Understanding the Financial Model and Reward Structure of the Work Programme

Stuart Vere – Chair of Avanta & Vice Chair ERSA

Work Programme Financial Model

- Personal View
- Like ERSA and most in the industry – very supportive of WP principles and want it to be successful.
- Procurement of the Work Programme Principles
- Funding model
- Rhetoric and Reality
- Conclusions – Making the WP work.

Procurement of the Work Programme

- Principles
  - Government Policy – consolidate all provision
  - DEL/AME Switch – jobs save money from benefits spend
  - Black Box
  - Payment by Results (PBR)
  - Risk Transfer (sometimes called risk sharing) e.g. No volume or mix guarantee
  - National Minimum Contractual Performance Levels based upon DWP calculated Non Intervention levels
  - Selection Criteria –
    - Price (discounting) and Quality (minimum standard)
    - Sub contracting -
      - Minimum Proportion to be sub contracted,
      - Margin Topslice versus resources for Claimants
      - Third and Public Sector Partners

Funding Model

- PBR
- Black Box
- Claimants – Up to 2 yrs on Programme
- Fees
  - Range from **£4k (JSA) to £13.5k (ESA etc.)**(excluding bonus)
  - **Average per claimant c.£1300 - £1500 reducing to c. £1000 in 3 years for JSA** (same proportion other groups.)
  - JSA 24+ = **c.20% - 30% less than FND** (which were c. 50% less than ND)
  - **Attachment Fee – (range c. 11% - 4% of total fee)**
  - **Outcome Fee c.30% of total** (JSA 6 months after job start)
  - **Sustainment fee** (JSA – 18 mths from job start and up to 2 years for most difficult claimant groups) – **c.60% of total**
  - **Bonus – 30% above minimum performance**.

WP Non intervention rates and minimum Performance

Jobs / Referrals	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
JSA 18 to 24	5%	30%	40%	40%	40%	30%	10%
JSA 25 and over	5%	25%	30%	30%	30%	25%	5%
ESA Flow	5%	15%	15%	15%	15%	10%	5%

Incentive Payment

Incentive payments will be paid to Providers who deliver high performance for payment groups 1, 2 and 6 (those above). Incentive payments will be made for jobs delivered beyond a given performance level, defined as non-intervention performance plus 30%.

Minimum performance level

Minimum performance standard will apply to payment groups 1, 2 and 6 (those above). It will be defined as non-intervention performance level plus 10%.

Contract Performance

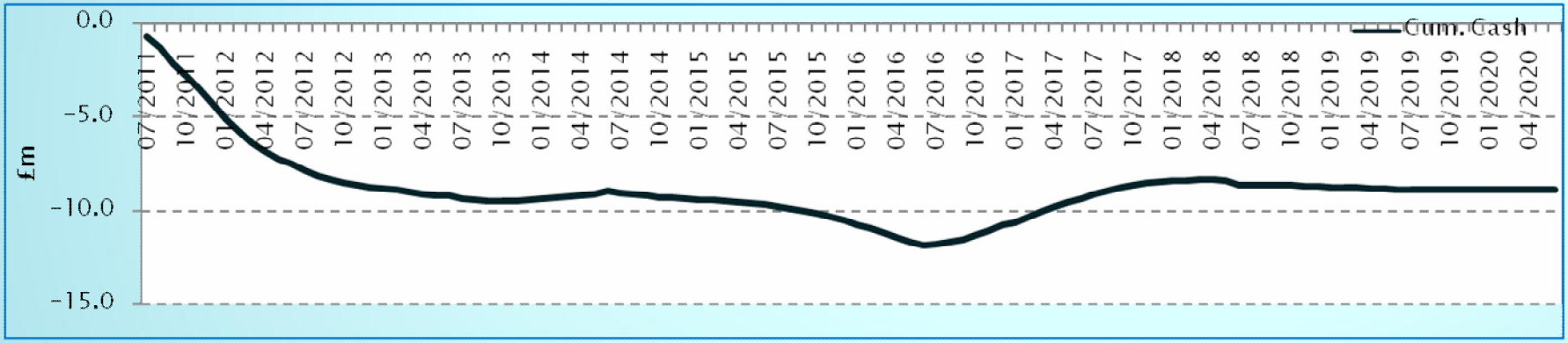
- Non Intervention levels – no transparency
- Minimum Performance
  - Much higher than ever consistently achieved - Based upon non intervention rate
  - Only ever achieved briefly in best of economic times at higher costs – (Source CESI)
- National – No regional variation
- Less resources (Plus Discounting Effect)for a much longer programme

