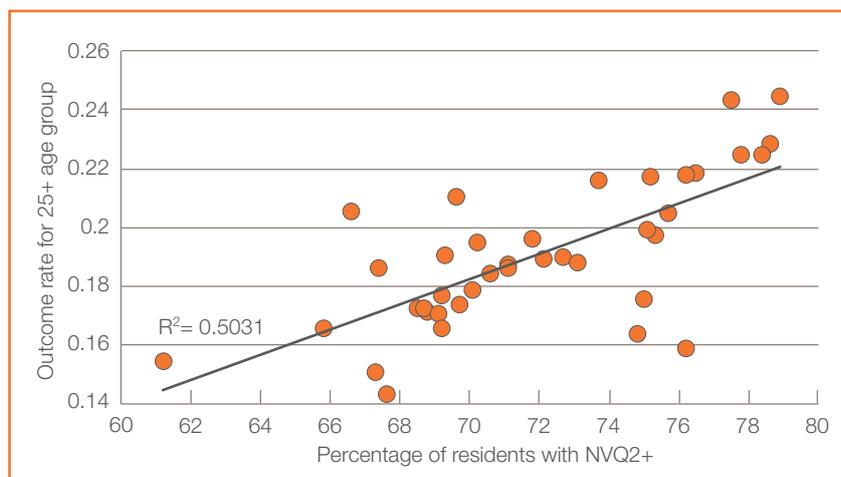
The two strongest associations are presented in graph form in figure 5.4 and 5.5. In summary, this shows that those areas with many residents in low-skilled occupations (such as elementary work, sales and customer service, and plant and machine operatives) tended to have a poorer Work Programme performance. This includes places such as Greater Lincolnshire and the Black Country, while those such as Hertfordshire and Oxfordshire – where much higher skilled occupations dominate – tended to perform much better. Figure 5.5 also shows the correlation between the proportion of residents with qualification levels of NVQ2 or higher and strong performance, indicating that areas with lower-qualified residents – such as the Black Country, and Greater Birmingham and Solihull – performed poorest, while areas with higher-qualified populations – such as Oxfordshire and Enterprise M3 (to the south west of London) – performed far better.

**Figure 5.4**  
Percentage of residents in low-skilled occupations compared to the outcome rate for the JSA 25+ age group, LEP areas



Source: IPPR North analysis of ONS 2014 and DWP 2014a

**Figure 5.5**  
Percentage of residents with NVQ2+ qualifications compared to the outcome rate for the 25+ age group, LEP areas



Source: IPPR North analysis of ONS 2014 and DWP 2014a

The two variables above show a particularly strong association, and their combined impact is presented in tables 5.5 and 5.6. It's clear that the strength of the local labour market – as summarised by the JSA claimant rate and the occupational profile of employees – has a strong relationship with Work Programme outcome rates for payment

group 2. The combined impact of these is summarised in table 5.5 where the variables which were most significant (and that were not codependent) were analysed to assess their combined impact. For reference, table 5.6 shows the results of a repetition of the analysis by Jones et al (2002) assessing the relationship between local job outcome rate and the ILO unemployment rate, the share of the local population without qualifications, and the proportion of the population from an ethnic minority – in particular, this showed that ethnicity was not a factor, in line with our findings above.

**Table 5.5**  
Multivariate regression  
of payment group 2  
and key labour market  
variables, LEP areas

Regression statistics				
Multiple R	0.778			
R-squared	0.606			
Adjusted R-squared	0.584			
Standard error	0.016			
Observations	39			
	Coefficients	Standard error	T stat	P-value
Intercept	0.2962	0.0192	15.4019	0.0000
Claimant rate	-0.0045	0.0021	-2.1359	0.0396*
Percentage of residents in low-skilled occupations	-0.0033	0.0010	-3.4765	0.0013**

Source: IPPR North analysis of ONS 2014 and DWP 2014a

**Table 5.6**  
Multivariate regression  
of payment group 2  
and NAO variables, LEP  
areas

Regression statistics				
Multiple R	0.744			
R-squared	0.553			
Adjusted R-squared	0.513			
Standard error	0.018			
Observations	37			
	Coefficients	Standard error	T stat	P-value
Intercept	0.3154	0.0321	9.8207	0.0000
Percentage of 25+ white attachments	-0.0588	0.0318	-1.8458	0.0739
Unemployed with no NVQ qualifications	-0.1806	0.0879	-2.0547	0.0479*
Unemployment rate	-0.0069	0.0019	-3.7035	0.0008***

Source: IPPR North analysis of ONS 2014 and DWP 2014a

However, this relationship is only strong in the JSA 25+ category, and Work Programme success for either the JSA 18–24 or the new ESA claimant payment groups does not appear to be dependent on the strength of the local labour market, as the low R<sup>2</sup> and P-values in tables 5.7 and 5.8 show.

