

DWP COMMISSIONING STRATEGY 2013: CONSULTATION RESPONSE FROM NPC

About NPC (New Philanthropy Capital)

New Philanthropy Capital (NPC) is a charity think tank and consultancy dedicated to helping funders and charities achieve a greater impact. We have an ambitious vision: to transform the charity sector so it becomes as effective as possible in improving people's lives and creating lasting change for the better.

NPC provides independent research and advice for donors and charities. As the leading think tank of the not for profit sector, we encourage debate about what makes a charity effective, and build knowledge and tools to support effectiveness.

Key points from NPC's response

NPC's main recommendations in relation to this consultation are as follows:

- **A greater focus on intermediate outcomes**, measuring provider performance based on their success in bringing people closer to the labour market. For the hardest-to-help, providers can make an extremely valuable impact, even if they are not successful in achieving a job outcome. Insufficient focus on the journey to employment means that providers currently lack compelling incentives to focus on the hardest-to-help.
- **Finer categorisation of the Work Programme's clients**, on the basis of their specific need. This will help to improve performance measurement, promote the value of specialist providers in supply chains and ensure that providers focus on all groups, including those furthest from the labour market.
- **More local commissioning and procurement**. This will help to ensure that DWP's commissioning makes proper use of providers with local and thematic specialisms. Commissioning at the level of Local Enterprise Partnerships is a strategy that DWP should explore, as it will help to protect specialist capability without significantly eroding the department's ability to strategically oversee the development of the market.
- **Protecting smaller providers**. The current system heavily favours larger providers, with large amounts of working capital and the ability to adhere to strict timescales. If the system remains in its current form, it is important that steps are taken to create a level playing field for smaller providers—through managing the behaviour of primes and ensuring that lower tier providers are not inhibited by rigid supply chains.
- **Openness to different methods and mechanisms**. The structure of the Work Programme and the payment by results mechanism carry significant risks. We recommend that these approaches are carefully considered in comparison to other approaches that are considered to have been effective, such as the Future Jobs Fund. DWP should also consider a separate scheme for the hardest-to-help, which does not necessarily employ payment by results and sub-contracting mechanisms.
- **Improving process and practice regarding Open Data**. Collecting data at a more granular level, relating to lower tier providers, will ensure that the impact of these providers is fully recognised by primes. Data should also be collected on the basis of clearly defined client groups, to ensure that performance is measured according to providers' abilities to achieve better outcomes across the board. Both the department and providers need to work towards consistent data collection practices, that give adequate attention to soft and intermediate outcomes.

Consultation Response

Question 1: How should DWP balance its responsibility to strategically manage and steward a large, developing market with our desire to maintain and develop the right specialist capability throughout the supply chain? Please consider contracting arrangements in your answer.

Current problems

The majority of providers with local and thematic specialisms exist in lower tiers of the supply chain. Using the subcontracting mechanism to ensure that DWP can retain strategic oversight of the market exposes lower-tier providers to considerable risk. Therefore, if such an approach is to be continued, it is important that these risks are mediated by DWP, through effective management of the behaviour of primes and by ensuring that sufficient transparency, flexibility and oversight exist within supply chains to protect vulnerable specialist providers.

A significant number of second and third tier providers feel that their position in the supply chain has a negative impact on their financial security, according to the results of an NPC survey of more than 100 charities (*When the Going Gets Tough*, NPC, May 2012). Through continued interaction with charities on the ground, NPC has found that many lower-tier providers feel that their primes are often preoccupied with self-preservation, owing to the financial burdens imposed by low demand and discounted bids.

As a result, some primes push financial risk further down the supply chain, by failing to pass on upfront attachment payments to lower-tier providers. Though a key role of primes in the Work Programme is the ability to shoulder this financial risk, 82% of the 98 charities surveyed by NCVO reported that their primes have not helped them with managing the payment structure of the work programme (NCVO, 2012).

In many cases, financial pressures also incentivise primes to withhold referrals and keep customers 'in-house'. This behaviour, coupled with the number of ESA referrals being considerably lower than forecast, has caused some with crucial local and thematic expertise to exit the market.

Managing the behaviour of primes

In remedying this, changing the behaviour and incentives of primes in the Work Programme context should be a key area of focus. By tying performance measurement to a finer definition of client groups, based on specific need (as outlined in our answer to question six), some progress could be made in altering these incentives.

By tying performance payments more clearly to a demonstrable ability to help those with mental health problems into work, for example, primes would be subject to stronger incentives to make use of the providers in their supply chain with specialist capacity in that area. The same could also be extended to local specialists if differential payment systems are expanded to include more deprived areas.

Building flexible supply chains

Subcontractors with valuable expertise may also be lost if they have formed bids with unsuccessful primes. It is important to ensure that the procurement process remains sufficiently flexible to allow other prime contractors to engage these organisations as part of their supply chain.

Improving evidence and fostering values

In addition, it falls to DWP to ensure that there is enough evidence and visibility of the impact that these specialist providers have, as well as a recognition amongst primes of their worth. This relates to the recommendations made in our response to question two, which suggests that the data collected and published by the department should be sufficiently granular—allowing it to illuminate the impact made by small providers.

Local commissioning

NPC also advocates a move towards locally based approaches to commissioning and procurement. Local focus and top-level strategic direction by DWP are not necessarily mutually exclusive. Whilst the central department would remain free to assume a stewardship role, locally based procurement teams could better focus on local relationships and specialisms and ensure the crucial joining up of different providers. Devolving more commissioning to the level of Local Enterprise Partnerships would also help to prioritise supply chain capability, without too heavily eroding strategic economies of scale.

In our interaction with the voluntary and community sector, many charities have expressed concern that the Work Programme's top-down contractual mechanisms have meant the loss of valuable bilateral relationships that were built under the previous system. This allowed for greater interaction between policy makers and frontline organisations, that had positive implications for both sides. DWP is well placed to make the case for the development of better local mechanisms and accountability relationships, given the positive impact that this could have for the Work Programme.

Question 2: How can we make competition more effective? How can we break down the barriers to market entry through our contracting, for both our larger and smaller contracts? How could we increase competition through the procurement process? What role can Open Data play?

The scale of contracts

The large contracts employed in the context of the Work Programme can considerably reduce the ability of smaller providers to compete. Large contracts favour those that are able to compete on the basis of bid quality (ie, those with large, professional bid teams)—which does not always guarantee service quality. Size requirements for primes also preclude certain types of organisations from submitting bids, particularly voluntary and community sector providers. To make competition more effective, there needs to be a willingness to reconceive the bidding and procurement processes employed in the Work Programme.

Small providers' capacity to bid

Demanding bid windows and the short timeframes to implement delivery once contracts have been awarded are considerable barriers to entry in the current system, especially for much of the voluntary and community sector. These constraints heavily favour larger providers with permanent and specialised departments capable of turning round bids and implementation plans on a tight timescale. Many small charity sector providers are unable to make arrangements for delivery, such as the hiring of requisite staff, until the bid has been secured. Building more sensible timescales into the process to allow these smaller providers to perform to the best of their ability will foster healthy competition in the market place.

In addition (as previously discussed in relation to question one) smaller charities are often prevented from competing on a level playing field given their increased exposure to risk. Until a system is devised where risk can be shared according to providers' varying abilities to bear it, then smaller providers will continue to find themselves unable to compete.

Increasing competition through the procurement process

The procurement process threatens to act as a considerable hindrance to effective competition. Where contracts are awarded at the minimum level, to two or three providers, the current system risks shrinking the pool of competing bidders at every tender. Unsuccessful candidates are less likely to be present five years after a failed bid—meaning that the market becomes dominated by a few key players who have large enough operations to persist.

In the procurement process for the rest of the supply chain, NPC supports the recommendations made by the Work and Pensions Committee which suggest that the establishment of supply chains should not be excessively onerous for subcontractors—particularly recommending the use of single, simplified 'Expression of Interest' forms in initiating the relationship between subcontractors and primes.

The role of Open Data

Open Data should be harnessed to make performance data on specific providers more readily available and ensure good charity sector providers can get access to the market. In NPC's work on the Justice Data Lab, we have seen that performance data is crucial in this and in ensuring that service quality is maintained throughout the market place. Centralised data collection and dissemination of this nature helps to better illuminate successes and best practice.

Particularly in the case of primes, private companies delivering public services should be subject to the same requirements for 'open service delivery' that are mandated throughout government. Currently, data is published in the aggregate, but truly effective competition cannot thrive until specific performance data is made available. It is unlikely that individual providers will see any benefit to the voluntary publication of performance data. It is therefore crucial that the department takes it upon itself to mandate the publication of such data throughout the market.

DWP also has a responsibility for greater transparency and openness surrounding the calculation of its minimum standards and referral forecasts. A lack of transparency in these areas can lead primes to submit unsustainable bids, based on heavily under-estimated pricing. This is one of the processes that later lead primes to push risk down the supply chain (as discussed in question one), ultimately stifling competition and diversity in the lower tiers.

Finally, a narrower definition of the client groups that are targeted by the Work Programme (discussed below under question six), and the development of performance measurement accordingly, will aid smaller providers who work towards softer, intermediate outcomes to demonstrate their impact. Demonstrating impact is central to providers' ability to compete, and it is crucial that all providers can do so equally.

Question 5: How should DWP develop the role of social investment in our commissioning?

The value of social investment for smaller providers

NPC's research into social investment as part of *Best to borrow?* (2011) and *Best to Invest?* (2013) suggests that social investment can help charities and social enterprises access capital so that they can participate in the commissioning market. Simple contracts can be funded by working capital facilities. Payment by results requires more complex social investment instruments such as social impact bonds (SIBs), or risk sharing arrangements, as in this instance payment depends on the risky achievement of results. It should be noted that small organisations will want to share the risk with investors—simply borrowing the money but not sharing outcomes risks on payment by results contracts will be too financially risky for smaller organisations. Some payment by results contracts have a base payment which covers most of the cost of delivering the service regardless of outcome, with the results element being an added incentive. In these instances organisations are better able to bear the risk and could borrow against the payment.

Building confidence in social investment

So while in theory the growth of the market should enable small, specialist providers to compete, in practice we have also learned that social investment is not always the right answer for every charity and every funder. In particular the market for higher-risk investments such as SIBs is limited to a small group of pioneers, centred around a handful of foundations. Until a market track record is established for instruments such as SIBs, investors will prefer simple products such as working capital facilities where a straightforward cash flow gap is being bridged. NPC is concerned that in the medium term the market for the higher-risk products required in payment by results situations may not grow as fast as is required to meet demand.

Transparency on the structure and performance of investments in higher risk products, such as SIBs, will be vital to providing confidence to this nascent market. Potential investors must also see that social impact is sufficiently valued in the context of the Work Programme. If investors are unconvinced as to how social value will be prioritised over low cost providers then the market is unlikely to attract sufficient investment to grow.

DWP can take an active role in encouraging social investment by ensuring that the dynamics of social investment in the Work Programme are clear to funders and providers alike. Contracts need to be clear on risk, and tension between the need for publication of contract terms and commercial confidentiality also need to be considered.

Question 6: How should DWP design outcomes and service standards for the hardest-to-help within outcome-focused payment models?

Different payment models for the hardest-to-help

It should be emphasised that the payment by results model can have a damaging effect on outcomes that providers are able to achieve. Payment by results can have a negative effect on providers' relationships with their beneficiaries. Particularly when working with those with acute needs, who are farthest from the labour market, charities put the welfare of beneficiaries first, even if this means not putting them into work straight away. Where both providers and beneficiaries know that payment will only come once there is a job outcome, trust and patience risks evaporating. DWP should consider placing the hardest-to-help in a system outside the payment by results mechanism, hiring good providers with strong track records for helping these particular groups of clients.

