During the 2000s, the United Kingdom experimented with the private provision of employment services in designated Employment Zones in some areas of the country. In these Zones, unemployed people and recipients of lone-parent and incapacity benefits were referred to a private employment service provider instead of to one of the former “New Deal” programmes. The UK Work Programme builds on this experience. It represents a radical departure because services for a large and critical target group – the long-term unemployed and certain people with disabilities – will be delivered by third party service providers, many of which are for-profit providers. It also represents a major shift in the model of privatization used to a focus on large prime contractors and multiple specialist subcontractors.

**Personalized services, variable fees**

The current main provider of public employment services, Jobcentre Plus (JCP), will continue to administer benefits and employment services for individuals who have not been referred to the Work Programme. However, those on the mainstream unemployment benefit, the Jobseekers’ Allowance (JSA), will be referred to the Work Programme after 12 months of claiming benefit, or after nine months in the case of 18–24-year-olds, and three months in the case of individuals identified as seriously disadvantaged or as having a disability but able to work. This will include some people who were previously claiming incapacity benefits before moving onto JSA. Claimants of Employment and Support Allowance, a benefit targeted at people with limited capability for work because of a health condition, will be referred to the programme based on their prognosis. Again, this will include some clients who previously claimed Incapacity Benefit.

In the event of non-compliance with mandatory activities organized by the Work Programme provider, the provider will notify the JCP so that a JCP decision-maker can consider applying a benefit sanction.

The Work Programme invitation to tender was published in December 2010 and the preferred bidders were announced in April 2011. The programme was launched on 10 June 2011 and was rolled out in July 2011. Post-implementation activity is already under way to ensure stable maturation of the programme. The Department of Work and Pensions (DWP) has contracts with 18 “prime provider” organizations: 15 from the private sector, two from the voluntary sector and one public sector organization. These organizations are contracted to deliver 40 regional contracts in 18 contract package areas in the UK. Prime contractors are expected to subcontract service provision to specialist local organizations, including voluntary sector providers. Contracts will run for seven years.

The client referral and funding model distinguishes:

- three subgroups of unemployment benefit (JSA) recipients subject to mandatory referral: (1) aged 18–24; (2) aged 25 and over; and (3) recently moved from Incapacity Benefit;
- three further groups for which referral may be voluntary or mandatory: (1) JSA recipients with significant barriers – optional early referral; (2) recipients of the new Employment and Support Allowance (ESA) incapacity benefit, allocated to Work-Related Activity; and (3) existing ESA recipients allocated to Work-Related Activity following a Work Capability Assessment; and
- two groups for which referral is voluntary: (1) ESA recipients not required to be available for work or not yet assessed; and (2) in England only, Income Support and Incapacity Benefit recipients.

Work Programme providers are given considerable freedom to provide personalized support to individual customers – the so-called “black box” approach. Bidders for Work Programme contracts were however required to provide a summary in their tender of the minimum service they would offer to all customer groups, with these minimum standards to be made public and implementation of them to be monitored through key performance indicators. Previously, the UK’s most significant active labour market programmes were the Flexible New Deal for the long-term un-
employed and Pathways to Work for those with limited capability for work because of a health condition. The claimants served by these programmes will now be supported through the Work Programme.

Providers are paid in several ways. They receive an initial per-person “attachment” fee plus a payment for job outcomes, which are recorded after 26 weeks in work in the cases of 18–24-year-olds and JSA recipients who are 25 years old and over, or after 13 weeks in work in other cases. They also receive “sustainment” payments that continue (as long as the client remains in work) for between 52 and 104 weeks after the initial job outcome at rates that vary from £170 per four-week period for young JSA recipients to £250 per four-week period for ex-recipients of Incapacity Benefit. The attachment fees are reduced each year of the contract and phased out by the fourth year, while job outcome payments are reduced starting from the third year. The sustainment fees, by contrast, are maintained. According to DWP’s Work Programme prospectus, the payment schedule is determined according to the principle that “the price paid for job outcomes should not exceed the benefit savings that have been generated” while ensuring that “the payments are substantial enough to provide a real incentive to perform to a high level”.

In addition to the above payments, providers are required to exceed “non-intervention performance profile” rates by a minimum of 10 per cent for three groups. These rates start at 5 per cent for the first year of the contract, and then rise in the third to fifth years of the contract to 40 per cent for 18–24-year-old JSA clients, 30 per cent for JSA clients who are 25 years old or more, and 15 per cent for ESA flow clients. They are estimated by the DWP based on the historical performance of Jobcentre Plus. When providers achieve at least 30 per cent above the “non-intervention performance profile”, they qualify in addition for an “incentive” payment of £1,000 for “jobs delivered beyond a given performance level”. However, there was a consensus among witnesses to the Work and Pensions Committee (2011) that even the minimum performance levels are very demanding.