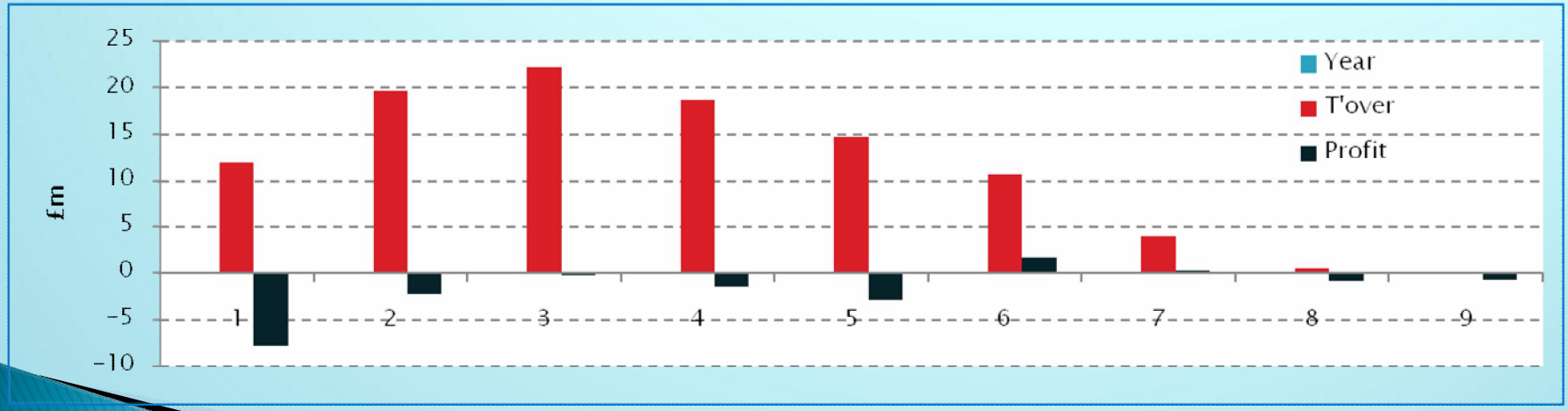
FND – Performance (latest Performance data)

- Highest
  - 21% short jobs
  - 14% Sustained for 6 months
- Average –
  - 16% short jobs
  - 10% Sustained for 6 months
- the spread of results
  - Not particularly wide,
  - bunching around the middle of spectrum.

Funding Model

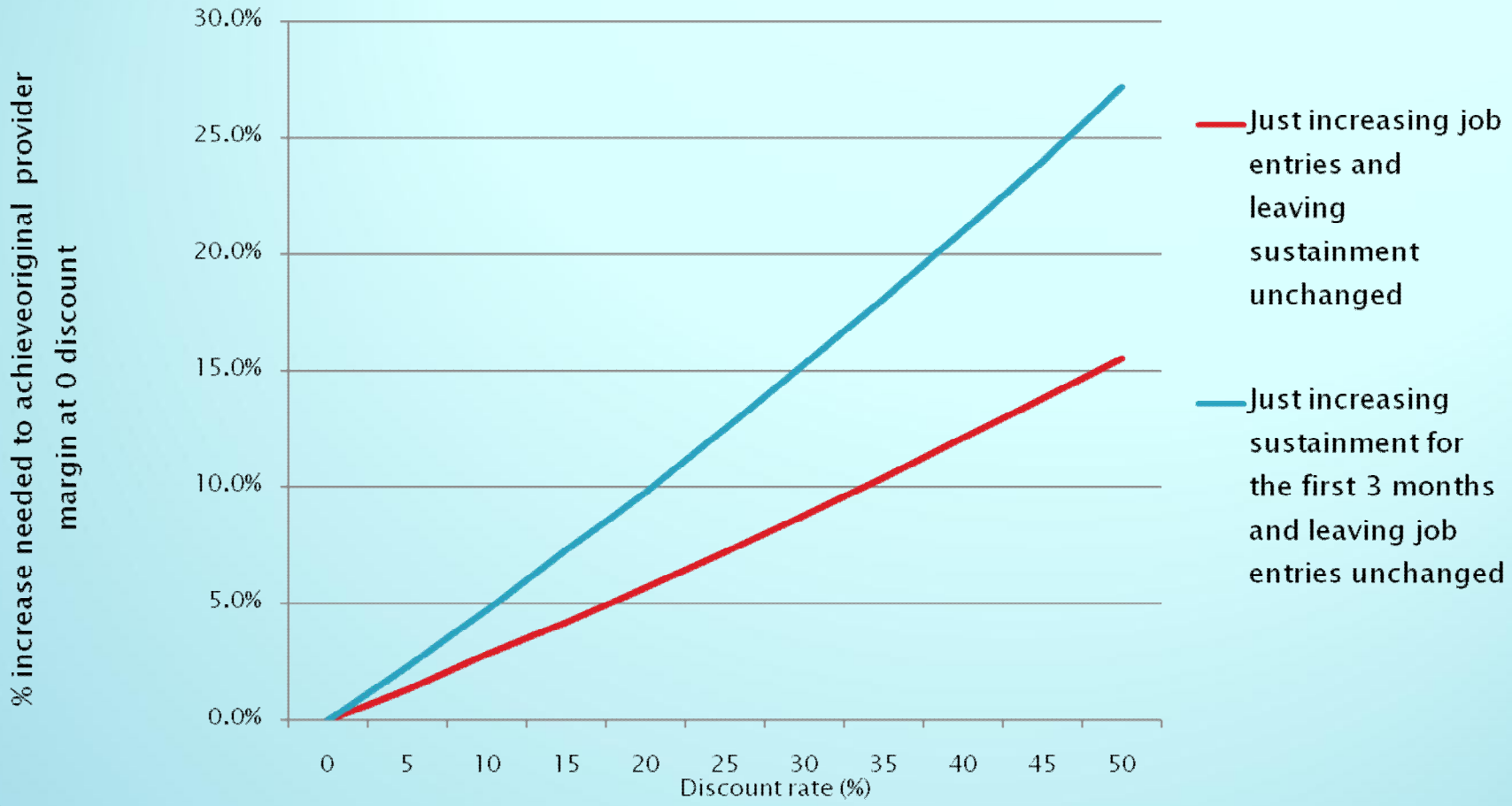
- DWP minimum Performance Levels
  Cash Flow and P&L





