

Creating a sustainable payment by results model

The UK's Work Programme



With more than a decade of experience running Welfare to Work programs, the UK government was keen to explore opportunities to generate greater results for participants while simultaneously reducing the cost of welfare services.

Making welfare work

Recognizing that improved employment leads to increased tax revenue and reduced benefits costs, the government set about developing the *Work Programme* to formalize a 'Payments by Results' commercial model that would both achieve employment objectives and appeal to potential suppliers. To succeed, it would be critical to create a commercial proposition that would be attractive enough to engage the market while attracting new entrants, to ensure innovation and strong competition among suppliers.

The UK government therefore needed to partner with an external financial and commercial advisor that had the right

industry experience to not only assist in the structuring of commercial deals, but could also play a trusted assurance role to ensure that proper oversight and scrutiny were embedded into the new framework. The advisor needed to be able to work with the government to help ensure the program was delivered, and in-service to very rapid timescales, bringing the whole program online nationally from within a year of the program being conceived.

Striking a new path

Having worked closely with the KPMG team to develop the delivery models and mechanisms for welfare to work in the UK, the UK government engaged

the firm to help design a program that would deliver the policy objectives and commercial principles, and achieve the best value for money possible from the program. Among other objectives, KPMG was to leverage their deep experience in complex procurements to provide support across the full life-cycle of program development from developing a 'shadow bid model,' to project what levels of profit and working capital requirements the program would need for different performance scenarios, through to helping develop the tender documentation, evaluation processes and contract.

To ensure a truly successful program, KPMG worked closely with the

government to carefully consider the short and long-term risks in order to create a more sustainable and effective welfare program. The firm also placed emphasis on training the in-house team in core competencies such as corporate finance to help them both manage and mitigate problems with providers without disrupting the fundamentals of the program.

Cutting through complexity

With extensive experience in managing and assessing complex projects, the KPMG team was able to provide expert financial and commercial input to DWP that helped move the project from stated policy intent to contract award and transition in just twelve months; an unprecedented pace for project development and delivery.

Central to achieving this rapid deployment were a number of key achievements aimed at reducing complexity and adding flexibility to the program structure.

Learning from our experience

Based on KPMG's experience supporting the UK's *Work Programme*, the firm identified a number of valuable lessons that will help other jurisdictions achieve similar objectives.

For example, working with the government teams to implement a single integrated assurance process to manage the disparate groups of stakeholders who would need to approve the project, the UK government was able to substantially reduce the burden of reporting and improve the program's agility and governance.

The KPMG team introduced the shadow bid model to better identify and mitigate risks. This enhanced the potential for project success by enabling the commercial model to be 'stress tested' against different future economic projections, and ensured that the model was as resilient as possible to future change for both the government and participating suppliers.

The model also allowed the UK government to test the future contracts for resilience against gaming strategies by suppliers, such that they could help ensure the suppliers would only be paid for the outcomes they actually delivered.

KPMG also ensured the ongoing sustainability of the program by proposing and designing a flexible change control mechanism that allowed contract rates to be recalibrated 'in flight' to reflect changing economic circumstances while preserving the commercial intent of the various bidders.

“The Work Programme is showing promising signs of delivering success which – given the pace of change and the complexity of the stated objectives – is a significant achievement for both the UK government and the suppliers involved,” noted Alan Cave, DWP Delivery Director. “I would be happy to recommend the team for similar exercises. Their input into the design process provided pivotal advice on key commercial issues and the assurance they were able to give on the viability of the core design was vital.”

¹DWP Work Programme Statistical Release, Department for Work and Pensions, February 21, 2012

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