**Table 5.7**  
Multivariate regression  
of payment group 1  
and key labour market  
variables, LEP areas

Regression statistics				
Multiple R	0.399			
R-squared	0.159			
Adjusted R-squared	0.113			
Standard error	0.021			
Observations	39			
	Coefficients	Standard error	T stat	P-value
Intercept	0.283	0.026	11.047	0.000
Claimant rate	-0.003	0.003	-1.162	0.253
Percentage of residents in low-skilled occupations	-0.001	0.001	-0.813	0.421

Source: IPPR North analysis of ONS 2014 and DWP 2014a

**Table 5.8**  
Multivariate regression  
of payment group 6  
and key labour market  
variables, LEP areas

Regression statistics				
Multiple R	0.308			
R-squared	0.095			
Adjusted R-squared	0.045			
Standard error	0.012			
Observations	39			
	Coefficients	Standard error	T stat	P-value
Intercept	0.079	0.015	5.327	0.000
Claimant rate (percentage of economically active)	-0.002	0.002	-1.237	0.224
Percentage of residents in low-skilled occupations	0.000	0.001	-0.170	0.866

Source: IPPR North analysis of ONS 2014 and DWP 2014a

For the main jobseeker category (payment group 2), this tells us that the predominant explanatory variables underlying performance variation are local economic factors, leaving around 40 per cent of variance to be accounted for by unidentified factors, such as the proficiency of both prime and subcontractors in getting people into work. With respect to the other two main payment groups, no such relationship was evident from the analysis.

### Summary and impact

Work Programme outcomes vary substantially across the country: an individual is twice as likely to find employment through the programme in one part of the country as in another, and for certain payment groups that variation is even more substantial.

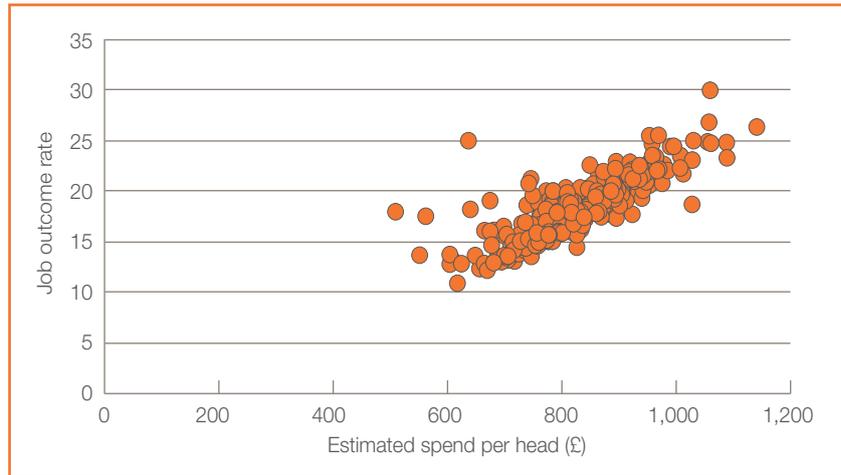
This is related, as might be expected, to the strength of the local labour market, especially for JSA claimants aged 25 and over (payment group 2). Poor programme performance is significantly associated with a prevalence of low-skilled occupations in the local employment base, and with high JSA claimant rates in the LEP area. However, neither the variation nor the relationship to labour market performance is evident with respect to the other two mainstream groups.

For the bulk of participants this confirms what may have been suspected: that local labour markets impact significantly to the outcomes of individuals on the Work Programme – a critical insight for future programme configurations, the subject of the next chapter.

Before proceeding however, it is important to note that the logical corollary of payment by results systems is that areas with better results receive more investment. Given that results are poorer in areas of the country with weaker labour markets, and that there are more programme participants for lower levels of investment, this means that disadvantage is being compounded and reinforced, as figure 5.6 shows. Without some way of correcting for this, the obvious conclusion is that funding will be given predominantly to the locations that arguably need it least.

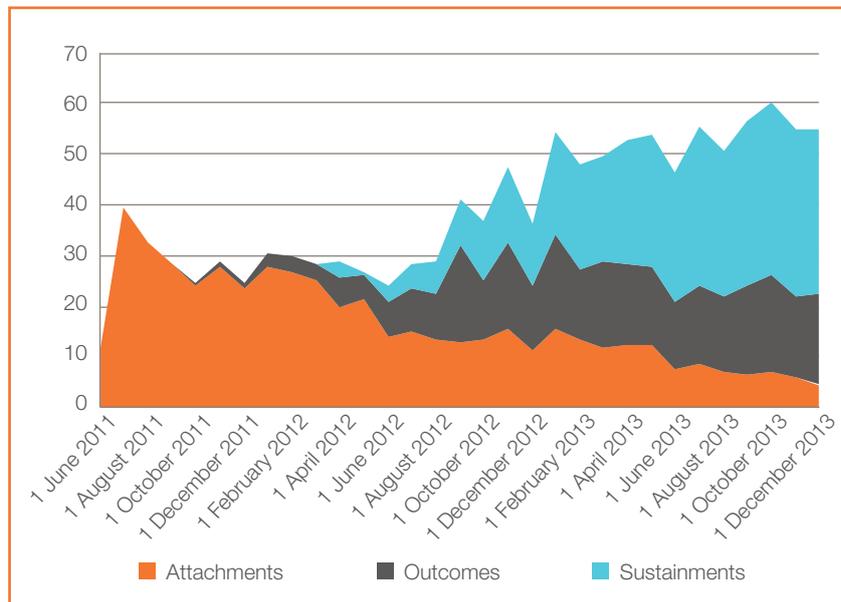
Furthermore, the fees supporting new entrants to the programme are disappearing, as shown in figure 5.7 detailing expenditure by element. By year four, no new money will be available for those joining the programme. This will make the already extremely challenging funding regime worse, and potentially starve high unemployment areas of much-needed investment.