Funding Model – Discounting

(source CESI)



Work Programme – Rewards?

- Lower Income & Volumes than FND = Downsizing - cost and loss of skilled Staff
- Cash Breakeven -18 -24months
- ROI not for c. 3-4years
- Lower margins
  - Lower price
  - Longer on programme
  - More subcontracting v Direct Delivery
  - Little to no chance of Bonus
- Frameworks – potential to bid for additional work (PBR)
- “Stay in the Game”

Funding Model –Risk to Providers

- New untested Funding Model
  - Transparency of Non Intervention rates/Min Performance
  - Need to bid high for bid to be accepted
  - No data/experience of Sustainability beyond 6 months - DWP or Providers
- Provider Financial Viability – particularly smaller Sub contractors.
  - Cash Flow Funding issues for Providers (PBR, Volumes and Referral Mix)
  - Results only clear after cash “Point of no Return”?
  - Untested PBR unattractive to External Funders
- Regional Labour market differentials
- UK Economy and Labour Market

Funding Model –Risk to DWP

- New untested Funding Model
  - Transparency of Non Intervention rates/Min Performance
  - No data/experience of Sustainability - DWP or Providers
- Regional Labour Markets
- UK Economy
- Market Sustainability and Growth
  - New untested PBR programmes without assets to secure against are unattractive to Funders
  - Cash Flow/Profitability=Provider Financial Viability – particularly smaller Subs
  - More PBR creates increasing need for Working Capital – Finite capacity of Market to fund?
  - Meticulous, iterative Contract Management

Rhetoric and Reality

- FND - Poor Performance and very different to WP
- More freedom
- More money
- The City/Funders are supportive of WP/PBR
- WP Providers will have taken account of regional and national labour markets and Economic Situation
- The WP is successful because it was the fastest large scale Procurement undertaken by Government
- Providers signed up, therefore, they are supportive and believe the performance requirements are realistic
- Providers will be allowed to fail/ “be sacked” if they do not meet contractual targets

Conclusions –Making the WP Work

- Recognise and accept that any New Programme and Funding Model will be a Learning Process and "we are in this together."

- Transparency
  - Non – Intervention/Minimum Performance + Regional Targets
  - Sharing information with Community Partners.

