



Work and Pensions Committee

Oral evidence: Welfare-to-work, HC 363

20 July 2015

Ordered by the House of Commons to be published on 20 July 2015.

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Members present: Rt Hon Frank Field (Chair), Heidi Allen, Mhairi Black, Ms Karen Buck, Richard Graham, Mrs Emma, Lewell Buck, Craig Mackinlay, Jeremy Quin, Craig Williams

Questions 1-98

Examination of Witnesses

Witnesses: **Sam Hanes**, Principal Adviser and Head, Labour Market and Economic Growth, the Behavioural Insights Team, **Tom Gash**, Director of Research, Institute for Government, **Kirsty McHugh**, Chief Executive, Employment Related Services Association, and **Dave Simmonds**, Chief Executive, Centre for Economic and Social Inclusion, gave evidence.

Q1 Chair: Welcome. We would like to begin by asking you, starting with you, Tom, if you could introduce yourselves, both for us and for the sake of the record.

Tom Gash: My name is Tom Gash. I am Director of Research at the Institute for Government, which is a cross-party think tank focused on supporting improved government effectiveness. The Institute has done a range of pieces of work over the years, researching into effective contract management and the design and oversight of markets in public services, including a study on the Work Programme in 2012-13.

Dave Simmonds: I am Dave Simmonds. I am Chief Executive of the Centre for Economic and Social Inclusion. We are an independent, not-for-profit research body. Part of our role has been to evaluate the Work Programme for DWP.

Kirsty McHugh: I am Kirsty McHugh. I am Chief Executive of the Employment Related Services Association. We are the trade body for the employment support sector. We have all the Work Programme primes and many sub-contractors in membership: 200-plus members, two thirds of whom are not-for-profit.

Sam Hanes: I am Sam Hanes. I am a principal adviser in the Behavioural Insights Team. We are a former Cabinet Office policy team and now a small business. I lead our work on labour market issues.

Chair: Sometimes we will address questions specifically to you. Our aim is not to catch you out; our aim, at the end of the day, is to be able to submit a report that looks properly at the strengths and the weaknesses of the current scheme and how the Government might actually improve it when it negotiates the next round of contracts.

Q2 Heidi Allen: That is what today is about, really: understanding what has been working well and groups that are still having difficulty finding employment, and whether, as we come to renew those contracts, now is the time perhaps to tweak them a little bit. The first set of questions is for you, Dave. If you could look at the Work Programme generally, what would you say has worked well with it, where there have been successes and things we would perhaps want to replicate in the new contracts, and are there areas where you think, “No, we really need to do better next time?”

Dave Simmonds: At the very high level, it has been successful for most, but not all, JSA claimants. Specifically for young people, it has been successful. It has not been so successful, primarily, for those on employment and support allowance. Just to dig a little bit deeper into that, in terms of not looking at which benefit people are claiming but rather their characteristics, it has underperformed for people with a disability. Remember, of course, that they can be on JSA as well; about 20% of those on JSA are estimated to have a disability. It has also underperformed for those people that are 50-plus, although the caveat on that is that you need to remember that 50-plus is a relatively small group. Only around 7% of people on the Work Programme are 50-plus. It has performed better for young people and less well for the 25-to-49s. It has performed well for lone parents. Also, it has slightly over-performed—not a significant amount—for black and minority ethnic groups.

There is quite a variation there, but the key message is that, as soon as people have a health problem or a disability—and I also think it is fair to extend that to those people with multiple disadvantages—then it has not performed so well. To put it the other way round, where it has performed well is for those people with relatively few disadvantages, where what they need is just that period of intensive job search support that maybe they were not getting sufficiently when they were under the Jobcentre Plus regime. That additional bit of adviser support is sufficient to trigger greater job search, leading to job outcomes.

What would be driving that? That is about the people, about the design of the programme. It is generally held that payment by results, or PBR, has led to significant efficiency improvement, and therefore a reduced cost to Government. Therefore, an element of PBR, I think, is now going to be standard in whatever employment programme gets designed. Of course, though, when you apply that to those more disadvantaged groups and those on ESA, you have to be, we think, a lot more nuanced in how you are using PBR.

Chair: We will come on to that later.

Dave Simmonds: In that case, does that sufficiently answer your question?

Q3 Heidi Allen: Yes. It sounds like the message is: where it has worked, it has worked really well, and the core of that is payment by results. Are there any other aspects of the way the contracts are being put together or the choice of providers that have contributed to its success at all? We are going to focus a lot of the session, as Frank suggests, on the bits where it has not worked so well, so we will perhaps come to those later.

Dave Simmonds: Let us deal with black box. We always supported the notion of black box. It was introduced in order to enable providers to give greater personalisation in terms of the person in front of them. What we have found, and certainly what the evaluation found, is that there has been a lot of what we call procedural personalisation and maybe less substantive personalisation in terms of customised services, but maybe we will be coming on to that as well. Enabling that personalisation, as a bedrock of how labour market programmes are designed now and in the future, is absolutely fundamental, but there is always going to be a balance between how much the black box is genuinely completely hands-off and the emphasis on customer service standards.

For some groups—such as on ESA—we think there should be a tightening up of the quality standards or customer service standards. In other words, an ESA claimant should join the programme knowing what to expect, knowing what they will get, whereas, at the moment, with a complete black box, it is not absolutely apparent what they will get. The question is whether or not they are getting sufficient standards to achieve high outcomes for those with health problems.

Q4 Heidi Allen: It sounds like we will get into the meat of it later. This is all the good, easy stuff that is working. Kirsty, I have a question for you, if I may. Would you identify improving support for people with health conditions, as we have just been talking about, who have previously been on incapacity benefits, as a priority? Are there any providers that you can think about who are really doing well with that group? Again, looking to how the contracts might be changed going forward, what can we learn from that and is there anything from it that we want to build in?

Kirsty McHugh: I would agree with everything that David said about the performance of the Work Programme. I think, when all is done and dusted, we will look back and say it is a well-designed programme that has worked pretty well, at least for people on JSA. In terms of employment and support allowance, I think there is consensus that there is underfunding in this area. It is interesting; looking back, I do not think the Department for Work and Pensions, or indeed anybody, quite knew what they could expect. They did not know enough about the profile of the jobseekers on ESA, how far away they were from the labour market, how much money would need to be invested or, indeed, the types of services they would need. What we do have now is a far better evidence base going forward to design services for people with disabilities and health conditions, and, as Dave says, not all of those are on employment and support allowance.

In terms of some of the things that need to change, the assessment process—

Q5 Chair: Kirsty, before you go on, when you say that it has worked really well, better than people thought, what sort of success rate do you have in mind to say that it is working really well, to help us?

Kirsty McHugh: If you look at the National Audit Office report, which they pulled together for PAC a few months ago, that is probably the best and most independent assessment of where this has performed vis-à-vis other programmes. You could look over time, but obviously the economic situation is different so you are not always comparing like with like. Its view was that the Work Programme had performed as well as, if not better than, predecessor programmes and had the potential to do better still, at least for those on JSA.

Q6 Chair: By looking at JSA, then, we are saying that, compared with the previous programme that it replaced, it did as well, maybe better.

Kirsty McHugh: It is very difficult to be absolutely clear about it, because there was the Flexible New Deal, and that was stopped, so we do not have all the data there—and, of course, there is a different economic backdrop—to compare like with like. We should see the Work Programme as an evolution from the Flexible New Deal and the New Deals before; there is a continuation in quite a lot of the policy design and delivery. Regardless of the political rhetoric in terms of one being better than the other, you can see a continuation in relation to that.

Q7 Heidi Allen: Perhaps you were going to come on next to what we have learnt and that particular group of people who have been on IB.

Kirsty McHugh: Yes, absolutely. A range of things have not worked in relation to people on ESA, and I think there is a consensus now that there is insufficient funding in that area. The majority of my providers would say they lose money in relation to people on employment and support allowance.

Q8 Heidi Allen: Why?

Kirsty McHugh: Because it is under-funded.

Q9 Heidi Allen: Is that because it needs more manual intervention—it needs more hand-holding?