Finer categorisation of client groups within the Work Programme

Within the existing Work Programme, NPC's work on [Theory of Change](#) suggests that there is a need for a finer categorisation of payment groups. Not only will the impending implementation of the Universal Credit make the differentiation of client groups based on benefit type unfeasible, but identifying client groups based on their particular needs will facilitate better outcomes across the board.

The barriers to employment for somebody with mental health problems, for example, are distinct from those with a history of substance misuse, or a criminal record. Key areas for focus will be: those with physical health problems, those with mental health problems, those with drug and alcohol addictions, those with criminal convictions, the homeless, the long-term unemployed, ex-carers and NEETs.

These categories will not be mutually exclusive in most cases, as the majority of Work Programme customers have multiple needs. However, segmentation will provide a better basis on which to assess progress towards employment in terms of intermediate outcomes. The current approach to job outcomes is rigidly binary, and risks a failure to recognise quality of service in helping customers on the journey—if not all the way—to employment. Currently the binary approach to the assessment of job outcomes acts as a disincentive to work with the hardest-to-help.

Focussing on the journey to employment

The best way to design outcomes and service standards for the hardest-to-help is to tie outcomes payments to *intermediate* outcomes on the journey to employment, rather than simply on the ultimate achievement of a job outcome. Many people, particularly those furthest from the labour market, have a number of barriers to overcome before they can begin an effective job search: from addressing personal circumstances (eg, drug abuse and child care), to increasing confidence and improving attitudes to work. Providers' contribution to addressing these issues needs to be recognised. NPC's [Theory of Change](#) report provides procedural guidance on how organisations should think about intermediate outcomes, and tie service standards to them.

Using and recognising standardised measures for softer outcomes

In the context of the Work Programme, this will require the ability to better measure and assess softer skills. There is a real difficulty in measuring and demonstrating impact where intermediate outcomes such as self-esteem, confidence and employability skills are concerned. From a perspective on the ground, these outcomes can be easily observed, but smaller providers need to be able to produce the evidence to demonstrate this impact further up the supply chain. This sort of evidence also needs to be accepted and prioritised by primes. To this end, more standardised measures should be employed, throughout the Work Programme and complementary commissioning areas, for the assessment of these outcomes. NPC's [Journey to Employment \(JET\) Framework](#) sets out the manner in which this can be approached in detail.

This approach relies on the existence of good evidence relating to the link between intermediate outcomes and the end goal of employment. Evidence on 'what works' is important in selecting the intermediate outcomes on which the DWP focusses its commissioning strategy. A responsibility falls to providers to collect good and comparable evidence on the impact of various interventions (see NPC, [Blueprint for Shared Measurement](#), 2013). DWP should also consider commissioning further research in this area. The ability to comprehensively assess impact is crucial for monitoring and strengthening the ability of Work Programme providers to achieve the best outcomes for the hardest-to-help.

Question 7: How can DWP efficiently and effectively monitor and manage service quality within the wider framework described in this document?

Performance measurement based on providers' ability to address the needs of specific client groups

The finer categorisation of client groups holds the key to the effective management of service quality. (NPC's recommendations for categorisation are discussed in more detail in relation to question six, above). Once client groups are accurately and comprehensively categorised, performance should be measured specifically against this segmentation. The principal objective of effective service monitoring should be ensuring that *all* client groups are being helped, including those that are furthest from the labour market. The payment groups that currently exist are too broad to enable the proper monitoring of service quality in relation to the complex needs of Work Programme customers.

Monitoring economic independence in the long term

NPC welcomes the inclusion of an emphasis on sustainability in Work Programme monitoring, however more needs to be done to ensure that quality is assessed on the basis of instilling genuine 'economic independence' in Work Programme customers. Getting a job does not necessarily result in economic independence in the long term. It is important that the quality of work and clients ability to remain in work beyond the sustainment period are monitored and assessed by DWP. This will require more systematic, centralised monitoring of the progress of client groups. The [Justice Data Lab](#), a scheme advocated and supported by NPC, provides a good example of how this can be achieved. This model opens up statutory data so that it can be used by charities to track long term outcomes of their clients. Employment is one of the areas that NPC has identified as being most appropriate for the expansion of these pilots.