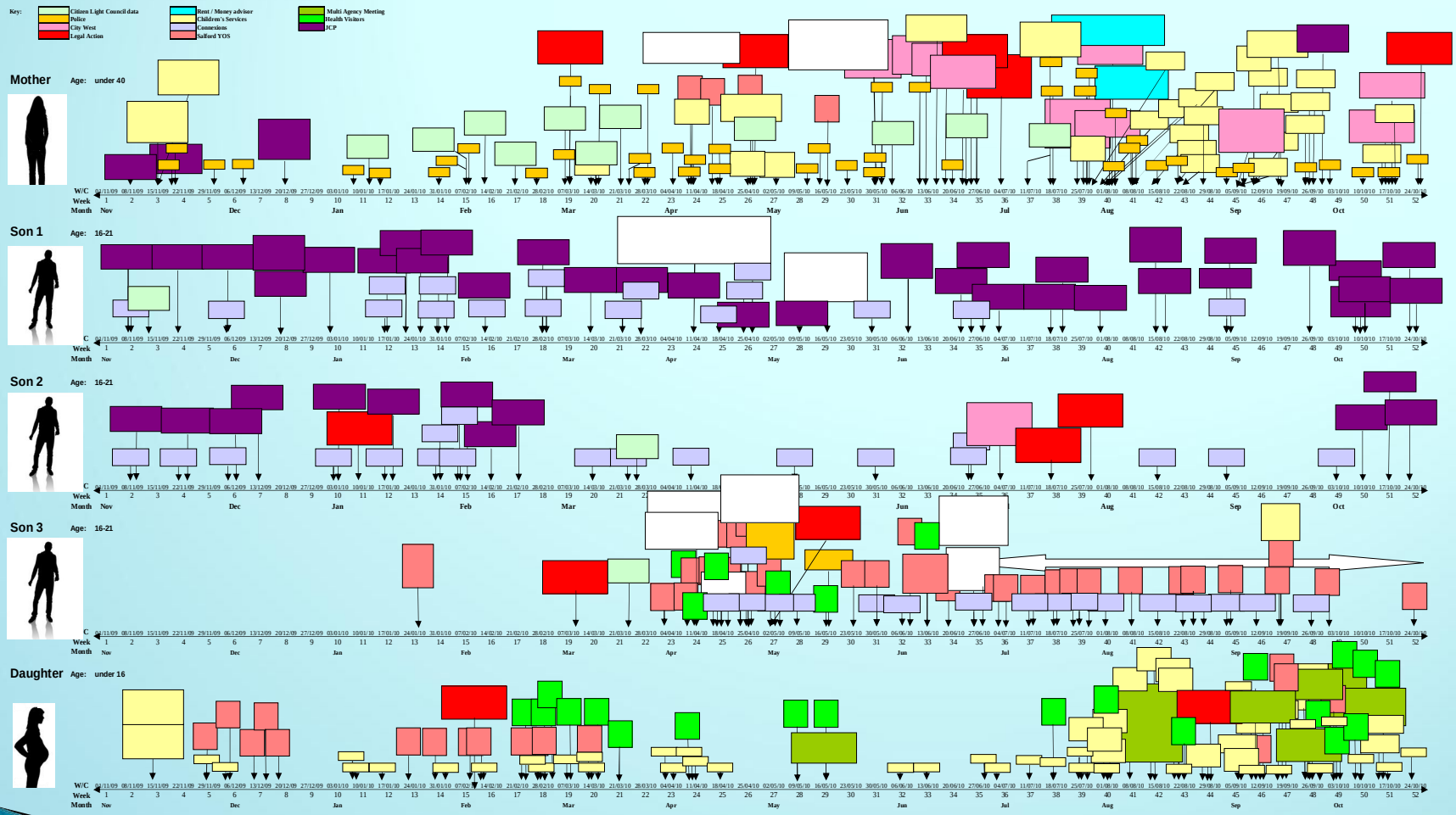
  - Community Partners –
  - LA's, COC, LEP's etc.
  - Community Budgets – maximise resources for Job Seekers

- Working Partnership – Providers with:
  - Other Providers
  - DWP
  - Constructive, transparent working Partnership and Dialogue
  - Contract management – an iterative approach continuing the excellent and successful FND contract Management

The Case for Community Budgets

A highly complex system for families

Data about detail of interventions removed



£156k pa

Salford

Conclusions –Making the WP Work

- Recognise and accept that any New Programme and Funding Model will be a Learning Process and "we are in this together."

- Transparency
  - Non – Intervention/Minimum Performance + Regional Targets
  - Sharing information with Community Partners.

  - Community Partners –
  - LA's, COC, LEP's etc.
  - Community Budgets – maximise resources for customers

- Working Partnership – Providers with:
  - Other Providers
  - DWP
  - Constructive, transparent working Partnership and Dialogue
  - Contract management – an iterative approach continuing the excellent and successful FND contract Management

Working together to make the WP work

Understanding the Work Programme Financial Model and Rewards

The End