Kirsty McHugh: Absolutely, it is about intensity of intervention. We need to think about the whole jobseeker journey. Think about somebody who has been through the work capability assessment, which can be quite a negative process for many, who is really worried about being moved on to a different benefit type, which has a lower level amount of cash associated with it. It can be quite a long, drawn-out process. Then they are referred to the

Work Programme. At that point, there has not been a conversation about work, and it is like, “Oh, my God!”; they have not been prepared for it. The WCA findings, by the way, are not uniformly shared between Jobcentre Plus and the Work Programme provider, and often there is a history of mental health difficulty or multiple conditions. There is not usually one barrier; there will be several. That whole run-up to referral to the Work Programme for people on ESA is often very uncomfortable.

The assessment, as you know, is basically just benefit type—and again, I think you will get consensus that we need far better assessment in terms of barriers and that if we are then going to have differential payments, particularly if there is a payment-by-results world, we could be clearer about the costs of associating people with different lengths of time from the labour market. Pure PBR for people on ESA is a mistake; we should not be doing that. There does need to be some level of service fee. A lot of the very good organisations in this space are charities, and surviving on payment by results is a very difficult situation for many of those.

Q10 Heidi Allen: It is too commercial almost, I suppose.

Kirsty McHugh: It is too much of a risk, and so there needs to be some level of service fee. We would support some level of incentive for distance travelled, proxy measures, etc. I know there is concern that gaming can happen in relation to that, but then you can still have the focus on getting somebody into work. There are organisations that excel, and you are going to hear from APM, being one of them, after this.

Q11 Richard Graham: On that phrase—that it is “too risky”—are you implying that, for the charities that may be able to do good things in this space for ESA clients, their balance sheet cannot take the business of all the costs up front and then the payment by results later on, or is there a different type of risk?

Kirsty McHugh: That is exactly what I am saying.

Q12 Richard Graham: It is a balance-sheet risk, effectively.

Kirsty McHugh: Well, it is also cash flow. If you are going to get 10% of people on ESA into work—

Q13 Richard Graham: Yes, I understand that. Therefore, are you implying from that that some payment up front would ease the cash-flow problem for the smaller charities?

Kirsty McHugh: Yes.

Q14 Richard Graham: Is that something you think generically is the case for ESA, amongst all the providers?

Kirsty McHugh: My larger providers would also say that ESA is loss-making, so they subsidise the ESA cohort from the JSA cohort.

Q15 Richard Graham: Should the ESA actually be taken out of the Work Programme structure of sub-contract, sub-contract, sub-contract, and go direct to specialist charities that perhaps have better track records on this?

Kirsty McHugh: There are different views across the market in relation to that.

Q16 Richard Graham: What is your view?

Kirsty McHugh: Our official view is that there does need to be separate provision for people with disabilities. However, one thing that has not worked well at the moment is the relationship between Work Choice and Work Programme. Once you are on one provision, you cannot move across to the other—or, it is very, very difficult. Therefore, the risk of having separate programmes is that, once you are on one path, you cannot get off it.

Q17 Jeremy Quin: You referred to the NAO report and we went through it in detail. The comment they made was, “The programme has the potential to offer value for money if it can achieve the higher rates of performance the Department now expects.” Specifically in relation to ESA, your verdict on that, from what you were saying, is that there are just not enough resources being put towards it and the way to get better value for money is to invest more into those particular claimants.

Kirsty McHugh: ESA performance will continue to rise, but it is from a low base and we are not going to get the sort of transformation I think we all want for people on employment and support allowance unless we change the payment structures. It will get better, but I do not think we are going to get a huge step change.

Q18 Jeremy Quin: If I may, what is the balance between the structure and the quantum?

Kirsty McHugh: It is the conversation we have just been having with Richard, in terms of making sure there is more money up front so we can invest in people who really are not going to get into work—or might do, but over a longer period—and can still become far more independent and constructive citizens.

Q19 Heidi Allen: I will move on in a second, but I have just one final question for you, Kirsty, if I may. We are very swiftly finding ourselves being drawn into this group, and yet you, Dave, mentioned just five minutes ago that it is also the over-50s, for example. Is

there anything in what you have been talking about—this idea of a separate stream—that would work for that group of people as well? Do we need that level of hand-holding for that group of people?

Kirsty McHugh: I do not think it is about having lots of separate provision. That increases a lot of costs within the system, including opportunity cost for the providers, who have to spend a lot of time bidding and setting up new programmes, and you get disjuncture in the system. We know one thing that has not always worked well is the relationship between Jobcentre Plus and the outsourced provision there, so I would be nervous about thinking specialisms mean better service.

Q20 Heidi Allen: It is only when you absolutely have to do it, then, for a very particular group of people.

Kirsty McHugh: It is about structuring it so that the right organisations are able to be there at the right time, with sufficient money to be able to do what they need to do.

Q21 Richard Graham: Kirsty, on the business of who is responsible for finding the job opportunities for people on ESA, do you regard that as equally the role of the Jobcentre Plus and the providers, or do you see that as something where specialist charities and so on have something particular to offer in terms of their contacts?

Kirsty McHugh: It is an interesting question. If you talk to providers, they will say that when they are getting people on JSA into work, they tend to be selling the concept of taking general people. When it is around people with disabilities and health conditions, it is often about selling individual Joe—or Jack, or Jill, or whomever else it might be. Therefore, generally, as much work goes into the employer engagement as it does into the individual support. It appears to be a different sell; a different way of doing things.

Q22 Heidi Allen: That is where the cost lies, isn't it? I think we are going to keep coming back to this theme, so we will give you a breather for now, Kirsty. Sam, still thinking about this group of ex-IB people, from your background in behavioural science, are there any insights you can offer in terms of different ways we might be able to support this group when we look at renewing our contracts?

Sam Hanes: The extent to which any of these things will be written into the contracts is a question for a procurement person as opposed to me, but there are some interesting aspects of the research in behavioural science that I do not think are currently used in many Work Programme providers' provision. There are two different areas that are unexplored and very interesting.

First off, there is a lot of literature around various character traits and how they inform people's long-term employment prospects—for example, their resilience and how they are affected by negative things that happen to them; their perseverance; their attitude towards

change and that kind of thing. Lots of these characteristics can be shown to be more strongly correlated with long-term labour market outcomes than other cognitive traits like IQ or qualifications. One of the other things about these traits is that they are massively underrepresented in the kind of groups we are talking about now. People who tend to be less psychologically resilient have more difficulty with change, potentially, in these IB groups. That may well explain some of the difference between those people with health conditions who do work and those who do not, because it is not all formal qualifications.

Unfortunately, there is not that much great evidence on how you would improve these things. There is a lot of evidence showing these things matter quite a lot and they impact you long term. At the moment, there is not a lot of great research saying how you would boost someone's character skills. There is some really interesting emerging evidence around younger people and early intervention, and how, for example, doing things like growth mind-sets—which I am not sure if you are familiar with—can encourage people to be more adaptable and essentially to work harder when confronted with challenges. With adults, and particularly with these groups, the research just is not there at the moment, but I think that is an area of particular interest, given the correlations that exist.

The second thing is that, when we have spoken to the providers that we work with and just had more informal discussions, there are a range of things that essentially encourage people to act as if they have these character traits, whether or not they actually do. For example, some of the work we have done around planning, getting someone to plan what they are going to do next week, etc, is shown to be highly effective with disorganised people. We have yet to try it specifically with the IB group, but you can see how that links to some of these character skills. Some people are just good at doing that kind of thing already; some people are perhaps not. You do not necessarily have to train them to have these character skills; you can just get them to make a plan and that may help them.

There are also things that seem like tiny little interventions, quite well-evidenced in different places, yet we do not see them, or at least I have not seen them, in many of the Work Programme providers' work. I am not sure why that is. They are things around how you can broaden people's search parameters when they are looking for jobs; there is great research coming out of the University of Edinburgh, for example, on that. Other things, like even just telling people about different vacancies that might be linked specifically to them and might fit with perhaps their health condition, can have a big impact. It is about proactively doing stuff along those lines where you know someone is not going to be doing that proactive stuff themselves.

Just to summarise, then, there are two different core things: one, how you build people's character skills; and, two, how you get people to act as though they have them, even if they do not.

Q23 Chair: Tom, are there any other groups with specialist needs that we ought to address our attention to?

Tom Gash: In the research we did on this, we came across the same basic issue time and again, which is that it is very difficult to come up with a contracting model that takes into account all of the diversity within the population of people in any one area. People have very different needs in terms of their employment skills, personal characteristics, qualifications, health needs and so forth. Any system you come up with in terms of incentivising the providers to help different groups that is based simply on benefit type is always going to be a crude proxy. It is never going to be perfect.

There are models you could imagine where you actually try and look much more at characteristics at the point of referral to the Work Programme and start to base payments around that, but, again, that is very complex to do, so I fully understand why the Work Programme has gone for the model it has. It is probably a question, this time around, of whether they can tweak the incentives and put some more funding into the groups that have not been well served by it, and sticking perhaps with the rough funding and approach they have at the moment for people on JSA.

Q24 Mrs Lewell-Buck: This will be a question for you, Tom. Are there any particular regions we should be concerned about, and any particular regions that are outperforming others across the UK? Obviously the job market is very different, so you have got someone on the Work Programme but there might be high unemployment in a particular area.

Tom Gash: There are a few interesting questions on regions. I do not have the stats to hand now, and Dave probably does know them better, but one thing I would say is very interesting, when you think about it from a commercial perspective, is that certain regions of the country have fewer providers and less competition between providers, so Government effectively has fewer choices to make when it is thinking about contracting and therefore struggles sometimes to get as good a deal. It is important that the Department bears that in mind when it thinks about the areas it is contracting with.

Secondly, one thing we found was a major issue last time round, and one of the reasons the Work Programme underperformed in its initial first couple of years, was that a lot of providers were asked to change their geographical base of operations—so, to move from one part of the country to another. What that means in practice, of course, is all the basic stuff: you have to close down one office, get another one, and sometimes you cannot keep hold of all the good staff you had and you have to lose them and get others.

Going back to the aspects of the Work Programme that the Department might want to retain, they might want to take a slightly more measured approach towards shifting providers around. I am not saying you stick with all the providers you have by any means, but if you are going to stick with providers, stick with them in the areas where they are already

operating wherever possible. I do think that that was probably a mistake last time around, and it caused some major issues around the transition.

Q25 Chair: At one stage, in an answer to Heidi, Kirsty said “success rate of 10%”. You have all been talking about success rates. What is the success rate?

Kirsty McHugh: There is only one measure for the Work Programme from the Government side, which is around sustained employment: in work for either six months or three months, depending on the benefit rate.

Q26 Chair: What are the figures for that?

Kirsty McHugh: You have the Work Programme outcome ones at your fingers. We also have the job starts. One of the problems has been that people do not understand what a job outcome is, and the Government really should put into the public arena the number of people who are starting work as well. We have had 706,000 people start work on the Work Programme, and there have been 1.7 million people referred—that is, people who have got at least one job, something on their CV, out of it. Not all of them, of course, move on to a long-term job, and it takes a while to actually get that. In terms of ESA rates, in terms of starts, it is about the 12% mark, but lower—I think 8%—in terms of job outcomes.

Tom Gash: There is a fundamental behind Frank’s question that is very sensible, which is that because Government is not willing—and I think there are good political reasons for this—to not give some people any service at all, it is never going to be able to have a very robust way of telling the impact of the programme overall. The decision not to do that means that we are only ever going to be able to make estimates about the overall impact on what good looks like, because we are always going to be comparing relative performance of different providers against each other rather than what would have happened if nothing was given at all in the way of the programme.

Chair: That leads us on to Craig’s question.

Q27 Craig Williams: I want to tease out more about the centrally contacted mainstream programme we have had since 2011. I think a couple of people from the panel have hinted about that structure of one single mainstream Work Programme. I want to ask how many schemes you think are necessary to cater for this and how jobseekers requiring alternative support would be identified. There are two questions there for the panel about how many schemes you think there should be, rather than this.

Dave Simmonds: I will kick off on that.

Chair: We are running up against the time, so the sharper your answers, the more helpful it would be to us. Thank you.

Dave Simmonds: We think there should be two: JSA and ESA. The caveat to that is that we also think the Department should be looking at some form of early assessment—triage, profiling, whatever you want to call it—so that you are actually channelling by the degree of disadvantage as opposed to the benefit type.

Q28 Chair: Does anybody want to disagree with that? Is that the line of all of you?

Kirsty McHugh: Sort of.

Q29 Chair: Tom, is it “sort of” for you?

Tom Gash: I would agree on the triage point and trying to think about how we can do that based on actual needs, rather than just disability category. I do not have any view on how many programmes there should be. One key thing to say is that if Government chooses to combine the Work Programme and Work Choice over the next period, it will materially affect who can bid for the contracts, because the size of those contracts will be considerably larger. It will mean that you have very few or no specialists primes. That may affect the diversity you have got and, in the long run, that may not be a good thing. I think there are dangers with consolidating all of these contracts into one, as well as some potential benefits around economies.

Q30 Richard Graham: Can I just ask about the word “triage”? Are we talking about profiling people into different categories? What do you both mean by that?

Dave Simmonds: A very simple example is the Australian system that they use. When somebody claims for the first time, they are basically put into four different groups according to their level of disadvantage or employability, and there is a payment that goes with whichever group they are in. It is not about the benefit.

Q31 Richard Graham: You are separating out people in ESA into different categories, then, and the fundamental difference is between the more obviously employable and the harder to employ.

Dave Simmonds: That is for JSA as well, because you do get people on JSA with disabilities and mental health problems—you do get people on JSA with alcohol and drug problems. Identifying those at an early point and moving them straight through to support and provision should save money in the long run.

Q32 Richard Graham: Earlier, you said you wanted to split it between JSA and ESA. Now you are saying: divide them into different categories; you might have some JSA people in the same category as ESA.

Dave Simmonds: That is reflecting that moving to a profiling system is a big change with some big risks attached to it, and, as such, our starting point would be to keep it simple. In our view, what is important about the distinction between JSA and ESA is that we think there should be different payment terms and different customer service standards attached to them. That is not to say that that cannot be wrapped up in single contracts, for example.

Q33 Chair: I thought you were saying to Craig that we should actually forget about JSA and ESA, and that we should have maybe four groups that you would mark—presumably in agreement with somebody else—and that the payments would be attached to which group you were in, not which benefit you were on.

Dave Simmonds: That would be the ideal system. Whether or not we can move straight there, and whether it is four or three groups, I do not know.

Q34 Ms Buck: What you are suggesting is that you have the work capability apparatus and then you would have a whole separate system for assessment, so you would basically be duplicating the entire process of assessment but extending it into JSA as well. Most people would go through a double assessment.

Dave Simmonds: No, the assessment happens when you first claim, so it would be part and parcel of any WCA.

Q35 Ms Buck: Instead of just some people going into work capability assessment, everybody would go into a version of the work capability assessment.

Dave Simmonds: When you first claim, yes.

Q36 Ms Buck: It extends work capability assessment to all claimants.

Dave Simmonds: I do not think that we would call it “work capability assessment” for JSA. It would form, essentially, a set of standardised questions, which were there to measure the level of employability that a person would have.

Q37 Ms Buck: Would you suggest, then, that if people went into that gateway, they then had an additional work capability assessment if there was a disability, separate to that?

Dave Simmonds: If there was a disability, yes, then they would have that, because there is also the basic distinction as to whether or not you go into the WRAG group or the support group.

Q38 Ms Buck: It just seems to be potentially adding an awful lot of assessment.

Dave Simmonds: That is one of the problems with it, but, if what we are going to do is have a more personalised system that will deliver support at an earlier point in somebody's claim, then that is the sort of thing that has to be done. As such, we would not suggest moving straight to that system without piloting how it is done and looking at the impact. It is designed, first of all, to deliver more personalised support at a quicker point in somebody's claim, and the object of that is to actually save money at the end of the day. I think you can only do that through piloting and testing that approach.

