



## Flexible New Deal

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The Flexible New Deal (FND) will be introduced in some parts of the country in October 2009, followed by a second phase in October 2010. It will take over from the compulsory New Deal programmes (the New Deal for Young People (NDYP) and New Deal for 25 Plus (ND25+)) and Employment Zones. It will also subsume New Deal 50 Plus, the New Deal for Musicians and self employment provision.

FND was first proposed in July 2007 and then developed in the December 2007 consultation [Ready to Work: Full employment in our generation](#). It is the first major programme to use the Department for Work and Pensions Commissioning Strategy.

New claimants will be dealt with by Jobcentre Plus for the first 12 months of their claim. Over this period there will be increasing requirements on jobseekers. At the end of 12 months, responsibility for claimants will be referred to contractors in the private or voluntary sector. Contracts will be let on a “prime-contractor” model with the DWP contracting with main suppliers who will then subcontract to more specialist employment services.

In early 2009, the tendering process for the Flexible New Deal was “paused” to allow potential providers to assess how the changed labour market situation, particularly the expectation of an increase in the number of long-term unemployed, might affect their proposals.

The Work and Pensions Select Committee reported on the Flexible New Deal in March 2009. It welcomed the use of outcome-based contracts for FND but had concerns that flaws existed in the design of FND and about the assumptions on which it was based.

The Social Security Advisory Committee has also published its report on the consultation on the draft Flexible New Deal recommendations. It welcomed a number of elements of FND, including the fast-tracking of claimants to the (6-month) gateway stage but had concerns about the extension of conditionality and the speed of rollout of the full programme.

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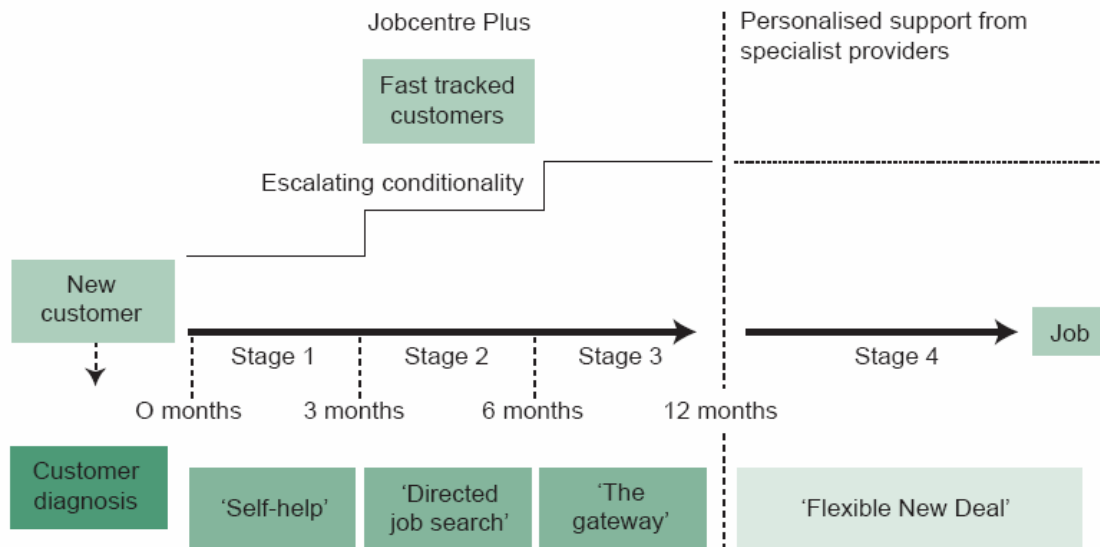
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# 1 How will it work?

The Flexible New Deal will be introduced in two phases. In areas within phase one it will begin in October 2009; phase two is planned to begin in October 2010.<sup>1</sup> FND replaces the New Deal for Young People (NDYP) and the New Deal for 25 Plus (ND25+).