**Figure 5.6**  
 Attachments and expenditure as percentage of Work Programme total (England only)



Source: IPPR North analysis of DWP 2014a

**Figure 5.7**  
 Estimated Work Programme expenditure by element



Sources: IPPR North analysis of ONS 2014, DWP 2013a, 2014a

## 6. SUMMARY OF RESEARCH FINDINGS AND PRINCIPLES OF REFORM

### Summary of research findings

The overwhelming majority of Work Programme participants will pass through the programme without having found sustained work. Headline statistics suggest that this is in line with previous government employment programmes, for many claimants this meets the low expectations of supply-side 'work first' employment programmes. However, the focus on headline statistics conceals two crucial facts.

#### **1. The Work Programme is failing systematically those who face the most severe challenges.**

The Work Programme, while it may deliver 'acceptable' results for mainstream jobseekers, is letting down those furthest from the labour market. While one in five mainstream jobseekers will find work through the programme, as few as one in 20 of those with more complex needs will access employment. Despite the fact contracts are designed to reward providers for helping the latter payment groups, the results for these groups are poor, and there is little evidence of innovation in the programme. Even the providers most effective at delivering support for mainstream jobseekers appear out of their depth when addressing those with more complex conditions.

Furthermore, there is now credible and convincing evidence of 'parking', where those with complex conditions are either being ignored, or treated as if their needs were no more challenging than other claimants (Meager et al 2013). On this evidence, having one programme for nearly all long-term out-of-work claimants is inappropriate.

#### **2. The Work Programme is performing badly in many parts of the country.**

Work Programme results for mainstream jobseekers reflect conditions in local labour markets. Those in weak labour markets are less likely to be successfully supported into work than those in more prosperous parts of the country. The design of the programme risks reinforcing this problem further, rewarding providers in stronger labour markets, while payments dry up in weaker ones: applying a policy equally across unequal labour markets will, by design, produce unequal outcomes.

In summary, our findings show that those people least likely to gain from the Work Programme are those who need the support most – whether because they live in a part of the country where there is little opportunity to work, or because the severe challenges they face are not being addressed.

But this system is evidently disadvantageous to both contractors and jobseekers, and both have a stake in its success. The DWP has carved up the country between contractors without any accountability to citizens or regard to local labour market conditions. For those out of work the system represents a 'postcode lottery', in which success is determined by the location in which they live, and the effectiveness of the provider to which they are assigned. For contractors, the payment system fails to account for local economic conditions, rewarding those in strong labour markets while punishing those in weaker areas.

## Principles of reform

The Work Programme cannot simply be put out to tender again when initial contracts expire. Contracts should be able to run until they conclude, and given the previous experience of scrapping the Flexible New Deal, the DWP must monitor provider performance intensively, and use their (limited) contracting instruments to ensure providers do not simply abandon the programme.

However once contracts do expire, there is a need for fundamental change in the way employment support is commissioned and delivered. With just over two years on the potential life of contracts to go, it is time to consider what a replacement for the Work Programme could look like. On the basis of our research, we outline four principles that need to be applied in future commissioning of employment support.

### **Principle 1: One programme cannot work for all claimants – segment by need**

A single Work Programme is simply not working – the Coalition’s replacement of the Flexible New Deal and Pathways to Work with a single programme was a mistake. The programme’s widely varying results for different payment groups illustrates clearly the profound differences in labour market proximities, and recognition of these differences should become a key feature of future commissioning. Therefore, the first priority for a replacement to the Work Programme should be segmentation of claimants based on their circumstances.

In the past, welfare-to-work programmes have been segmented for distinct groups of people, such as the New Deal programmes for young people, the over-50s, people with disabilities, single parents, and even musicians (for more detail and early analyses, see Walker and Wiseman 2004). These programmes recognised that different groups of people faced distinct labour market disadvantages. While the Work Programme itself was touted for being all-encompassing, within the programme there are nine payment groups, and outside of the Work Programme, there is the additional employment support regime of Work Choice – a tacit recognition that different people require different levels, and types, of support to help them move into employment.

For all of the touted potential of discretionary and flexible ‘black box’ provision, this move away from a fragmented system of programme support does not appear to have transformed longstanding labour market inequities. Returning to a system of the previous complexity is not recommended. However, it is clear that distinct types of claimant need different types and levels of support and this should be addressed in future commissioning: it must be recognised that the type of support needed by those farthest from the labour market is fundamentally different to the support needed by those closer to it. This is clear from the currently adequate performance of the programme for JSA claimants, compared with woeful outcomes for other payment groups (especially the ESA cohort).

Any future provision of employment support for the long-term unemployed should adopt a more sophisticated framework to triage claimants into appropriate support. Further research by IPPR and others will look at reforming the work capability assessment to ensure that not only do those claiming incapacity benefits/ESA with identified health conditions get directed towards specialised support, but also that those in the mainstream JSA payment groups with unrecorded health problems receive a more personalised level of support as well.