Q39 Chair: The aim is also to get people into work, isn't it, not just to save money?

Dave Simmonds: Yes.

Q40 Chair: In answer to Craig's point, the Secretary of State will want to place contracts. He does not want to have to stand up in the House and say, "It's all chaos. We all have these different contracts. God knows what is going on in your area." You are suggesting that none of you can envisage an approach that did not have those big contracts. You are saying that if within those contracts you actually have four categories of need—in answer to Craig's point—with benefits linked to that, then in fact the main contractors would either be working themselves or getting sub-contractors to work that programme for them. Is that what you are saying? We have to have a report that the Secretary of State takes seriously. In other words, we cannot propose things that mean, on day 1, he stands up in the House and it is chaos.

Kirsty McHugh: I think we are supporting the prime contractor model. There is a question about how large the prime contracts are. One point to bear in mind, in this question of whether it is one integrated contract or two, is that at the moment the DWP is thinking that if you take out the Work Choice and ESAs and put them into a group, the number of people left on JSA for a second contract would potentially be too small to make that viable. Therefore, whether you have one or two might depend on the volume of referrals overall.

Now, there is one thing the Government could do to change that, which is to do something about what they call "entrenched worklessness"—the people who cycle in or off benefit—because at the moment they are not really getting any support at all.

Q41 Chair: We might come back to you and ask you to put that in writing for us. I thought it would not matter about the numbers if Dave's proposal were accepted, because if you could agree with the Department on the four categories, it would not matter tuppence how big they were; you would be deciding which of the four payment-led programmes they were led to. Is that not right?

Dave Simmonds: First of all, I mentioned four in relation to the Australian system. I do not know whether it would be three or four, so I was not saying four programmes.

Q42 Chair: The principle I think we understand, though, don't we?

Dave Simmonds: Yes.

Q43 Chair: Therefore, the numbers going on is less of an issue for the Secretary of State, because you would be being paid differently for the different categories. If 100 turned up for one and two for the others, that would not matter very much, would it?

Kirsty McHugh: A lot of my members would say that size does matter in relation to this, particularly in relation to JSAs. It is payment by results, so if you do not get enough people through the door, you do not get sufficient cash to be able to do anything at all, so size does matter here.

Q44 Richard Graham: Just very briefly, Dave, I thought you were saying earlier that there were effectively two options: you either go for this quite complicated restructure into these different categories—whether three, four or five—or you simply separate it between JSA and ESA, which would be a lot easier, and you would take a different approach to ESA, which might be a different approach in terms of the contractors. It might be less payment by results, more payment up front, with a bigger focus on smaller local contractors, whose networks in the places where there might be jobs suitable for these people, could be better. That is the bit I was more interested in, because you are more likely to get fast results rather than spending years and years redesigning a complicated process.

Dave Simmonds: Yes, that is the evolution rather than revolution approach.

Chair: Sure, but that is what we are in for, isn't it? Craig, do you want to come back on this?

Q45 Craig Williams: Your idea, Frank, of a little more detail in written evidence would be helpful. I would be interested if you wanted to touch on very briefly the disruption in moving to that programme. What kind of service-end disruption could you envisage if you were to go from this current model to the model you are describing?

Dave Simmonds: First of all, the difficult task, and one reason why the Department has always pulled back from this approach, is actually agreeing on the profiling tool—the nature of the questions that do or do not determine. There is a view within the Department that people need to prove that they have become long-term unemployed before you actually attach any money to them, whereas others, including ourselves, would say, “Well actually, we do know quite a lot about the characteristics of the people that become long-term unemployed. Let's use that information to identify people at an earlier stage so that you can get them into work sooner.”

Q46 Chair: You could do that in your payment by results, couldn't you?

Dave Simmonds: You could.

Q47 Chair: It's how you would negotiate that with the Department.

Dave Simmonds: Yes. The second big thing is that it does raise the question of the boundary between what private providers are delivering and what Jobcentre Plus delivers. That is a big boundary issue, which would involve potentially quite a significant change and disruption.

Q48 Craig Mackinlay: I want to examine a bit more about the payment by results. Do you think it is just far too fixed? There have not been any upfront payments since 2014? Is this putting off providers from tackling those difficult ones? I tend to agree with your multiple or four stages, breaking people down a little bit more. Is it putting off smaller charitable groups getting involved? Does it just make the big providers move towards that work or go away from it? Would a different funding model, with maybe milestones on the way—"Yes, you've managed to get people up this far; they are not quite in work yet but they are working towards it"—encourage the market towards what we want as an outcome, at the end of the day?

Dave Simmonds: Yes, I think that it would, but that does have to be backed up, we would say, by very clear customer service standards, in terms of what the Department is actually expecting in return for providing softer outcome measures and so forth. That is the quid pro quo between the 100% financial risk that providers have at the moment and something up front.

Q49 Chair: You are accepting, then, that that approach by the Department is right. You might disagree with whether, in fact, the balance is there, but surely we all have an interest, don't we, in paying people by results—by paying them more for those that are more difficult to place and linking it to the actual results?

Sam Hanes: May I come in with a suggested route to creating some innovation while paying by results, in maybe two different ways, if we are going to split the programme into two halves? At the moment, the payment-by-results model we have does not particularly incentivise providers, as we all know, to go as far as they can in treating the most difficult cases, perhaps because it is not cost-effective, etc.

Q50 Chair: Can you give some examples of that, so that when we are doing our report we have some practical examples?

Sam Hanes: Yes. All I was going to say is that, if you look at areas with high levels of innovation, they are characterised by three things: failing quickly, failing small and then, finally, when you are successful, having a quite big return, if you look at something like Silicon Valley, etc. With the Work Programme, perhaps because this is what we want, failing is expensive. It is slow. You may not even find out for a while that your programme is not very effective. Also, being marginally better than your competitors is better, but the more

and more you try and improve your service, your costs can go up pretty quickly, whereas the amount of payments you get in might not, because you are starting to treat more and more difficult claimants, potentially.

Q51 Chair: That is a reason for the Government adjusting that, isn't it?

Sam Hanes: Indeed, and maybe the best way to do that, as you perhaps are suggesting, Frank, is to have a twin-track model where you have your safer, bigger programme, and then you have a quite different, smaller payment by results structure, maybe even something on an individual site-by-site basis, that encourages higher levels of innovation. You would have something where the attachment potentially fee is higher, so the amount you get at the beginning is higher, but the point at which you start to get payment by results is much further down the line, but also bigger. Something like that has a different asymmetry to the payments, if that makes sense.

Q52 Craig Mackinlay: What I am trying to get to is: is the model that we are currently using working? It is like more of a higher stakes casino game. It is more of a risk but you get a better reward; you get a higher payment at the end. Is the current structure working towards the outcome we want, or would more of a payment up front or payment in stages actually make the whole thing work better? Is the current thing about as good as it can be, in your view?

Sam Hanes: It kind of depends what we want. There are two different things. One is a stable and efficiently delivered service across the country; perhaps the current payment model is reasonably good at that. Another is us learning how to be quite different in the approach, with things that could potentially have big impacts on these difficult groups, and the current model is perhaps not good at serving that purpose. The interesting thing about it is that you do not need a national programme to learn those lessons.

Chair: Could you write to us? If you are Secretary of State, you want to know that the basic thing is going to work, but the Secretary of State is surely going to be interested in how we improve on that, and those are the changes that we want to suggest. If we could have some concrete examples, that would be really good.

Q53 Mhairi Black: Dave, I know this will be of interest to you. How do you think the DWP could incentivise more innovation in service delivery in the future?

Dave Simmonds: There are three things I would point to. First of all, there has been a lot of what we call procedural innovation, primarily designed to reduce costs, and there the programme has actually been quite successful. When it comes to the mainstream contracts, we think elements of it need to be de-risked to enable greater innovation, because at the moment if you are going to innovate, by definition there is risk involved in it.

Q54 Chair: Can you give us some examples, Dave?

Dave Simmonds: If you are a provider who would want to experiment with a new way of providing support to people with mental health difficulties, which might involve an upfront recruitment of specialist staff and so forth, the problem is that at the moment there is very little evidence as to whether or not that will bring dividends at the end of the day.