**Budgetary savings**

The Work Programme represents a major public service reform. The expected value of contracts with providers ranges between £3 billion and £5 billion over seven years, depending on client inflows (due to unemployment and related trends) and performance against benchmarks. The Government anticipated that the performance of providers could vary from the pre-set profile, and that it might have to review the envelope of future contracts. Ministers hope that in the first two years, the programme will support more than 1 million people, including those who have previously been on Incapacity Benefit. The total budget for social security in the United Kingdom in 2010–11 was £169 billion, of which about £3.5 billion was for Jobseekers’ Allowance and considerably more for incapacity benefits. The government is hoping for significant savings on the jobseeker and incapacity parts of the social security budget.

Background documents to the reform explain that because people who have already been on Incapacity Benefit for a year are likely to remain on it for many years into the future, a genuine transformation into long-term work can represent a very large saving, estimated several years ago at over £62,000 per person. In line with this principle, the total payment to a Work Programme provider for a client who achieves a job outcome and sustainment payments of 52 to 104 weeks’ duration ranges from about £3,800 for JSA recipients aged 18–24, up to about £13,700 for two groups of ex-Incapacity Benefit clients: those in the ESA Support Group, and those on income-related ESA in the Work-Related Activity group who are expected to recover and be able to work within three to six months.

**Creation of the Universal Credit**

After the mid-1980s, progress in reducing unemployment was offset by a rapid growth in inactive benefits such as incapacity benefits and lone-parent benefits. The total number of recipients of the three benefits shown in figure 1 peaked at 5.8 million in 1994. As unemployment caseloads fell, the focus turned towards reducing the caseload on inactive benefits. The transfer to jobseeker status of lone-parent benefit claimants, except for those with young children, was recently completed. Since 2008, new applicants for incapacity benefits are being transferred onto the Employment and Support Allowance, which is a more active type of benefit. In 2009, recipients of the three benefits reached 4.8 million, lower than in the 1990s. The current administration plans to build on and strengthen the strategy through a programme of re-evaluation of the work capabilities of incapacity benefit recipients and some further restrictions on access to lone-parent benefits. The success of these strategies depends upon getting benefit recipients into stable jobs, with the Work Programme playing a central role.

During the seven-year period of the Work Programme contracts, the Government is planning to introduce the Universal Credit which will merge all out-of-work welfare benefits with in-work Tax Credits into a single system and one streamlined payment, involving the real-time reporting of earnings. Contribution-based benefits remain unchanged. This should substantially enhance the possibilities for policy-makers to rationalize and coordinate the management of what are currently different payments to the same individual and minimize the fears of disruption to income that often dissuade out-of-work benefit recipients from taking up short-term job opportunities.
Tracking outcomes

Due to their large size, prime contractors should be able to engage a broad range of specialists and local services, allowing a more holistic approach to tackling the wide variety of employability barriers that individuals may face. The black box method will give contractors the freedom to innovate and deliver interventions that work rather than waste resources delivering prescribed interventions, which may not be appropriate for an individual claimant. While this implies that service delivery is not directly monitored, bidders are required to publicly specify minimum standards of service, and an Independent Case Examiner can impose fines if client complaints are upheld.

In contrast with previous measures where providers were rewarded for achieving placement into work for a duration of three or six months, the Work Programme introduces strong incentives for placement into stable employment, with payment for outcomes continuing for up to two years.

In conjunction with the Universal Credit, this programme offers unprecedented potential for tracking clients’ employment and earnings outcomes. This is more in line with the underlying objectives of active labour market policies, which seek to achieve more than a reduction in registered unemployment. In most countries, the public employment service has no information about the employment status of individuals after they have left the unemployment register.

Among the risk factors of the Work Programme is the impact of the detailed provisions in its payment-by-results model. For instance, the categorization of clients into eight groups is somewhat crude, which means that wide variations in individual employability within a given group may not be reflected in the payment for outcomes. The government needs to track the operation of the programme in order to minimize any undesired effects of the incentives, and this may be complicated by the black box approach, under which the government does not monitor the detailed operational strategies used by service providers.

The Work Programme, along with the Universal Credit, represents the UK Government’s central strategy for tackling long-term benefit dependency and its budgetary cost through back-to-work assistance, and represents a relatively long-term commitment. It greatly increases the role of private service providers and payment by results, within a context of a much stronger focus on long-term outcomes and the delivery of a holistic range of services.

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1 Including the New Deal for Young People, New Deal for Lone Parents, New Deal for Adults, New Deal for Disabled People.
2 Calculated as the discounted value of reductions in benefit payments and gains from payments of direct and indirect taxes for eight years.
3 Such as the unemployment or incapacity welfare benefit when out of work, Working Tax Credit and Child Tax Credit when in work, Council Tax Benefit and some other means-tested benefits.
References: