



VERTICAL CASE STUDIES

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Public Sector Case Study: Department for Work and Pensions

Rupert Hodgson interviewed John Micalkski, Head of Strategic Sourcing and Commercial Directorate, Department for Work and Pensions, and Dave Welch, Commercial Directorate, Department for Work and Pensions, over the Department's ground-breaking welfare-to-work programme.

The impact of the global recession in 2007 has forced governments to reshape services as part of strategies to combat reduced budgets and public sector demand. Throughout the world countries are facing the strain of recession including low employment. The UK government has taken an innovative approach to reducing unemployment and returning people to work.

As a major department the Department of Work and Pensions (DWP) works with large numbers of individuals and resources, handling amounts reaching as much as £160 billion in payments alone. The Department heavily employs outsourcing to carry out numerous non-essential activities while concentrating on providing key functions.

Contracts for outsourced services now account for around 39 percent of running costs for the Department. The DWP outsources assessment services, including its cutting-edge welfare-to-work programme, to a wide variety of companies. From the leasing of all DWP estates and site locations including over 860 Jobcentre Plus locations, to the complete outsourcing of all IT systems and software within, the Department carries out outsourcing widely throughout the organisation.

The DWP's key outsourced welfare-to-work project (titled Work Programme) has been involved in stimulating the economy by reducing the numbers of people requiring benefits. The global recession has placed heavy demand on the Department's role in placing people within jobs, particularly from long term unemployment. The project is the DWP's current major outsourcing contract and was launched in June 2011. It is valued at around £650 million a year, generating estimated savings of around £250 million.

Procurement Approach

The Department of Work and Pensions deals with huge levels of resources and cases, working with over 100,000 people and amounts totalling billions of pounds yearly. The DWP also maintains one of the largest contact centres in Europe with over 15,000 people working for the Department within contact centres, which provide services including job finding support services, benefits and vacancy lists. Because of the huge scales involved, it can be a challenge to find suppliers who are able to deliver services on such capacity levels.

The Department employs a tower approach in the procurement of services, looking to employ suppliers who have already been awarded past contracts and that have established a record of competence. When looking to outsource the boundaries that the DWP imposes on contracts are very fluid, determined on a case by case basis and free from intrusive oversight.

To Make or Buy

In the past the DWP mainly outsourced support services but has made a pioneering move as a public sector organisation to outsource core services in recent years. The move to outsource services is based on a highly innovative make or buy business decision, judged on the analysis of if services are better delivered in-house or from an external supplier. DWP's employment of outsourcing revolves around the promotion of value for money, all decisions regarding which services are to be outsourced are assessed and approved by an executive decision. Decisions are based on a pragmatic, objective and balanced evaluation of all factors relating to delivery of the service. All areas are looked at and separated between department retained core policy and which areas have outsourcing potential.

Choosing Suppliers

DWP supplier selection decisions are influenced by factors based on various sets of conditions determined by the Department, wider government policy through to European law. For each potential outsource service a commercial strategy is created with the best-value options assessed.

During these first stages in the procurement process, the Department decides on what outcomes is desired from the outsourced programme. How the DWP assesses its outsourcing requirements depends on the individual nature of the services. Head of Strategic Sourcing and Commercial Directorate, DWP, John Micalkski described how: "If we're dealing with very vulnerable people, that would look very different to if we're outsourcing our requirement for energy." The DWP is frequently involved in working with vulnerable people in the course of its

core role, such as medical-assessment testing and working with individuals who have left custody, these vulnerable groups effect what areas of DWP's services can be outsourced and who it chooses to outsource services to.

If the correct conditions exist the procurement team will advise on the best option within the market. Due to the sensitive nature of the data routinely handled by the DWP, when services are outsourced that involves sensitive information, "you need to make sure you've got those assurances about data, and personal protection covered", said Dave Welch, Commercial Directorate, DWP. Assurances must be made to retain data control and ensure that in the process of outsourcing, physical remoteness to such valuable data does not raise issues of reduced control which can lead to value leakage.

Departmental Cross-Sharing

The DWP has been at the forefront of government cross-sharing initiatives involving the sharing of services and establishing close ties with other governmental departments. John presented an example of cross-sharing to reduce costs, increase delivery times and increasing quality of service with an example of bereavement, which in the past had required relatives to contact multiple government departments but now require only one phone call.