In the short term, any proposals for reform must separate claimants who under the current system constitute payment groups 1–3, (mainstream jobseekers) from those in payment

groups 4–8 (ESA and others who need more intensive support). Not only will this ensure programme participants receive support acknowledging their individual labour market barriers, but it will enable support for those closer to the labour market to be aligned with local labour markets (see principle 2), and those farthest from employment to benefit from wider support services that we argue local authorities are best placed to offer (principle 3)

There is also a strong case for segmentation by age. In a report published in 2013, IPPR recommended taking young people (18–22 years) out of the Work Programme and adult benefit system entirely, and awarding a youth allowance and youth guarantee. This proposal advocates a single benefit for young people, distinct from the adult universal credit regime. It would also provide structured support and a job guarantee, administered by local authorities, but financed from existing welfare and employment programme budgets (Cooke 2013).<sup>15</sup>

Under our proposed new system, those who are aged 18–22 and receiving JSA would be channelled into this new initiative for youth support, while older claimants would be channelled toward a new replacement for the Work Programme. This recognises first that young unemployed people have distinct needs from older claimants and second that the school-to-work transition begins locally (for more detail on IPPR’s proposals for youth support, see Cooke 2013).

We recommend that claimants are segmented as follows:

1. **By need:** splitting those closest to the labour market (payment groups 1–3) from those hardest to help (groups 4–9), enabling the former to have their support aligned with local labour markets, and with specialist support for the latter claimant categories.
2. **By age:** splitting the 18–22 cohort from the rest, in recognition of the specialised needs of young people, and that the essential school-to-work transition begins locally.

### **Principle 2: Local economies matter – employment support should reflect this**

Our analysis has shown clearly how a jobseeker’s chances of finding employment while on the Work Programme are strongly influenced by the economy of the area in which they live. Labour markets vary widely across the country and applying a programme framework that is insensitive to local conditions will reproduce local labour market challenges instead of mitigating them. The current framework where a payment-by-results model ensures that successful labour markets attract more investment in employment support will reinforce these inequalities.

While supply-side tinkering – whether via the Work Programme or a replacement – will not in itself resolve the disparities in local labour markets,<sup>16</sup> there is scope for a stronger recognition of the distinct challenges participants face in moving back into work, and that employment service contractors experience in helping them.

While economic policy formulation is beyond the remit of DWP commissioners, government at all levels must look to address the staggering economic imbalances evident

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15 Our proposals for younger people are a part of a wider and fundamental change to the system of welfare and employment support. That older workers face disadvantage in the labour market too does not necessarily warrant a new employment programme for them. Rather instead, incentives within the revised Work Programme might be directed towards those with fewer prospects, including where age is a factor.

16 It is worth reiterating that the effects of welfare-to-work, as recognised by De Koning’s (2007) assessment of 130 evaluations, are at best modest.

in the UK,<sup>17</sup> while making the best use of economic development resources currently in place. Future commissioning of employment support should be aligned with wider employment-enhancing measures at the local level, such as skills investment strategies, and LEP economic development plans. The policy challenge therefore is to construct a system of employment support that recognises both the labour market challenges of the area, as well as wider strategies to stimulate labour market activity.

Therefore in future, rather than ignoring the differences between labour markets and commissioning nationally on just price and quality criteria, mainstream employment support must:

- be delivered along LEP or combined authority boundaries, as these represent the closest administrative geographies to local labour markets
- build local labour market variations into future commissioning, such as sectoral strengths, employment opportunities, local economic policy priorities and demand-side interventions.

### **Principle 3: Local government is well placed and needs to be more involved**

The third principle, largely a corollary of principles 1 and 2, but worth stating in its own right, is that local authorities are exceptionally well-placed to address labour market challenges, both among those hardest to help and those closer to the labour market.

There are two distinct reasons for this. The first is that local economic conditions matter a great deal to an individual's chances of finding work through the programme (applying principally but not exclusively to those closest to the labour market). The second reason is that local authorities can coordinate services, resulting in more sustained outcomes for participants and more efficiency of overall government expenditure. The Community Budgets initiative is an exemplar of this kind of support, especially for those who require more sophisticated intervention.

Stronger local representation in the commissioning of employment programmes has been an aspiration for the DWP since their first commissioning strategy of 2008, and consistently expressed in more recent consultation on their second strategy (DWP 2013c). However, up until now, little progress has been made. The City Strategy emerged, then died within the space of two years, despite positive evaluation of improved delivery (Green and Duncan 2011). At the same time, local authorities have become increasingly active in providing local employment programmes themselves, particularly in supporting disengaged youth (LGA 2013). Given a longstanding interest in increasing employment, local authority intervention should be more than simply signposting claimants onto national programmes or picking up the pieces where national programmes fail. Rather, as a provider of local services, and a key actor with a strong interest in local labour markets, local authorities should be central players in future employment service commissioning.

Community Budgets demonstrate how local authorities are ideally placed to coordinate services in such a way. This initiative aligns, sequences and coordinates interventions to maximise effectiveness across a range of local and national policy areas, including health, education and criminal justice. The common example of this is the Troubled Families programme, where local authorities retain a proportion of financial 'savings' from reducing crime and anti-social behaviour, and improving education outcomes. As the Centre for Economic and Social Inclusion (CESI) review of the Community Budgets initiative made

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<sup>17</sup> For a detailed plan to support weaker economic regions see IPPR North and NEFC 2012.

clear (Wilson and Gallagher 2013), there is an opportunity for these new ‘deals’ to make an impression on the employment and skills agenda, aligning local provision to secure improved employment outcomes for non-mainstream claimants.