The diagram below, taken from a Work and Pensions Select Committee Report on FND, shows how the FND will work:



The first three stages of FND will be provided by Jobcentre Plus, stage four will be provided by private and voluntary sector organisations. The key differences from the existing programmes are:

- A skills screen at the initial claim interview for basic literacy, numeracy and language issues.
- A mandatory back to work group session at week six
- The Gateway period would be at mandatory at six months for all types of job seeker. This is a year earlier than under ND25+.
- There will be early entry to the gateway period for the most disadvantaged job seekers

<sup>1</sup> Phase 1: Birmingham and Solihull; North and East Yorkshire and Humber; Tees Valley; South Yorkshire; Derbyshire; Surrey and Sussex; Kent; Leicestershire and Northamptonshire; Nottinghamshire; Central London; Lambeth, Southwark and Wandsworth; Devon and Cornwall; South Wales Valleys; South East Wales; South West Wales; North and Mid Wales; Cheshire, Halton and Warrington; Black Country; Greater Manchester Central; Greater Manchester East and West; Coventry and Warwickshire; The Marches; Staffordshire; Lanarkshire and East Dunbartonshire; Edinburgh, Lothian and Borders; Ayrshire, Dumfries, Galloway and Inverclyde; Cambridgeshire and Suffolk; Norfolk; Lincolnshire and Rutland

Phase 2: Merseyside; Forth Valley, Fife and Tayside; Glasgow; West London; City and East London; North and North East London; Essex; Bedfordshire and Hertfordshire; Berkshire, Buckinghamshire and Oxfordshire; Cumbria and Lancashire; South London; Dorset and Somerset; West of England; Gloucestershire; Wiltshire and Swindon; Hampshire and the Isle of Wight; Highland, Islands, Clyde Coast and Grampian; West Yorkshire; Northumbria; South Tyne and Wear Valley

This list takes into account changes in Wales announced on 1 April 2008 ([HC Deb 1 April 2008 c47-8WS](#))

- After twelve months, job seekers would be referred to an external provider. *Ready to Work* describes how this will operate:<sup>2</sup>

We will work with providers on the detail of the contracts and to establish best practice. But we will expect them to engage with all their flexible New Deal customers and see their customers on a regular basis; we do not want to write-off anyone, or allow providers to not support our hardest to help customers. As a minimum there would be an initial in-depth assessment of the customer's employment-related needs and circumstances and an action plan agreed with the customer, which includes personalised and stretching activity to get back to work.

As with the existing New Deals, participation with an external provider and compliance with the accompanying action plan will be mandatory. Failure to undertake any back to work activity arranged by the service provider would mean a referral to Jobcentre Plus to consider benefit sanctions.

## 2 Implementation

Implementation plans were announced in a written statement on 14 March 2008.<sup>3</sup> Phase one of FND will be introduced from October 2009 and phase two from October 2010. Following this announcement, an advertisement was published asking for expressions of interest to undertake flexible new deal programmes.<sup>4</sup> More details of the procurement process are available on the DWP's website.<sup>5</sup>

In early February 2009, the DWP announced a "pause" in the bidding process for the FND contracts.<sup>6</sup> This was due to projections that the number of unemployed claimants eligible for FND would be "up to 300% higher than those published in the original ITT".<sup>7</sup> This pause would allow the organisations bidding under phase one of the FND to reconsider their tenders in the light of these higher volumes and the economic climate.

In a Parliamentary answer on 10 March, Tony McNulty MP, the Minister for Employment and Welfare Reform, restated the Government's commitment to introduce phase one of FND by October, but said that the Government would consider funding models based on a higher service fee element than was originally proposed.<sup>8</sup>

## 3 Policy development

Proposals on a flexible new deal were included within the July 2007 consultation *In Work, Better Off*. Annex A described how a flexible New Deal could work. Plans were then developed further in *Ready for Work*, in December 2007:<sup>9</sup>

We want to modernise the current New Deals by moving to a more flexible, personalised approach for longer term, more disadvantaged customers – the flexible New Deal. We are determined to end repeated returns to long-term unemployment and benefits that are suffered by too many people. These are the twin challenges that face us after 10 years of success in increasing the number of people in work to record

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<sup>2</sup> [Ready to Work: Full employment in our generation](#), DWP, December 2007, Cm 7290, p57

<sup>3</sup> HC Deb 10 March 2008 c30-32WS

<sup>4</sup> Dep 2008/1038

<sup>5</sup> [http://www.dwp.gov.uk/supplyingdwp/what\\_we\\_buy/fnd.asp](http://www.dwp.gov.uk/supplyingdwp/what_we_buy/fnd.asp)

<sup>6</sup> "Warning on welfare-to-work scheme", *Financial Times*, 2 February 2009

<sup>7</sup> <http://www.parliament.uk/deposits/depositedpapers/2009/DEP2009-0674.pdf>

<sup>8</sup> HC Deb 10 March 2009 c270W

<sup>9</sup> [Ready to Work: Full employment in our generation](#), DWP, December 2007, Cm 7290.

levels and reducing child poverty. To meet these challenges we need to tap into the experience and expertise of not only Jobcentre Plus, but also of the public, private and third sectors. At the heart of our new approach will be action to identify the barriers to sustainable employment, self-employment and progression. A flexible, personalised and more responsive service which is more tailored to individual employment and skills needs will help us achieve this.

The arguments for the Flexible New Deal were based on the belief that the needs of the long-term unemployed were varied and would be better met through specialist providers:<sup>10</sup>

After 12 months with Jobcentre Plus we expect that around 90 per cent of customers will have left Jobseeker's Allowance. People remaining on Jobseeker's Allowance after 12 months are likely to have serious and multiple challenges. They will be referred to a specialist contracted provider with whom the customer will agree a personalised action plan. The customer will have up to a year to work with the provider to find sustained employment or, as a minimum, to undertake a period of mandatory activity.

At the same time an evidence paper<sup>11</sup> was published and a summary of responses to the initial proposals.<sup>12</sup>

### **3.1 Contracting-out of welfare-to-work services**

One of the key recommendations in David Freud's report on welfare reform was that most employment services for the longer-term unemployed and more disadvantaged should be contracted-out to private and voluntary sector providers:<sup>13</sup>

Intensive intervention at the start of a claim, focused on assisted job search, is now established as the best way to help people to move back into sustainable employment. As a one stop shop, Jobcentre Plus should therefore remain at the core of the service provided and retain ownership of claimants as they pass through the system. However the longer that someone is out of work, the more likely it is that they will stay out of work – long-term worklessness is both a cause and consequence of labour market disadvantage.

The intensive, individualised support which is effective in putting the most disadvantaged people into work is expensive. However, evidence from Employment Zones and the New Deal for Disabled People suggests that an outcome-based approach can deliver significantly improved results for the hard to help. And while there is no conclusive evidence that the private sector outperforms the public sector on current programmes, there are clear potential gains from contesting services, bringing in innovation with a different skill set, and from the potential to engage with groups who are often beyond the reach of the welfare state.

Freud made recommendations for contracts that were long term, outcome-based and based on the 11 regions and countries in the UK. Also, he recommended that these contracts were let to prime contractors who would then be responsible for appointing subcontractors to provide services that cater for the variety of claimants in a region.

Freud identified some of the key issues that a successful contracts system would address. Payment mechanisms would need to provide incentives to develop programmes that cater for all groups of claimants. Also, he recognises that the DWP would need to develop a "world-class" contracting capability.

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<sup>10</sup> [Ready to Work: Full employment in our generation](#), DWP, December 2007, Cm 7290. p15

<sup>11</sup> [Flexible New Deal evidence paper](#), DWP, December 2007

<sup>12</sup> [Ready to Work: Full employment in our generation](#), DWP, December 2007, Cm 7290, Annex A

<sup>13</sup> [Reducing dependency, increasing opportunity: options for the future of welfare to work: An independent report to the Department for Work and Pensions](#), DWP, 2007, p6

The report was welcomed by the Government and the proposals were taken forward in the welfare reform green and white papers. December's *Raising Expectations* included a number of approaches that would use contracted providers.<sup>14</sup> These include:

- From March 2011, piloting a single personalised employment programme which combines Pathways to Work with the Flexible New Deal. It would also explore whether lone parents with children aged three to six could be included in the programme.
- Testing whether an “invest-to-save” model would be cost effective. Invest-to-save would involve the DWP being allowed to fund payments under contracts using the expected benefit savings. These pilots would also begin from March 2011 in five regions.
- Introducing a “right to bid” for suppliers where they thought they could improve services. Guidance for bidders has already been published<sup>15</sup> and the White Paper states that these will be assessed in spring 2009.