DWP cross-shares information across government departments, this includes patient records and criminal convictions. Cross-sharing presents a challenge to all public sector departments and has required a new and developed approach in commissioning contracts out to ensure that sharing is effective in developing its services. The DWP is increasingly looking at the size of contracts undertaken. John described the Department's attitude as: "what's increasingly important for us is getting that balance between, do you go for a big national contract, or do you go for something a lot smaller". He added "if you drop down to that local level about people needing help and assistance, quite often there's no point getting in the big Capita, Serco organisations. You need a combination of partnerships where those local niche companies can be mobilised."

The Department has a strong focus on working with small and medium-sized businesses, including more than 300 local and charitable organisations. These groups are well represented in the welfare-to-work programme, due their inherent expertise in local knowledge, employment assistance and being experts in specialist fields.

Creating the Market

The DWP has been involved in developing the market in specific areas in order to create the necessary skills and service levels for certain projects. The Department's role has been unique in creating a new innovative market to provide the requested services. Both the welfare-to-work and medical assessment projects have involved the input of the DWP to develop new markets in areas that had not existed. The scale of contracts awarded and the nature of being a public sector department allows the DWP to come to the market with a problem and develop the market to provide the necessary service. John highlighted the Department's caution in developing new markets, "in order to avoid the creation of monopolies while promoting

a competitive and innovative marketplace." This is particularly important in the welfare-to-work programme where a multi-sourced contract was employed to promote supplier competition.

Welfare-to-work framework

The Department of Work and Pensions Work Programme pioneers a new approach in allowing providers increased freedom to deliver support to individuals and helping them to return to work. The programme is also designed to provide increased cost savings by basing payments on results. welfare-to-work makes payments to suppliers through the fund allocated for benefits rather than from the overall operational budget, calculating supplier payments from savings gained from reduced benefit claims.

The Work Programme is the first time a public sector project of its kind, in terms of scale, scope and payments by results has been created. The six month payment clause was introduced by the DWP to ensure value for money and prevent contractors from finding limited short-term placements. Suppliers are awarded on an outcome delivery basis with payment only given after work placements of six months, with John describing the process as: "if you get a person into work for six months, we will pay you, and we'll pay you for two years, paying you what we would have paid that person in benefits approximately".

The DWP welfare-to-work programme as a multi-sourced supply project is divided between 18 prime providers with several different suppliers competing against one another within each geographical area. The welfare-to-work contract is unique in being one of the first contracts based purely on outcomes, this presents unique challenges in the way that the contract is managed and delivered which is further compounded by the scale of the project and the involvement of vulnerable individuals.

John described how in the past contractors would provide a service such as CV skills to applicants and then proceeded to lose interest after delivery: "It didn't matter to them whether they got a job – they just did an activity". In mobilising the market to one that would provide services on an outcome based solution, the DWP established a highly innovative outsourcing project.

The contract takes a 'black box approach' to examine the varying levels of functionality and understand what the service is delivering without being interested in how the service is delivered. This approach is described by John as giving contractors freedom in meeting targets within a broad remit, saying: "we don't actually mind what you do, you can do CVs, you can do whatever you want, you've got to work out what that person needs. What we'll do is we'll pay you, if you get them into work and they stay there, and they're in work after six months, and continually after that – we'll then pay you monthly."

While the black box approach was designed to promote innovation through freedom of experimentation and allow for low entry requirements for small businesses, the DWP set minimum standards to ensure that contractors would provide services that would benefit all applicants. Minimum standards prevented suppliers from picking and choosing the most viable candidates while ignoring those who were less likely to find long term work. This was reinforced by segmenting individuals into different groups, classified based on their situation such as the long-term

unemployed or recent school leavers. Different groups would be worth different amounts based on the expected time and difficulty in finding placements for six months or greater.

SME Support

The welfare-to-work programme encourages the main suppliers to employ SMEs as sub-contractors or partners. These prime suppliers are harnessed to provide supply chain management and organise the range of smaller sub-contractors sitting beneath them in the supply chain.

Behind the 18 total prime suppliers are around 860 supply chain partners involved in all aspects of the programme, a large percentage of the supply chain partners consist of SMEs. SMEs are integral to the welfare-to-work programme, making up an extensive percentage of all placements and fulfilling the government's aim in supporting SMEs. The project supplier contracts are awarded based on factors including promotion of engagement with local communities including developing local supply chains with primary suppliers offering sub-contracts to local suppliers.