On a much wider level, these initiatives are already pressing ahead. In Greater Manchester, the Work Programme Leavers (WPL) scheme integrates employment support for those failed by the Work Programme with more extensive services (see box 6.1). While this example demonstrates an acceptance of the principles and arguments for local support for the long-term unemployed, local authority involvement needs to go much further than one-off DWP pilots.

**Box 6.1 Work Programme Leavers scheme in Greater Manchester<sup>18</sup>**

The WPL pilot scheme is a locally commissioned employment initiative defined on the principle of key worker support and engages ESA claimants who have already been on the Work Programme for two years without finding a job. Around 5,000 claimants across the 10 districts of Greater Manchester will engage with the scheme.

Claimants are referred to WPL by Jobcentre Plus. The pilot has been in operation since March 2014. The WPL pilot commissions contractors to coordinate and sequence interventions around each individual participant, drawing on a range of local services. Two lead contractors have been appointed to deliver the pilot in several districts of Greater Manchester: Ingeus UK in Bolton, Bury, Oldham, Rochdale, Stockport, Tameside and Wigan; and Big Life Company in Manchester, Salford and Trafford.

The evidence base this provides will – along with that derived from Community Budgets – be crucial in demonstrating how local authorities are better able than the private sector or central government to deliver employment services for those who find it hardest to get work.

**Principle 4: Supply-side measures are not enough**

Finally, struggling participants should not have their employment prospects diminished by the lack of effectiveness of supply-side employment support. Our findings, regarding both claimant outcomes and local economies, point to labour market failure, that is, of insufficient employment opportunities for people disadvantaged when competing for work, and in relation to a lack of employment opportunities more broadly.

More sophisticated framing of contracts would help individuals access the proper support that they are entitled to, but would not resolve labour market challenges. Moreover, a lack of employer demand leaves Work Programme contractors responsible for something that is actually beyond their influence. Paying higher rates would not shift the economic fundamentals of weak local labour markets.

Worse still, evidence highlights how such configurations become self-reinforcing. When people are out of work for longer periods of time, their appeal to employers weakens. Those living in locations with low vacancy rates will tend to experience longer spells of unemployment. The Work Programme’s current framework, through a strong emphasis on

<sup>18</sup> For more detail see [http://www.manchesterpartnership.org.uk/manchesterpartnership/downloads/4/manchester\\_investment\\_board](http://www.manchesterpartnership.org.uk/manchesterpartnership/downloads/4/manchester_investment_board)

'work first' and payment by results is arguably making this worse. Weak local economies and struggling participants need a resort to turn to when programme provision, of any kind, has failed to secure them employment. To date, 352,000 people have been tied to the programme for the entire two years of the intervention, but only 22 per cent of those who have been on the programme for two years obtained a steady job (McGuinness 2014). Moreover, poor outcomes for long-term unemployed claimants are more likely in areas with lower levels of overall employment (DWP 2014a). For the 78 per cent of claimants who were unable to access sustained employment after even two years of intensive intervention, more arduous work search will not be the answer.

Previous IPPR research has strongly recommended a system of job guarantees for those claiming core out-of-work benefits for periods longer than a year (see box 6.2).

#### **Box 6.2 Wage subsidies and job guarantees**

Typically, a guaranteed job would offer a mix of employer incentives and paid employment for the claimant. Wage subsidies would be offered to employers along the lines of the Future Jobs Fund (FJF), a programme commissioned nationally on the basis of bids from local authorities, Jobcentre Plus and private contractors, and largely considered a success (NIESR 2011, Fishwick et al 2011).

Something similar should be offered to those who have been on our proposed new employment programme for mainstream JSA claimants, where both the claimant and provider agree that it would be of benefit. As with the FJF, these jobs would last up to six months, and should be additional to existing labour market vacancies (ibid).

For those on local authority employment support programmes, wage subsidies and even sheltered employment could be available as and when it is felt that this would help claimants with more complex needs move closer to sustained employment. Offering a 'guarantee' to all claimants may not be appropriate due to the proximity of many to the labour market, but it would be valuable to have the option available where it could enhance claimant outcomes.

To ensure that job guarantees and wage subsidies compensate for labour market failure and participant disadvantage, we make recommend the following.

1. There should be a budget to support intermediate labour markets (ILMs) and employer incentives to enable job guarantees (as outlined in box 6.2). Initially, this should be funded out of the DWP Work Programme budget underspend, that is, from monies intended for the Work Programme had it been able to meet its targets. Local employment service providers would be able to top this up with funds left over from the previous financial year. Significant sums of money would be available; the HM Treasury rebate from the DWP in 2012/13 was estimated to be around £248 million (Work and Pensions Committee 2013). To support DWP underspend, current plans to invest £700 million over four years in the post-Work Programme 'Help to Work' initiative should be redirected to financing job guarantees and wage subsidies.
2. Local authorities would be invited to bid for some of this money. Bids should be evaluated on the quality of submissions, but also on the performance of the local labour market to ensure that locations that could benefit from subsidised employment and ILMs receive a greater share of policy funding. Those areas where labour markets

are weakest should be granted more job guarantee funding. This would begin to reverse the trend of Work Programme funding flowing more into areas where labour markets are stronger.