The Conservative Party has also proposed the involvement of the private and voluntary sectors in the provisions of employment services in its 2008 policy paper, *Work for Welfare: Real Reform to Help Make British Poverty History*.<sup>16</sup>

#### **4.3 Creation of a managed market for back to work employment services**

In almost all the countries studied, successful labour market reforms have involved private or third sector organisations operating back to work programmes. In the Netherlands, over 600 private organisations help jobseekers at a local or national level, while in Germany jobseekers can choose to register with a private provider if the government services have failed to help them find work after six weeks. Again, the United States and Australia have gone furthest in outsourcing many elements of the return to work process to third party welfare-to-work providers (WTWPs). These private and not-for-profit organisations have provided skills assessments, job search training, intensive and customised employment assistance and provision of work placements. Contract structures and payment arrangements vary but the best examples from Australia use performance based payments, ensure efficient competition between WTWPs for contracts, allow jobseeker choice, and provide dynamic and transparent data on job placement performance.

### **3.2 DWP Commissioning Strategy**

The DWP published its Commissioning Strategy in February 2008.<sup>17</sup> This set out how the DWP would implement Freud's vision on contracting out. It set out six principles on which contracting-out would be based:

- The commercial opportunities we shall offer will be arranged into larger, longer lasting (subject to performance achievements) contractual packages which we expect will be delivered by top-tier providers leading and managing diverse supply chains.
- The contract structure will allow for packages based on city regions but will also ensure effective coverage of rural areas.
- Contracts will increasingly link with the appropriate local delivery infrastructure that best delivers sustained jobs.
- We will aim to do most of our business (around 80 per cent) with a stable core of reliable providers. This will leave space for new entrants to the market.

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<sup>14</sup> *Raising expectations and increasing support: reforming welfare for the future*, DWP, Cm 7506, December 2008, p48

<sup>15</sup> *Right to bid bidders guide*, DWP, October 2008

<sup>16</sup> *Welfare Policy Paper – Work for Welfare*, Conservative Party, January 2008

<sup>17</sup> *DWP Commissioning Strategy*, DWP, February 2008

- The core providers should be capable of delivering multiple contracts across the country to a high standard on a consistent basis.
- We envisage a market where smaller providers will mainly act as sub-contractors (or 'delivery providers') and in which excellent sub-contractual relationships are the norm.

Flexible New Deal will be the first major programme to be put out to tender using the Commissioning Strategy.

### 3.3 Contracting-out in other countries

Contracting-out of employment services is already in place in a number of other countries. The systems in the US, Australia and the Netherlands are the most frequently studied.

#### US

The Personal Responsibility and Work Opportunities Act was introduced in 1996. It devolved significant new powers to individual states for implementing 'Temporary Assistance for Needy Families' (TANF). This meant that states could contract out all services, including eligibility for TANF financial assistance.

Around 13% of expenditure has been contracted out. Although a few states (including Wisconsin) contracted out case management and eligibility systems, most retained this but contracted out the delivery of other employment service.<sup>18</sup> The devolved nature of the US system means that there is a variety of models to study. A significant, and growing, proportion of contracts are held by faith-based organisations.

#### Australia

In Australia, the system is split between the public, private and voluntary sectors. Both the entire job brokerage function and the task of re-integrating individuals into the job market are put out to tender to private and voluntary sector providers. This is known as the Job Network. Referrals to those services and the payment of benefits are carried out in the public sector by Centrelink.

#### Netherlands

The division between sectors in the Netherlands is different again as only reintegration programmes are tendered out. However, a key feature of the system in the Netherlands is that local municipalities and the social insurance agency (UWV) are the purchasers rather than the central government department, the Ministry of Social Affairs and Employment.

Descriptions of other systems are also given in an appendix to David Freud's report.<sup>19</sup> On the Australian system he says:

The Australian experience is less clear-cut than many of its proponents suggest. The private and voluntary sector market has successfully taken on the mainstream employment services and helps to secure good outcomes for the majority of the unemployed. The purchasing Department (the Department of Employment and Workplace Relations) has refined its contracting approach over a series of four contract rounds and the day-to-day relationship at working level between Centrelink and Job Network Members is now much more effective than was previously the case. Costs have been considerably reduced. However, the system has proved less successful at preventing long-term unemployment.