Assessing regional variations in service quality

It is also important that the local consistency of service provision, within contract package areas, should be carefully monitored to identify whether there are any area effects in terms of customers' proximity to the labour market. Where problem areas are identified, differential payment systems should also be considered for these areas, as well as those based on need.

Reinforcing differential payments

Though differential payments are a welcome addition to the Work Programme, there is mounting evidence that these alone are not incentive enough to induce providers to leave behind parking and creaming. Higher payments for the hardest-to-help do not take into account the dual impact of the costliness of intervention *and* the reduced likelihood of achieving a job outcome. Higher payments for the hardest-to-help currently negate one concern but not the other. If the other measures discussed are not employed in order to better target the hardest-to-help, then increasing the amount offered in outcome payments for the hardest-to-help should be considered.

Question 13: What are the current barriers to co-commissioning?

Misaligned approaches to client segmentation

Whilst some of the current barriers to co-commissioning will require large scale systemic change in Whitehall, a number of barriers are in the immediate reach of DWP. There is a need, for example, to work with other departments, such as the Ministry of Justice and the Department of Health, to ensure that each department's segmentation of its client groups is compatible. Departments are considering the best ways in which to segment their client groups in parallel, and the coordination of this thinking across departments would allow better measurement of outcomes across the whole system.

Disconnected and inconsistent data collection practices

There is also a need to align data collection and production practices between departments. Given the current expansion of payment by results mechanisms into the commissioning of other areas—such as mental health, substance misuse, and reoffending/rehabilitation—it would be helpful for these systems to be linked. Each of these payment by results commissioning systems should seek to assess providers based on their performance across all areas. For example, a Work Programme provider performing poorly in terms of job outcomes, but making good progress in treating substance misuse problems, should be given credit (and partial payment) based on the achievement of intermediate outcomes that have moved participants closer to the labour market. To achieve this, departments will need to work together to ensure that each payment by results system is equally thorough in terms of its performance measurement and data collection practices.

Uncertainty regarding financial responsibility

A significant barrier which stems directly from the complex and interrelated needs of many Work Programme participants, is that it is unclear which department should be held responsible for outcomes payments when intermediary or end outcome goals are met. Pooled budgets would be the most efficient way in which to remove these barriers. In the context of the work programme, the most significant contributors to a pooled budget would be DWP, MOJ, DH and BIS.

As part of this approach, improved data collection practices to elucidate the level of need from certain client groups would be key to ensuring the correct weighting of budget contributions between departments. In order to ensure that sufficient visibility of departmental funds remains, it would be necessary to create separate pooled budgets by commissioning area—with contributions by relevant departments for each. Departments would therefore find themselves contributing smaller amounts to multiple commissioning areas, in which they may or may not be the lead commissioner.

Centralised commissioning

Increasing pressures on departmental budgets have served to create a siloed atmosphere within Whitehall. More locally based commissioning and procurement, for example at the Local Enterprise Partnership level, would avoid centralised departmental tensions impacting on the commissioning process. Local commissioners would also have better visibility of issue linkage on the ground. The incentives to commission across a variety of issue areas simultaneously exist more naturally at the local level, where central departmental tensions are less pronounced. Options for the further devolution of the commissioning process should therefore be considered as a way in which to improve commissioning across multiple issue areas.

Question 14: DWP recognises the importance of the Social Value Act, but also has a clear remit to deliver sustainable employment outcomes which offer good value-for-money to taxpayers. How can DWP best consider Social Value through its commissioning?

The greatest importance of the Social Value Act comes in its potential to change the atmosphere and assumptions amongst commissioners and providers, more generally and within the Work Programme. However, it is unclear to what degree the Social Value Act will be able to achieve this especially if DWP is driven mainly by the needs to cut costs. Currently the excessive weight attached to the financial characteristics of bids has led some providers to adopt unsustainable 'loss leader' strategies—by offering heavily discounted bids. As discussed above, this tendency has damaging knock-on effects throughout the market, jeopardising the diversity and capability of the supply chain through concentrating risk in the lower tiers.