3. Local authorities would define priority areas (in terms of the labour market and public works) as to where jobs would be based, how long for, and what they entailed, but this would be subject to approval either by Jobcentre Plus or DWP, and monitored accordingly.
4. Subsidised employment for most long-term unemployed claimants should be full time, with active job-hunting phased back in towards the end of the contract. More flexibility is needed on the use of job guarantees for IB/ESA claimants, and discretion would be required on whether to offer these latter claimants full or part-time employment (dependent on their health requirements).
5. Whatever replaces the Work Programme, any framework should include an employment guarantee to act as a 'backstop' to support the people and places who need work.

## 7. OPTIONS FOR REFORM

Having outlined the principles that follow from our research, this section establishes three options for a replacement to the Work Programme. Our first two options show the inadequacy of ‘business as usual’, and offer a rationale for why a totally devolved employment framework would not work now. We conclude with our preferred option; however this represents the first step toward a far greater level of decentralisation in the future.

### Option 1: Business as usual, with minor adjustments

The first small change would be to rebuild the City Strategy, where small scale funding could be offered to large local authorities and city governments to resource the alignment of employment support services at local authority and CPA scales. The final evaluation of the City Strategy (Green and Adam 2011) pointed out that ‘[i]n general, [local authorities] were successful in mapping existing service provision and identifying gaps ... They also had some successes in aligning funding sources ... to reduce duplication and achieve a more coherent service offer’. There are many examples of overlapping provision in welfare-to-work services, with devolved national governments and local authorities running (often) complementary services simultaneously, streamlining service provision could strengthen its effectiveness.

In this proposal, a revised City Strategy, available to all authorities, would finance the organisational aspects of partnership working to support relationships between prime providers and local authorities, and enhance a better alignment of national and local welfare-to-work infrastructure. This could enmesh stronger financial relationships between employment service contractors and local authorities. At present, the return on investment is not always channelled to the appropriate organisation. A partnership budget could help to clarify supply and funding relationships.

To complement this, there should be an opportunity for local authorities to bid to deliver post-Work Programme support. For the larger local councils and combined authorities these are potentially significant contracts.

Recent analysis shows that only 22 per cent of Work Programme participants who had been on the programme for the full two years had found sustained employment (McGuinness 2014). At the moment, in most of these cases participants will return to Jobcentre Plus for post-programme support.

Under our proposals, at the beginning of any five-year spending review – and as part of the review process – each local authority would be able to bid to deliver post-Work Programme support in their area, and would compete with DWP for a contract issued by HM Treasury or the Cabinet Office. Local authorities could either be given the five-year post-Work Programme budget, or could prove ‘savings’ via the Community Budgets route, and receive payment for proven impact.

This option would resolve some of the minor difficulties with the Work Programme. However, as our research has shown, the Work Programme’s difficulties are far from minor, and represent a serious structural failure to provide support for those who need it most. As such, this would still not account for the combined failures which our research has evidenced: that of failing to account for local labour markets, and of failing to provide support for the hardest to help. This option also ignores the need we identified to segment claimants more effectively, to make use of local authorities’ knowledge, or to align employment support with demand-side interventions.

In addition, there is a clear need for more local priority-setting in employment support, which in itself would require very few institutional changes. Where employment services were recommissioned by the DWP, the commissioning framework should mandate consultation with local authorities when contracting, but could also extend to offering councils the power of veto, shortlisting responsibilities or jointly commissioning contracts with other local authorities.

### Option 2: Complete decentralisation of employment support services

The most radical option would see the wholesale decentralisation to local authorities of responsibilities and resources for employment services. With the Work Programme currently spending around £500 million a year, this would transfer a substantial amount of money – and financial risk – to the local state.

For this to work, DWP welfare-to-work expenditure would be devolved proportionally to each city or county area over a five-year timeframe, and through cooperation between local authorities and businesses, local investment and skills strategies could be fed into a new employment framework aligned with local priorities.

Operating within the context of the JSA conditionality regime, DWP would retain responsibility for the overall benefits system, but would devolve support for programme design, commissioning and delivery. The local authority would be relatively free to provide support in whichever way it chose, and in addition leverage in wider resources and coordinate other policies to boost effectiveness. A similar process of decentralisation and local autonomy has occurred already via the City Deals, where, for instance, Sheffield has obtained a share of funding for skills training. In piloting an alignment of skills training with welfare-to-work investment, Sheffield would be an obvious choice. Similar arrangements between central and municipal government over active labour market policy exist elsewhere, and appear to function effectively (see box 7.1).

#### Box 7.1 Canadian labour market agreements

The Canadian government operate a system of devolved ALMP funding, called labour market agreements. These are funding arrangements conditional upon the delivery by provincial administrations of employment services. Funding agreements will last typically around seven years, and are based on a fairly simple and predictable formula. The statement below is outlined in the Ontario agreement:

**‘Subject to the terms and conditions of this Agreement, in each Fiscal Year during the period beginning April 1, 2008 and ending March 31, 2014, Canada agrees to make a contribution to Ontario in respect of the Eligible Costs incurred in that Fiscal Year of an amount not exceeding the amount, rounded to the nearest thousand, determined by the formula  $F \times (K/L)$  where F is C\$500 million, K is the total population of Ontario for the Fiscal Year, and L is the total population of all provinces and territories for the Fiscal Year. Based on the Statistics Canada quarterly preliminary estimates of the respective populations on July 1, 2007, the notional amount of Canada’s maximum contribution to Ontario in Fiscal Year 2008/09 is C\$194,139,000.’**

Source: Government of Canada 2009

It may be that many local authorities would be reluctant to take on responsibility for funding and commissioning employment services – certainly not until it had been shown to work elsewhere – and would need to build commissioning expertise. This is no obstacle to a selective decentralisation: if local authorities were not interested in assuming this responsibility, the remaining CPAs would be built around those that took on these powers. The Core Cities, with their well-evidenced capacity and ambition, would be ideal first candidates to pioneer decentralised employment support.