Q55 Chair: In answer to Mhairi's question, are you saying there should be an innovation fund?

Dave Simmonds: Elements of the contract should be de-risked. Secondly, there should be an innovation fund, and the Department needs to be very clear about those elements of the service that they want to see innovation in. Thirdly, we think there should be some form of "what works?" centre in labour market policy, because there is no point in just having innovation that stays within one provider. The point is to diffuse it across the whole industry.

Q56 Chair: Does anybody else want to add to that, because that is our last question?

Tom Gash: One thing, linked to the idea of learning as we go, is that we do need to improve the transparency around the Work Programme in terms of what it is delivering. It is not actually that un-transparent compared to a number of other Government contracts, so we do know a bit about some of the outcomes it has generated. What we do not know is how much money has gone to the providers, so there is not much transparency for a member of the general public or a researcher to look at the sub-contracting arrangements that are in place and start to understand what is happening below that prime contractor level in terms of how many providers we have. It is a very quick win for the Department to commit to introducing something like the standardised transparency clause that we produced with the CBI, the NAO and others. To make this a little more transparent would help us all learn as we go.

Q57 Ms Buck: Just going back to nuancing payment by results, if you were to introduce some form of payment that is based on milestones to employment rather than employment per se, recognising the particular problems with the ESA/IB group, do we have a consensus as to what the milestones would be?

Kirsty McHugh: We are in favour of service fee, milestone payments and then the accelerator model, so you keep on incentivising people to go further and further into that group. I think a lot of people are in a similar space. In terms of what the milestones can be, I think you can make them sufficiently hard. Completion of a training course, for instance, is a very hard thing. It means that the Skills Funding Agency could be happy in relation to that. The ESF/DWP programme about troubled families is one where you have some good learning that could be brought to bear.

Chair: Tom, your point was intriguing. Do you think you might give us a note on that as well? If there is a central innovation fund, that ought to belong not to the individuals who do the innovations, but to all of us, ought it not? We have a real interest in spreading ideas quickly where they work. Not everybody is going to learn in the same way. I think that is what Mhairi's question was really about, which is important.

Are there any final comments from you? That was very helpful. Thanks a lot. We will follow up, because we have had three requests for further information, but, if there are other points you think, on reflection, you would like to come back to us on, please do. If you remember, the shorter your submission, the more chance we will have read and understand it. Thank you for your time. It was really good.

Examination of Witnesses

Witnesses: **Steve Hawkins**, Chief Executive, Pluss, **Liz Armstrong**, Director of Health and Wellbeing & Integrated Services, APM UK, **Dan Jones**, Director of Innovation Lab, Nesta, and **Christine Chang**, Investment Director, Big Society Capital, gave evidence.

Q58 Chair: To show there is no bias, for the whole of our inquiries, I shall ask the person on the very left to start the introductions, so, Steve, might you introduce yourself?

Steve Hawkins: Certainly. My name is Steve Hawkins. I am Chief Executive of a company called Pluss. Pluss are one of the smaller primes delivering to DWP. We are a specialist prime. We are a social enterprise, and we employ about 550 people, more than 50% of whom have either a health condition or a disability. That gives us a very good insight into what is required to support people.

Christine Chang: I am Christine Chang from Big Society Capital. I am on the investments team of the organisation, and I led our work on transforming rehabilitation and supporting social sector organisations to deliver and transform rehabilitation. As part of my work, I also look at public service markets more broadly and how we can enable social sectors to participate, so that is the sort of lens I am going to bring today.

Liz Armstrong: My name is Liz Armstrong and I am the Director of Health, Wellbeing and Integrated Services at APM. APM is a privately owned Australian organisation that has an international presence, but working primarily across Australia, New Zealand and, more latterly, the UK. For today's session, I am talking about the work that we do as a sub-contractor on the Work Programme with the ESA group, because we do not deal with any JSA; we work only with ESA customers.

Dan Jones: I am Dan Jones. I am a director in the innovation lab at Nesta. Nesta is a foundation that exists to promote innovation in public services and for public benefit in the UK. I am responsible for citizen engagement in public services generally, across the piece.

Q59 Jeremy Quin: Dan, I am going to start with you. I am aware of the research you have been doing in welfare-to-work providers on innovation. The presumption tends to be that the most innovative and sometimes most effective providers are at the smaller end of the spectrum. Is that a fair presumption?

Dan Jones: I think in general it is. What we see is an asymmetry in terms of understanding the innovation, so what you will get is very small local organisations doing really interesting things based on gut feel, a deep understanding of the caseload and a long personal history in the place. What you will not see is those organisations having the number of clients or the capacity to get a hard evidence base as to whether the thing they are doing is dramatically better than what else is being done. Larger providers have the capability. What we have found is that there are very few incentives in the system for them to actually do that kind of rigorous testing. Broadly speaking, there may be innovation across the piece—small organisations do not have the capacity to really test out what they are doing and be sure it works and large organisations do not have the will.

Q60 Jeremy Quin: How do we ensure that we do encourage and foster that spirit within the smaller providers, and does the current structure allow that to be facilitated or are they crushed by the weight of the large contracts?

Dan Jones: Specifically for the relationship between smaller and larger organisations—primes particularly—the current structure tends to militate very strongly against them being able to test their work, being able to get anything more than simple delivery. The nature of the contracts, as Kirsty said, is such that the harder-to-reach the client is, the tighter the margin is. If you are going to make money, you are going to squeeze your costs, and the easiest cost to squeeze is the cost on your subs, so you are certainly not going to then spend money supporting them in their testing and learning, for example. Particularly for that, yes, the nature of the contract squeezes out that testing and learning. More broadly, actually the nature of the contract militates against testing, learning and experimentation.

Q61 Jeremy Quin: I appreciate this is a short question with a very long answer potentially, but how do we change that? How do we ensure that they are able to facilitate these things?

Dan Jones: The way to think about this is like R and D. UK plc spends 2.5% to 3% of its GDP on R and D, and we have a productivity crisis. If you were to do that in the Work Programme, of 2 billion quid, that would be 60 million quid spent on genuine innovation, research, testing, learning and experimentation, and really building an evidence base. That is

not particularly material, and it would get you a long way. If you wanted to be Germany, that would be more like 100 to 150 million quid, so it depends how productive you want to be.

Specifically, we have talked a bit about this idea that within contracts there is some ring-fenced work where you say, “We understand that this is experimental; therefore, we are going to de-risk it, so if it does not hit the target you expect, you are not going to be penalised.” You could incentivise, though, people to say, “But you must demonstrate that the learning from that experimentation has been fed into the rest of your provision, and, if you cannot demonstrate that, you are not going to get paid.” You can de-risk the experiment without entirely handing money over to the provider with no control on it. That would tend to drive the experimentation towards those smaller agencies—the subs, the specialists—who are doing something particular, because that is where you are going to get your learning.

Q62 Mrs Lewell-Buck: Dan, your work has identified a lack of genuinely original ideas in welfare to work. I know you touched on it a little bit in your last answer, but what is it for you that is actually hindering innovation?

Dan Jones: We would say, in general, to be genuinely innovative you probably need to be open, and there are maybe three particular kinds of openness that are important to think about. You need to be open to new perspectives; you need to be open to the voice of service users; you need to be open to frontline staff; you need to be open to new providers; you need to be open to new approaches; you need to not be stuck on “This is the way of doing it and we are going to do this”; you need to be focused on the result and be flexible about how you get there; and you need to be open to testing and learning. You need to be able to try something, as Sam said, fail fast, and then feed that failure into a better iteration. You have these three sorts of openness.

The architecture of the Work Programme very strongly favours incumbents, so it is closed to new perspectives. They are overdetermined contracts. One of our respondents said, “It is a black box until you sign the contract, and then all the things you said you were going to do are incredibly specified.” The service pathway is often quite tightly defined. There is not much that room for personalisation and flex. They are not that open to new approaches in order to get to the outcome. As I just said, there are also very limited incentives in the system for decent testing and learning.