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<sup>18</sup> [Contracting out welfare to work in the USA: delivery lesson](#), Dan Finn, DWP Research Report 466, 2007, pp1-2

<sup>19</sup> [Reducing dependency, increasing opportunity: options for the future of welfare to work: An independent report to the Department for Work and Pensions](#), DWP, 2007, Appendix 2

One element of the Australian system that he does recommend is the Job Seeker Classification Instrument. This is a screening process used early in the job search to determine the type of help to be offered. He argues that this means that those who are hardest to help would receive assistance earlier in their claim, and that those who would have found work anyway are not provided with more expensive services that they do not need.<sup>20</sup>

A number of other studies have looked at contracting out in other countries. A Policy Exchange analysis of systems in Australia, Germany, Wisconsin, Denmark and the Netherlands argues that involving the private and voluntary sector could save up to £1 billion:

The overall results are encouraging. The essays in this compilation show how the use of the private and voluntary sectors has brought improvements, for example:

- In Wisconsin welfare rolls fell by 80% over three years. If similar changes in the UK achieved only a quarter of this change, the annual budget for Incapacity Benefit claimants would be cut by £1 billion, and the cost of benefits for lone parents with children over seven by around £300 million.
- If the UK matched the 50% drop in job placement costs achieved in Australia, the cost of operating the welfare system would be cut by £250 million.
- Germany's unemployment count fell by 1 million in the two years after it started to reform its welfare state.
- Both Denmark and The Netherlands have been more successful in getting lone parents and the disabled back to work than other EU countries.

However, difficulties arise from the design of the contracting out regimes. Some of the authors report cases of 'creaming' and 'parking', where service providers concentrated on jobseekers that were the easiest to deal with or delayed, and sometimes even ignored, the most challenging cases. In Australia, success fees were sometimes fraudulently paid to employers taking on jobseekers for a limited period.<sup>21</sup>

A recent Joseph Rowntree Foundation report concentrated on Australia and the Netherlands.<sup>22</sup> Again, this found some positive evidence on cost savings; in Australia it found that the cost of finding someone a job had halved since the introduction of Job Network and that there had been a saving of around a third in the Netherlands. It also found that performance-based contracting increased the short-term job prospects of jobseekers. However, it argued that little is known about the increased transaction costs in the system, both on purchasers and providers (contract design, bid preparation and assessment; contact management, supervision) and users who have to negotiate and satisfy the requirements of a more complex system. Like the Policy Exchange report, it also highlighted the problem of the "parking" of harder to help clients caused by the incentive mechanisms within contracts.<sup>23</sup> The report suggests that a solution would be service guarantees where participants are offered a choice between providers and a mechanism to address complaints.

Child Poverty Action Group have also recently published a report on contracting, looking at experience in Australia, Denmark, Germany and the Netherlands. It finds limited evidence to suggest efficiency gains or cost savings from contracting-out and little evidence that the

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<sup>20</sup> *ibid.*, p59

<sup>21</sup> *Paying for success: How to make contracting out work in employment services*, ed. Peter Lilley MP and Oliver Marc Hartwich, Policy Exchange, 2008

<sup>22</sup> *Lessons from contracting out welfare to work programmes in Australia and the Netherlands*, Joseph Rowntree Foundation, November 2008

<sup>23</sup> The concept of "parking" in relation to contracted-out welfare-to-work schemes is that it will be more expensive to find work for claimants with disadvantages or who have been out of work for a long time. Contractors will, other things being equal, concentrate on easier to help claimants. Any contracts that are drawn up need to provide an incentive mechanism that mitigates against this.



large-scale involvement of voluntary and private sectors leads to innovation in service delivery. Finally it argues that contracting-out services is not likely to be an effective strategy for raising skills.<sup>24</sup>

## **4 Commentary and responses**

### **4.1 Social Market Foundation**

The Social Market Foundation published a report on the Flexible New Deal which gave suggestions for how the proposals could be improved.<sup>25</sup>

By contracting out the commissioning role for those who are unemployed for more than 12 months, the government hopes that FND will achieve two radical changes in the way the whole system works:

1 The method of funding will change to an outcome-based payment system. Rather than being commissioned to deliver set processes, such as training courses or set weekly work-focused interviews, private and third sector contractors will be paid for actually getting people into sustained employment, however they see fit. This approach brings with it a focus on results rather than on procedures and represents a clear shift in emphasis for contractors from mandating processes to delivering outcomes.