A renewed focus on social value is not at odds with the government's duty to demonstrate value for public money. Social value is certainly an area in which demonstrable impact is more difficult to pin down, but that is not to say that this cannot be done. The requirement to demonstrate value for money can be satisfied so long as the investment of public funds can be traced through to positive outcomes. 'Value for money' refers to input costs in relation to outcomes as well as outputs.

It is therefore important that DWP carefully considers the best means by which impact in terms of social value can be measured. NPC's *Theory of Change* paper sets out the process by which careful consideration of intermediate outcomes, including softer outcomes, can facilitate the assessment of less tangible social impact.

It is equally important that providers are encouraged to take steps to create a better evidence base and engage in shared measurement, in order to aid the incorporation of social value into commissioning decisions (*Blueprint for Shared Measurement*, NPC 2013).

NPC's work in the employment and commissioning areas

The Journey to Employment (JET) framework (2013)

This report helps organisations that work with young people understand and measure the impact they have on the journey to employment. Based on evidence from the literature and insights from consultation with experts, NPC identified seven groups of factors that contribute to successful job outcomes: personal circumstances; emotional capabilities; attitudes to work; employability skills; qualifications, education and training; experience and involvement; and career management skills. The JET framework presents these key factors that influence young peoples' journey to employment. The framework can be used to help think through how providers' work contributes to young people's employability, and to plan approaches to evaluation.

Theory of Change (2012)

This short report looks at how a theory of change can be useful in three important ways. It is an excellent basis for a strategic plan because it works methodically from the need you are trying to address to the change you want to achieve; it provides a theoretical framework for measuring impact; and it can also be used to think more broadly about how different organisations within a sector are working together, and how they could achieve greater impact through collaboration.

Unlocking offending data (2012)

This report outlines NPC's successful proposal for the creation of a Justice Data Lab, with a view to improving access to reoffending data, particularly for charities.

When the going gets tough: Charities' experiences of public service commissioning (2012)

In 2012, NPC partnered with the third-sector insurer Zurich to survey the top 750 charities about their experiences of commissioning. We aimed to find out what's working well when it comes to government funding of the sector, and to highlight good practice and identify challenges. The survey focussed on three areas: new types of contracts, such as payment by results; new delivery models, eg, being subcontracted by another organisation to deliver contracts or working as part of a consortium; and how charities are coping with cuts to government income.

Job well done: Employment and mental health problems (2012)

This report looks at the most effective interventions in helping those with mental health problems to find and keep jobs and makes recommendation on the way that funding and social investment can provide the best support in this area.

A Journey to greater impact (2011)

This report draws on the experience of six leading charities in terms of impact measurement. Measuring impact creates real benefits for charities: helping them prove their worth, communicate with supporters, and clarify their strategy to be as effective as they can be. There are challenges involved, but they can be overcome. It is important that charities are not judged on the basis of their administration costs or chief executives' salaries, when what really matters is the change they create for the people they help.

Collaborating for Impact (2013)

In this report, produced in partnership with *Impetus*, we highlight some of the less talked-about issues that connect collaboration with social impact. These include putting beneficiaries at the heart of collaboration, understanding the financial impact of collaboration, and considering how organisational culture—attitudes, beliefs and approaches to conflict—can affect the chances of success.

Blueprint for shared measurement (2013)

Shared measurement involves charities working towards similar goals reaching a common understanding of what to measure, and developing the tools to do so. In this report, which is part of NPC's work on Inspiring Impact, we discussed the benefits and challenges associated with shared measurement, and through analysis of twenty approaches, examined how it is developed, drawing lessons for future initiatives.

Best to invest (2013)

This report helps funders think through the benefits and risks of social investment, and how to decide if it is for them. Funders need to develop a plan: every plan is unique and will depend on their motivation, the mission and aim of the organisation, the trade-off between financial and social return, the appetite for risk, and the resources required to carry it out. In the report, we provide a checklist to help funders think through the planning stage.