The point Tom made about what works was very interesting and we would strongly agree with it. The broader ecosystem that exists—sharing, R and D spending, thinking about what you are doing as a thing that can get better, building a learning base that is shared across the sector—is really absent in employment, in quite a startling way.

Q63 Mrs Lewell-Buck: You are talking about a cultural mind shift in DWP, almost.

Dan Jones: Within DWP, within the sector, yes, there is an ecosystem that does not exist. There are some things that could be done to build it. A “what works?” centre would be a good start on that.

Q64 Richard Graham: Dan, you have spoken about the theory of it, if you like. Steve, I know from what Pluss are doing in my constituency some of the incredible work you have done to get people with significant disabilities back into jobs. How does the system work for you? The extra work, for example, in persuading Morrisons to take on a person who was blind for a three-month work placement, which she later converted into a full-time job because she was just so good at dealing with people, which was something new for their checkout counters, takes time and money. How does that work with a system of payment by results and so on?

Steve Hawkins: I was reflecting as you were talking. The conversation has been predominantly about the Work Programme, because of course the Work Programme is the larger contract. We deliver the Work Choice contract, which is a specialist contract for people with health conditions and disabilities. The mechanism within Work Choice is very different, in that the current contract provides the provider with a 70% service fee, with the remaining 30% of the funding being paid on a payment-by-results basis.

Q65 Richard Graham: If, for the sake of argument, you had a system where all ESA was done on the same payment—the 70% up front, if I got it right—do you think that would work well in terms of getting better results for ESA clients?

Steve Hawkins: We do think the 70% service fee is a generous service fee and, within the contract extensions that have been let on Work Choice by DWP recently, the payment mechanism has moved to 50/50—50% service fee, 50% payment by results. The way we achieve our success and the ethos of our business is that everybody who comes onto the programme will be better off, by the time they leave the programme, than when they started. That means that we provide a personalised service for every customer whom we work with. Not everybody will get a job, of course.

Q66 Richard Graham: Would it be all right if we moved to Liz? In a sense, your model is along those lines, if I understand it rightly. You have an assessment to identify individual support needs, an action plan and so on. What does that deliver in outcomes that is different from people who are not using it?

Liz Armstrong: The assessment’s first iteration was in Australia, and it is called a jobseeker’s needs assessment. The main difference with this assessment is that it is an holistic assessment that takes into account a person’s whole circumstances, so their financial, social circumstances and all of that. It also looks at what the barriers and the interventions would be, so that action plan provides you with what the barriers are but also what the interventions are.

Q67 Richard Graham: In terms of the outcomes and actually helping people into jobs—and let’s assume these are people with more difficulties and more disabilities—what are you then doing, having got all this extra information?

Liz Armstrong: That extra information helps the employment adviser to know what to do with this customer, so it stops any parking. What happens is that the report provides all of the information that is required to move that person forward into sustained employment, and that could be going for debt counselling; it could be going for CBT counselling. It gives you all of that, so the customer is on a journey immediately. This assessment was first tested in Australia on their early intervention and engagement pilot.

Q68 Richard Graham: I think we can all see that it is an incredibly useful thing to have. It sounds like an almost basic thing for most businesses, in terms of knowing their customers. I am just interested in the outcomes. Have you got ways of measuring it that are showing this is delivering more people winning the jobs?

Liz Armstrong: The assessment is not really about providing a job outcome for someone; it is more about making sure they are on the right path to getting the personal interventions that they require. That speeds up the whole process so that, rather than going the long way round, we are saying, “Here are the barriers and here are the interventions to those barriers, and, by following this action plan, you are going to move your customer along much more quickly than you would have without it.” It is not really about people moving into employment from that assessment; it is more about identifying what the issues are and then helping them move into employment. Besides that, it is fair to say that, in our model office in Hanley, where we have been able to sufficiently develop our holistic approach, we are in the top 20% of providers for the ESA customer group.

Q69 Chair: I am slightly puzzled because, from what both Liz and Steve said—Steve particularly, in response to Richard’s question of real successes—are you saying you are able to do this within the existing programme, or that you would be able to do more of it if the payments were more flexible? When we are writing this report, we want to think about things we can suggest that practically improve what is to what could be. With what you were saying, Steve, I thought the example Richard cited in his constituency was magnificent. That is a real sign of success, isn’t it?

Steve Hawkins: Yes. We have been consistently in the top quartile of providers within the Work Choice programme.

Q70 Chair: The model works, you are being paid and you are viable. You are not going to pull the shutters down.

Steve Hawkins: Absolutely. The success which is attributed to Work Choice is, first, it is specialist, so therefore we have the right advisers, the right packages, the right services available, which we deliver either ourselves or through our supply chain. We also have the

financial capacity, as a result of the payment mechanism, to ensure that we can invest in people. We do not have to make a decision, when somebody comes through the door and we do our initial assessment, which says, “Do you know what? We think that there is an 85% chance we will not get that person into work over the two-year period and therefore, in spending money on that individual, we will not see a return.” We do not have that.

Chair: You are saying, Steve, the present system works well.

Steve Hawkins: It does within Work Choice. This is different.

Q71 Richard Graham: If I get it right, on Work Choice, there is different balance.

Steve Hawkins: Correct.

Richard Graham: I think what Steve was implying is that the precise amount of payment is something that can get changed, and all the rest of it.

Steve Hawkins: Within a harder-to-help customer group, we firmly believe that a service fee element is absolutely critical to ensure that the specific interventions can be invested in to move that person forward.

Q72 Richard Graham: In a sense, the question for all the panel is whether you believe that what was discussed with the first panel, the possibility of splitting JSA and ESA clients and then having an element of a service fee for ESA in order to try and increase the numbers of people on ESA going into jobs, would work. That is the one-line question to each of you.

Steve Hawkins: From Pluss’s perspective, having a specialist service that is able to be personalised for the people who require additional support into work is absolutely crucial.

Christine Chang: I think that is the way to go. In terms of what we have seen from providers—and this is from an observer’s perspective, not a provider’s perspective—there is another metric to bring into this, not just the PBR versus fee-for-service component, but also the amount being paid. I think in Work Choice—correct me if I am wrong—it is a greater amount.

Q73 Richard Graham: If we get the details right and the fee is correct, do you believe that it could work in terms of getting better results for people on ESA?

Christine Chang: That would be our position.

Liz Armstrong: I think we need a more holistic approach. Certainly people matter within this if we want to get outcomes. For APM, within the Work Programme, we will be very lucky to break even in terms of our delivery, because of the payment-by-results model,

because there is no service fee at the front end and because our customers are of the type and ilk that require those front-end interventions. We do provide them, but it costs us a lot of money to do so.

Dan Jones: Better assessment should sit alongside more money for stages and transitional service, but with a better evidence base. There is a worry that some of these things will lead to putting people on a training course, and one of the reasons the Department moved away from that kind of service payment is that it is terribly easy to game. There is a genuine issue there. It is about making sure the money that is being put in up front is for the right things, and then more money on outcomes for harder clients. There is an issue about volume as well as timing.

Q74 Chair: In a sense, what you are saying to us for our report is quite clear. You are not throwing the whole structure overboard; you are asking for a rebalancing.

Liz Armstrong: Yes.

Dan Jones: I would if you let me, but I understand the point that there is a limit to what can be put in the report. There are genuine opportunities to work very differently. “Better” in this instance might be 20% of these clients going onto a sustained job outcome. Now, if you were a teacher and you said, “20% of the kids in this class are going to get A to C,” I am not sure Ofsted would be delighted. There is another world of better, but it requires the kinds of changes Dave was talking about; it requires genuine changes in the regime.

Chair: You might give us a note on that

Dan Jones: Yes.

Q75 Heidi Allen: I am finding myself thinking, Steve, if you can do it, why are we not seeing more success? You describe your organisation as a social enterprise, so do we have enough of those, or do we need more? How do we get more Steves and more Plusses?

Steve Hawkins: We are not the only organisation that has been successful within Work Choice. That is the first thing to say. The Work Choice programme has been more successful than the Work Programme at getting people who require additional support into work. There is no doubt about that and there is a whole range of issues regarding that. As is often the case, things are not quite as simple as they appear, because there is different conditionality between Work Choice and the Work Programme. That is one issue. We have talked about the payment structure quite substantially.