For the devolved nations this is particularly important, given that both Wales and Scotland have employment programmes operating in parallel, and there is a lack of fit between DWP-commissioned programmes and those administered by the devolved national administrations (Welsh Affairs Committee 2013). Around £171 million has been spent by the DWP in Scotland and Wales since 2011, and given both administrations' strong remit over economic development and enthusiasm for delivering their own ALMPs, both should have their share of DWP Work Programme finance to configure employment support as they see fit.

The appeal and advantages of such an approach are clear. Our proposals would reduce instances where national welfare-to-work policy contradicts local priorities, allow services to be tightly aligned to local or devolved national economic priorities, and enable the integration of employment services with activities in other policy areas, whether in relation to skills, health or childcare provision.

Second, unshackling funding and decentralising commissioning down to the city scale would permit the more complex supply chains that the DWP is unable and unwilling currently to secure or scrutinise. Employment support, managed by local authorities, could end up looking very different from that delivered under the Work Programme framework, welcoming in a diversity of actors frozen out by the centralised commissioning process. Channelling more resources into future provision will be essential, however, to ensure that local authorities, with limited budgets, are not forced to pay for extra services currently funded directly by DWP.

Third, this introduces local democratic accountability into this key policy arena: employment support would not only be more responsive to local labour markets but more accountable to local councillors (and by extension, the local electorate). Under the current system, accountability for the large CPAs is diffuse and opaque, with responsibility split between providers and the DWP. If funding were totally decentralised, local authorities would be strongly encouraged to get support 'right' or else face redress either from the DWP or the local electorate.

This would satisfy our principles outlined above. However, there are substantial risks associated with this approach: if the economy falters, local authority finances could be at risk, and councils would need time and investment to build sufficient capacity. This is not an insurmountable challenge, but local authorities may wish to prove the concept for other claimant categories less sensitive to labour market conditions first.

### Option 3: Jointly commissioning a new mainstream programme and localising support for claimants with more complex needs

The most realistic and preferable option would see the Work Programme replaced with a dual system of restructured support.

- It would separate those closest to the labour market (payment groups 1–3) from those hardest to help (payment groups 4–9).
- Local authorities would have a far stronger role in providing services for all claimant groups.
  - Priorities would be set locally and services for those closest to the labour market determined by local councils in tandem with the DWP.
  - Employment support for those most disadvantaged in the labour market would also be jointly commissioned.

#### 1. Employability support contracted within LEP boundaries: local priority-setting for those closest to the labour market (currently payment groups 1–3)

As things stand, the Work Programme performs reasonably well for mainstream jobseekers. Therefore we argue that the principles underpinning the programme should be retained for future mainstream support. Nevertheless, the significant disparities in local performance, largely due to local economic factors, show that a uniform approach to employment support is not appropriate.

To account for local labour market variations, and to align services with demand-side interventions, a new, more streamlined, and more locally sensitive employment support programme is needed, fully utilising local authority skills and expertise. This main strand of employment support would accept all mainstream jobseekers over the age of 22 who had been claiming JSA for more than a year.<sup>19</sup>

Aligning operational geographies with the 39 LEP areas, DWP would retain its primary commissioning power over the programme, setting the broad parameters for levels of investment in each area over a five-year timeframe. From here, local authorities – cooperating within functional economic areas (such as LEP boundaries)<sup>20</sup> – would work together with DWP to set contract parameters.<sup>21</sup> With both a shared voice, and responsibility for commissioning, local authorities working together within LEP boundaries (and revised London CPAs) would be expected to feed in their economic and social priorities for employment support, and map existing interventions (demand and supply) to be included in tendering frameworks.

Their power would be in combining diverse local priorities to codetermine mainstream employment support services with DWP commissioners, and to jointly commission service providers, countersigning contracts with the DWP (on the basis of putting forward their own investment), or shortlisting contracts for DWP to select from (where local authorities have offered no additional investment).

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19 Note that this excludes many within the JSA 18–24 payment group who would engage with the adult programme.

20 The geography of our proposals is a key element: the CPA system should be broken up to account for local labour market reach and to tie in more closely with economic development objectives. These new areas would instead be aligned with LEP boundaries ‘whose geography properly reflects the natural economic areas of England’ (HM Government 2014). Operating within LEP boundaries would enable employment support to reflect local economic priorities and investment strategies, including in skills and infrastructure.

21 For London, the LEP area is probably too large for this to work effectively. Given the sheer size of the metropolitan economy and the fact that the current contracting arrangements allow for two CPAs covering inner London, future commissioning would need to either recognise current CPA boundaries, or the boroughs would collectively need to submit revised areas to the DWP.