Suppliers who successfully tender for the welfare-to-work contracts have to achieve a Merlin Standard as part of the contract. The standard for prime providers is designed to promote supply-chain commitment encouraging suppliers to employ and maintain relationships with local and small local contractors. Independent individuals are involved in maintaining the Merlin Standard, acting as a midway between supplier links in the chain and involved with any communication issues while mediating in relationship breakdowns and dealing with complaints.

Project Challenges

One of the challenges of the project was the need to stimulate local businesses while retaining the commercial benefits of a large scale project delivered at a national level. Another key challenge of the DWP contract is the challenges of the outcome stipulation. Third-sector organisations including SMEs and charitable organisations can struggle to deliver these outcome based results rapidly, needing steady cash turnover in order to run. Such obstacles created as a result of the multiple small organisations involved, can be mitigated through the support of prime contractors. This can be achieved by the larger prime contractors providing finance to the smaller sub-contractors in order to establish a regular pay flow rather than single outcome payments.

Other risks inherent to the programme include the danger of fraud with thousands of individuals going through the programme. The DWP has faced past criticism regarding effective systems to combat instances of fraud including a focus on supplier A4e. In order to combat potential cases of fraud the DWP employs a detailed IT system to control users within the system including individuals in work placements. The system involves checks against other departments including cross-sharing with HMRC, local authorities and employees, returning records regarding those entering placement for approval by the Department. This includes a team dedicated to fraudulent activities, in certain cases this can involve on-site checks to ensure that workers are situated in the stated placement.



Supplier Strategy

The DWP, in seeking to promote relationship development with strategic suppliers, employs a Strategic Supplier Relationship Management (SSRM) Strategy, entailing:

- Align the objectives of strategic suppliers to DWP's overarching vision for delivering the change programme
- Drive efficiency gains and performance improvements with our strategic suppliers through collaboration, innovation and joint risk management
- Stimulate innovation and collaborative working to deliver improved services to citizens and increase value for money
- Maintain a holistic and coherent view of the Department's strategic suppliers
- Enable DWP to become a "customer of choice" for the supply base

Project Results

While in the short-term the programme will not deliver large cost savings, the welfare-to-work scheme will start to produce efficiencies over a long-term timeframe. The programme in placing people within work provides other benefits apart from reducing the strain of benefit contributions, including social and health advantages that is linked to employment. This in turn reduces the strain on public health services and strengthens the UK workforce.

The Office of National Statistics has reported the biggest quarterly fall since 2001 with unemployment falling by 82,000 between August and October in 2012, while Jobseeker Allowance claimants fell by 3,000 in November in the same year. The reduction of unemployment figures despite the impact of the global recession points towards the success of the DWP's welfare-to-work programme.

In a recent government report detailing preliminary results from the first year of the Work Programme, more than 50 percent of individuals who had entered into the programme had spent time off benefits within the first few months. The report revealed that more than 200,000 jobs have been started by Work Programme participants in 2011/2012. The DWP has also

announced proactive monitoring of supplier performance in order to consistently drive provider targets and develop standards. It has also announced that suppliers who repeatedly fail to meet DWP standards will eventually be removed.

The first figures on the success of the welfare-to-work programme were published at the end of November. These figures while only providing early numbers showed that more than 56 percent of the scheme's earliest participants have come off benefits, from June to September more than 200,000 participants had been found some work.

Mark Hoban, Minister for Employment, said of the figures: "The Work Programme is succeeding in getting people off benefits and into work. It's still early days but already thousands of lives are being transformed, adding, "One in four people have been in work, more than half of the early starters have been off benefit and performance is improving, in the UK's working population."

While the project is already generating predictions of large-cost-savings, with amounts of around £250 million expected, the total benefits of the project are hard to quantify. Cost-savings are just one side of finding work placements for the unemployed, civil benefits from successfully gaining a job include greater health for workers and family units, improved social cohesion, and skill development, all of which can help to provide economic stability and development.

Conclusion

Despite its relative infancy the DWP Work Programme has already generated significant cost savings and strong results in returning people to work within the project's first operational year. It is too soon to really judge the overall success of the project, but early results show strong promise. A project such as the Work Programme provides greater benefits than purely cost savings, through strengthening local communities, helping at an individual level and enhancing economic growth. As a revolutionary outsourced public project in both scale and as a multi-sourced supply approach to procurement, the DWP Work Programme remains one to watch over the coming years as an example for future innovative modern public services.