However, because it is specialist and you have specialist providers within the supply chain, without the risks and barriers faced by specialists that we talked about earlier on, that is one very considerable issue. We as a social enterprise reinvest our profits in the running of the business. As a result of that, we are able to push a great percentage of the funding we

receive from DWP and other funders down towards delivery of the service. We think that is very important. The amount of the upfront funding that gets down to the customers is a critical element of success.

One problem that we believe is inherent within the prime contracting model is the level of service fees that are very often taken by that lead prime contractor. If you are a specialist organisation in a sub-contracting environment—and we do sub-contract in some areas—but you are trying to deliver a service with 70% to 75% of the original funding that was made available by DWP due to that management fee, it impacts on what can be delivered. We think that the model we have—in terms of the commercial but not-for-profit back to shareholders—certainly helps us in the way that we are able to deliver our service and the conditions that we are able to offer the sub-contractors that work for us.

Q76 Chair: How many people do you cover in a year, Steve?

Steve Hawkins: Within Work Choice, we support about 5,000 people per year in a number of different guises. That is delivering across the whole of the south-west area and West Yorkshire at the moment.

Q77 Ms Buck: The way you are describing the programme sounds very positive, but is it not an issue that it is a very small-scale programme at the moment? How would you be able to scale up that kind of intensive work?

Steve Hawkins: That is purely because of the number of contracts.

Q78 Ms Buck: Yes, it is not a criticism, but it is an issue that what it is possible to do in a relatively small-scale programme is not necessarily what you can do—

Steve Hawkins: We hope to substantially increase what we deliver and our footprint through the forthcoming contracting round. Obviously, our ability to do that will depend on what the entry point to that contract is. One of the problems or concerns that we have is that if the provision was wrapped up into an all-encompassing, very large-scale programme, we probably would not be in a position to be a prime contractor anymore because the entry point—the value of those contracts—would be more than we were able to cash flow. We have clear aspirations to grow; we believe that we can do that very effectively, but our ability to do that will be dependent upon what comes next.

Q79 Ms Buck: Following up what Heidi said, if the model that you are describing and you have done on a small scale works, why are the major providers not doing it?

Steve Hawkins: They are.

Q80 Ms Buck: Why are they not getting that kind of success rate?

Steve Hawkins: They are. On Work Choice the success rate is generally much better than it is on the Work Programme. For example, you would have heard of a company called Shaw Trust, which is much, much bigger than Pluss. They deliver by far and away the majority of that contract because they were very successful in tendering for the service in the previous contracting round. They deliver very good results, generally speaking, on Work Choice.

Q81 Ms Buck: So why does the Government not abandon the Work Programme and just do Work Choice?

Steve Hawkins: That is a good question. We think that there is room for a very clear, specialist contract to deliver for people who are furthest from the labour market.

Q82 Chair: What sort of outcomes, as a percentage of people placed in jobs out of your 5,000, do you think you would be able to attach to that, to interest Government?

Steve Hawkins: At the moment, talking about job entry rate, about 40% of the people we work with, who commence on the programme, go into work.

Q83 Heidi Allen: If I have understood this correctly—and forgive me if it is a daft question—is it right that you are funded entirely by European funding?

Steve Hawkins: No, we are a prime contractor to DWP. We run two primes for DWP on Work Choice, and two sub-contracts to DWP through other prime contractors. Then we also have small-scale mental health and learning disability local authority contracts, and we are also involved in other enterprises that bring in additional moneys, which we can then use to drive our purpose forward.

Q84 Heidi Allen: You are spreading your eggs in different baskets to help with the cash flow.

Steve Hawkins: Absolutely, and that is very important.

Q85 Chair: On Heidi's point, was it European funding that was the seed capital, in a sense, through which you were able to develop your product?

Steve Hawkins: Part of it. We run something called Future Clean, which is an innovative car-valeting service. It is very small scale, but it has excellent results. That was developed initially through an ESF pilot programme.

Q86 Chair: One thing we want to distinguish is: to what extent do we get innovation because somebody else gives you a capital sum and takes the risk—i.e. the European funding on this—and to what extent would the current system of payments allow you to carry that risk when you have no seed capital to help you in those first moves?

Steve Hawkins: Again, the service fee situation allows more scope for innovation than would be the case on a pure payment-by-results model, because you do have that funding available in order to invest at much less risk than would be the case on a pure payment-by-results model. We were fortunate to bid for and receive European Social Fund moneys, on the basis of a good idea that we had. We thought we could develop a model, and indeed we have, which has proven to be successful.

Q87 Chair: They took the risk though, didn't they, in giving you the grant?

Steve Hawkins: They did.

Q88 Chair: One of the things we were trying to get out is: to what extent should the Department try and encourage that by having an innovation fund, which would do exactly for other bodies what European funding did for you?

Heidi Allen: Except, if I have understood it correctly, the European funding was just this little Future Clean project.

Steve Hawkins: Yes, that is a very, very small part of what we do, which, as I say, was piloted through that fund. The remainder of our delivery model was all funded through—

Heidi Allen: The regular DWP.

Steve Hawkins: Correct.

Q89 Heidi Allen: This might be the subject of something that, if you would not mind, you come back to us on in written form, if you want to go away and think about it. Imagine I am Iain Duncan Smith and I am saying, “Steve, you’re brilliant. You’ve done this. You’ve managed to work within the constraints of the big-boy structure of the big work programmes. Come on, tell me. Blank piece of paper: what do you need to roll this out to more than 5,000 people?” Can you give us a feel for what sort of things you would be saying you need?

Steve Hawkins: The funding we have spoken an awful lot about today is critical, because for us, as for every other organisation, the cash-flow issues that are inherent within a payment-by-results model are very substantial. The more we move towards a pure outcome-based contract, the more difficult that becomes. For us as a specialist organisation with limited reserves—we have reserves but they are limited—that causes us an issue. That is critical.

The other thing that is really important is the situation relating to the role of the prime contractor. As I mentioned earlier on, we see part of our growth strategy, alongside continuing to be a direct deliverer to DWP, as being a sub-contractor. The way in which primes behave and in which risk is pushed down the line—we talked a lot about risk—has a major impact. I know, for example, when DWP commissioned the Work Programme, they anticipated that the prime contractors would absorb some of the risk inherent within those contracts. In actuality, that was not the case. The contracting terms were mirrored down the supply chain. If you are a very large organisation, with a whole string of different business interests and substantial reserves, that is fine. If you are a small organisation, operating wherever you happen to be operating, that can be a major issue for you.

The payment-by-results mechanism is critical. The way that the contract terms are then applied is also really important, so that needs to feature. If DWP and Government want a healthy supply chain to deliver such programmes, then those terms are absolutely critical.

Chair: In answer to Heidi and Karen's point, one way of encouraging the innovation might be to say to the big boys, "You are supposed to bear this risk. That is part of you winning the contract and this is how we would expect you to bear the risk." Another answer would be that there is a special innovation fund that will actually help take that risk.

Steve Hawkins: Potentially, but I would like to feed back to the Committee in writing as well.

Heidi Allen: Give us the dream franchise model so that we can all go away and set one up.

Q90 Craig Mackinlay: Steve, you said they are ending up taking the cash-flow risk down the supply chain. Could the DWP step in and say, "Yes, we do want smaller suppliers, and there will be a standard contract with these payment terms so that smaller contractors will be paid"? In that way, the risk of cash flow stays with the prime, who has the payment by results, and it might be a long period before they get paid, but everybody in the supply chain below them actually gets a more reasonable contract so they will be paid. Otherwise, the risk is that people will just say, "It is too risky. It is too far in the future. We have not got enough working capital. I will not bother," which is what we do not want. Do you think that could be possible?

Steve Hawkins: Very much so, yes.

Q91 Chair: Christine, can you answer on this, which is really important point for all for you?