The result could be a radically different set of interventions, focused on delivering employment support that was more tailored to local strategic economic priorities and infrastructure, and underlined as a partnership between local and central government.

## **2. Local employment support for the hardest to help (currently payment groups 4–8)**

The rationale for local government involvement in provision of employment services for the more disadvantaged claimants is very different, and there is a strong case for local authorities taking full charge of commissioning support. It is with respect to these payment groups that local authority expertise and managerial capacity can be more effectively brought to bear, with ‘savings’ to be shared between local authorities, DWP and other government departments in a manner similar to Community Budgets.

These claimants require intensive support arrangements from a wide array of services, which must address the complex needs individuals within these payment groups face in accessing employment. Currently, support services are provided by many different agencies but, we argue, these should be coordinated locally. In Manchester, this is already being done for the ESA Work Programme Leavers cohort (see box 6.1) where a key workers model has been adopted.

Using local healthcare and skills training infrastructure, local authorities should become their local prime provider of employment support for those with complex needs. This would allow local authorities to commission wrap-around services from within existing resources, including public health services, local mental health support, and skills training (see Muir and Parker 2014). As Jobcentre Plus were previously engaged in the delivery of Pathways to Work, and more promising performance of this programme relative to other contracted provision (NAO 2010), senior Jobcentre Plus staff should be involved in supporting the commissioning process, and Jobcentre Plus may act as a delivery agent if it can offer more effective services than private companies.

Freedom to innovate must be at the core of service delivery, but to provide a spine for the commissioning environment, the DWP should set out a broad funding framework that would offer local authorities access to a large proportion of the money currently invested in the Work Programme for more disadvantaged claimants. DWP would also define the terms for participant attachment fees. To prevent the perverse outcomes evident on the Work Programme, there must also be a framework of minimum service standards agreed at the national level, which any contractor would have to meet (such as minimum contact time).

Local authorities have a longstanding interest in supporting vulnerable claimants, but as an additional financial incentive for local authorities we propose an arrangement whereby local authorities could recoup a proportion of savings made by the DWP for improving employment rates of these claimant categories. Higher payments should be given to local authorities for helping those who have been in receipt of IB/ESA for prolonged periods. To gain these payments however, local authorities would have to define and commission support that would have a net impact on ESA claimant numbers. Beyond this, central criteria should be limited, and instead local authorities would take a share of the risks involved in contracting out employment services, reconfiguring their own employment resources to better effect, and steering existing local services such as clinical commissioning groups, further education colleges and even Jobcentre Plus towards the delivery of employment services to improve health outcomes, to increase skill levels, and to align demand-side interventions such as job guarantees and wage subsidies with the needs of this more complex caseload.

Based on the growing evidence of the effectiveness of aligning services at a local level through Community Budgets (see Committee on Communities and Local Government 2013), local authorities are well positioned to provide the diverse services these claimants need, and should take the driving position in doing so. There is no need for all local authorities to take on such responsibilities, and some authorities – such as the Core Cities – will be more ready and willing than others to take it on immediately. However, once capacity has been built and the concept proven, responsibilities could be taken on by an increasing number of authorities within a set timeframe, such as the length of a parliament.

## 8. CONCLUSIONS

The Work Programme, as it is currently configured, is a far cry from an effective system of employment support. It is underperforming in three distinct ways. First, it is not delivering for those who need help most, despite the complex rewards system put in place to incentivise more intensive support by contractors. Second, it is not taking into account local labour market conditions, and worse, locks contractors into a vicious cycle of underinvestment (and this in the parts of the country that need more, not less, money spent helping the long-term unemployed). Third, it is failing to coordinate and sequence with local delivery of other public services, and to align with local demand-side measures that if brought together could deliver a more coherent package of employment support. During the current financial pressures placed on all government departments – and local authorities – this is simply an unsatisfactory way of delivering the high-quality public services required by people who need work.

In this report, we have explored three realistic options for reform, which seek to rectify the current shortcomings of the programme in different ways.

- 1. Business as usual, with minor adjustments:** This option would alter the current programme, but without confronting its structural shortcomings: the City Strategy would be revived and renewed; local authorities could deliver reconfigured employment services (as in Greater Manchester); and local authorities could for some claimants categories claim savings back from central government (as with Community Budgets). However, this would fall far short of the fundamental reforms needed to deliver the high-quality employment support required.
- 2. Full decentralisation:** This would devolve, within reason, as much responsibility for employment support service commissioning as local or combined authorities felt able to deliver, on an authority-by-authority basis. This would have the advantage of clear lines of accountability, and the potential to coordinate all employment-related activities at a local level. However, it is unclear whether local authorities would be ready or willing to take on this type of risk immediately.
- 3. Joint commissioning by local authorities with the DWP of a new mainstream programme, and localising support for more complex claimants:** This would open up local commissioning only for those hardest to help, where the case is strongest (that is, payment groups 4–9), confronting head-on the current failure of the Work Programme to deliver, and opening up the potential for generating more positive outcomes. Service provision for claimants with greater chances of accessing sustained employment (that is, payment groups 1–3) would continue to be commissioned centrally by DWP, but with the tendering process driven by local authorities, priorities set locally, and providers shortlisted and chosen by both DWP and local authorities.

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