Christine Chang: My only caveat to that would be how much payment they are willing to flow down, and that depends on how much payment they get ultimately. Even though that was meant to be the case for the Work Programme and also TR, we are finding

from contractors who are now signing contracts on TR that that is not the case. Therefore, although I think that can help, it still matters ultimately at the end of the day how much they are being paid for how many people. If the payment metric is not enough to incentivise people to do that innovation and risk work, the prime will not flow that down to the sub anyway.

Liz Armstrong: I have a couple of points. First of all, Work Choice has been successful because it is a voluntary programme. The Work Programme is not a voluntary programme; it is a mandatory programme, and we must not lose sight of that. That is a big element of why it has been successful as well. Steve is quite right. For us, our customers are mandated, but I would say that, if we want to see a fairer spread of this money, then we do need to see what is being paid up front. We would certainly advocate—and I would like to write to you about this—a better assessment model, so we are getting these people on the right track to start with, but also that we have some funding up front to be able to invest in the customer, and that means the prime itself has to have that funding up front as well.

Dan Jones: I would agree with what the rest of the panel have said. There are some other things that we could add to it. You could commission smaller programmes on a more local basis, and that would enable a wider range of entrants. Within that, the international evidence suggests that public provision is better. The randomised control trials done in France and Denmark suggest that public employment support gets better employment outcomes than contracted-out employment support. If you were going to do it locally, you could do it through a city. You could replicate the Manchester Working Well pilot, where you work with a combined authority, for example. There are opportunities to think about different actors and different ways of procuring.

We have done some work on how cities procure and how they enable SMEs to be part of their general procurement chain, and I think there are lots of lessons there for the Department. Some of the things Craig is suggesting about the way that you hand contracts down are also about not having a 150-page bidding document. You can procure perfectly legally without having to make the thing massively favour incumbents.

There is also the thing about asymmetry of incentives. If you really wanted to promote innovation, you would have to make it worthwhile taking the risk. There are some things about having an innovation fund, and having money up front that enables people to take the risks. There is also some potential work in making it worthwhile at the end to take the risk, so having a performance bonus pot that sits there across a wider contract to say, “The winner on this metric of employment outcomes for people with long-term health conditions will get a significant bonus,” there will be a significant benefit in taking that risk. At the moment, the upside risk of being slightly better really is not worth the downside risk of missing your target, and so people do not take that risk.

Q92 Chair: Dan, supposing you were Secretary of State, would you seriously move to a system whereby you would be negotiating contracts with local organisations?

Dan Jones: With cities.

Q93 Chair: You would expect then, in the devolution plans to cities, that they should have control of these contracts?

Dan Jones: Potentially. It is not necessarily a city. It could be the North East Combined Authority or West Yorkshire. A reasonably sized local authority could potentially manage those contracts in a very different way.

Q94 Chair: It is not local in the sense that many of us might think of local. You are thinking about regional contracts, aren't you?

Dan Jones: I mean lead city regions.

Chair: My guess is that we all had really brilliant local organisations prior to the coming in of the Government's mega contracts, and there was no way these people could ever bid for those contracts. You can understand why the Secretary of State played it safe on this, going for the big boys and girls doing the contract. What we are going to try and do is seek ways in which, within that framework, one is going to be protective and encouraging the smaller providers, so that the really excellent ones that I knew of in Wirral would have a real chance of surviving in this game and not just go out of business when the big boys and girls decide, "Oh, God, we cannot deliver this programme. Come and help us," which is what really happened.

Dan Jones: There is a different model of procurement, which is about fund management, where you hand over the responsibility for a block of funding to, say, a combined authority and they manage that fund. That does enable a much wider range of actors to come in, rather than a single provider.

Q95 Craig Williams: In terms of empowering cities, I know one City Deal—I think it was Ipswich—got control of their jobcentres, and I think that is something worth looking at. Is it because of the critical mass of the public service, is it the critical mass of the population or is it just empowering cities because that is the obvious next step?

Dan Jones: In general, we would argue that there is value in being able to tailor an offer to a local labour market. If you are able to come closer to that local labour market in the provision that you offer, you are likely to get better outcomes. Essentially, it is relational: it is to do with the relationship between the adviser and the claimant; it is to do with the relationship across a range of services; ultimately, it is to do with the relationship between an individual and their employer. The better your system builds relationships, the more likely it is to get good outcomes. Sometimes that is about the kind of specialist brokering of a

relationship between a particular claimant, who might be blind, and a particular employer, but essentially employment is relational. There are ways of delivering that at very large scale, but we would argue that most of the ways that we know to do that are relatively local.

Q96 Craig Williams: Your model would see outreach into the more rural areas, so your cities would become hubs.

Dan Jones: Potentially. If you look at somewhere like Leeds City Region, then you are including a range of quite rural communities. There are going to be places where that works much less well—Devon, Cornwall and Somerset would be much harder to do that in; parts of the North East would be harder to do that in.

Q97 Craig Mackinlay: Christine, what you are doing—this new means of financing with Big Society Capital—is very interesting. I have had a look at your website. Where do you get your first-level funding from? From a tax point of view, I know you are promoting community investment tax relief or social investment tax relief—I think they're the same thing. You do not have any funds on there at the moment that you have been promoting to qualify for that tax relief. I am not entirely sure it is a tax relief that has been massively used and as useful as it might have been, but do you think that will be developing in the future to providing funds towards exactly what we are after here, the welfare-to-work providers? Has it been effective and where are you getting your core capital from in the first place?

Christine Chang: We actually were enabled by an Act of Parliament in 2008. It is the dormant accounts money, so banks hold these accounts that are unused for over 15 years. That was £400 million.

Craig Mackinlay: That is where my £2.50 from the Co-op has gone.

Christine Chang: Precisely. Then a further £200 million comes from the four high street banks, so that is where our core capital comes from. Certainly some of our fund managers who are out there providing loans to social sector organisations were prepared to back the working capital requirement, as Steve suggests, where it is challenging for small organisations to provide in difficult-to-access commercial markets. That is where we step in and enable them to bid for these contracts to deliver at the prime level, so that they do not have to rely on the prime contractor.

The social investment tax relief, or SITR, that we worked with Government to enable has just come out. We have had five examples that have been made public, and investments have been made on the back of the tax relief. The limit is going to be increased in terms of investment size. There are quite a lot of things coming in place that potentially could increase that, and we are looking at that as another pocket of money to be able to attract alongside us to make investments into social sector organisations.

If I could use this as a segue to pick up on Dan's comment around the local commissioners, because this is something that we would put into our recommendations as well, another angle to add is that local commissioners are potentially another pocket of money to work with these people as well. Somebody with mental health difficulties could have touch points with the magistrate's court, police; they will be going to A&E; they will be frequent GP visitors. This sort of co-commissioning—if it is not just complete devolution but co-commissioning with the local combined authority commissioner—is another way you could make this more economic.

As an example, DWP have actually worked with local commissioners with the Youth Engagement Fund, so they have the expertise in-house. It is £16 million, so it is quite a small pilot fund that DWP contracted last year, but they encouraged local contributions to increase the contract value. In one of the examples, Sheffield City Council put in 25% of the contract value, so that is another mechanism.

Q98 Chair: Can I just tie this up with how we want to approach other parts of our work? There is a difference, I think, between the drivers of poverty and the compounders of poverty. We know that there are many people on benefit who have problems with various forms of addiction, and we are quite interested in seeing how the budgets of other departments might also, in a sense, be linked to the work you are trying to do. This is what Craig's question was really hinting at, and you have taken it further for us. It has not happened yet, but it is an area that I hope we will be interested in, so that they are not in these different silos, where for example one of you suppliers is trying to place somebody with a drinking problem and yet there is a health budget for this. If somebody is really trying to make a go and get back to work, should we not be linking up those budgets in support of them?

Christine Chang: We are calling for an outcomes fund that would genuinely be a top-slicing of different Departments' budgets for, for example, tackling NEETs or people with mental health conditions, because of precisely that.

Chair: I hope you have had the advantage of seeing how our minds are working on approaching this. It may be that, after this, you might want to do us a page or so. In a sense, you were in the dark—kindly—coming here. We are immensely grateful to you for coming, but if you could take our thoughts further as a result of this, from what you have said, that would help us in the report with what we want to do. Thank you very much.