2 The new system will interpose a layer of large private sector prime contractors between the state and smaller, more specialist organisations, rather than referring individuals directly to specialists from Jobcentre Plus as happens currently. This model has the effect of concentrating the private contractor market in the hands of relatively few organisations.

The SMF describe the four things that the Flexible New Deal must achieve:

- commission the services of reliable and cost-effective contractors;
- help all clients rather than just those easiest to help;
- support people to sustain their employment once in work; and
- encourage innovation and a diversity of approaches to helping clients into employment.

In each area, according to the authors, FND in practice promises not to be as effective as it could or should be. They argue that this is the result of a failure to design the programme in a way that aligns incentives between contractors and government. The authors describe practical approaches to resolve the tensions between procurer and contractor. In doing so, they suggest the blueprint for a 21st century a welfare-to-work programme that offers the step-change in performance that the government seeks.

### **4.2 Work and Pensions Committee**

The Work and Pensions Committee published a report on the Flexible New Deal on 5 March 2009. It welcomed the use of outcome-based contracts for FND but had concerns that flaws existed in the design of FND and about the assumptions on which it was based. They were not convinced that the design of FND would discourage “creaming” and “parking”

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<sup>24</sup> *Contracting out employment services: lessons from Australia, Denmark, Germany and the Netherlands*, Child Poverty Action Group policy briefing, December 2008

<sup>25</sup> *Flexible New Deal: Making It Work*, Social Market Foundation, September 2008

of claimants and also had concerns about the budget for FND given the likely increase in the number of JSA claimants.<sup>26</sup>

### 4.3 Social Security Advisory Committee

The Social Security Advisory Committee was asked to look at draft regulations on the flexible New Deal in October 2008. Its report, along with a government response, was published in March 2009.<sup>27</sup>

The Committee gave broad support to elements of the Flexible New Deal partly because it recognised that claimants “would likely benefit from greater flexibility and discretion on the part of Jobcentre Plus Advisers”. However, it also had some areas of concern:

- The effectiveness and timing of the “Back to Work session” in the early stages of the claim.
- Concern that the necessary infrastructure in relation to childcare, health care, skills and training may not be available across the UK.
- The flexibility of FND in practice, in relation to the Department in the way it chooses to engage customers, and in relation to customers in terms of offering a tailored service that they can access on request.
- Customer choice, and in particular the absence of choice in four contract areas.
- The extension of conditionality and the use of sanctions to include customers’ failure to attend the Back to Work Session, mandatory activities for potentially vulnerable customers and voluntary participation in any extension to FND beyond a year.
- The need for clarity concerning the role of FND contractors in raising benefit doubts and the robustness of the decision making process.
- The importance of all contractors complying with the Freedom of Information Act and having customer complaints systems in place.
- Funding arrangements, and the risk that contractors could target ‘quick wins’ whilst avoiding providing effective help for those with the greatest need of support.
- The capacity of FND providers to deliver quality tailored support to the diverse range of customers that will be referred to them.
- The transitional arrangements between current employment programmes and FND.
- The need for more information on the evaluation of FND.
- Greater clarity on how FND providers will claim job outcome payments and how these will be validated by the Department.
- Concern that Phase 2 would be rolled out before Phase 1 was fully evaluated.
- The capacity of the Department, Jobcentre Plus and partners to deliver the service as proposed in the changed economic situation.

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<sup>26</sup> Work and Pensions Committee, *DWP's Commissioning Strategy and the Flexible New Deal*, HC 59 2008-09, 5 March 2009

<sup>27</sup> Social Security Advisory Committee, *The Social Security (Flexible New Deal) Regulations 2009 (SI 2009 No.480)*, Cm 7566, March 2009

## 5 Further reading

Links to recent articles and Parliamentary material on the Flexible New Deal are available at:<sup>28</sup>

<http://www.connotea.org/group/EPAS/tag/FlexibleNewDeal>

Some of the key documents are described below.

- *Transforming Britain's Labour Market: Ten Years of the New Deal*, DWP, January 2008 – This gives an overview of existing New Deal programmes and an overview of the government's proposals for developing a flexible new deal.
- Work and Pensions Select Committee, *Full employment and world class skills: Responding to the challenges*, 30 October 2007, HC 939 2006-07; *Government response*, HC 217 2007-08
- Work and Pensions Select Committee, *DWP's Commissioning Strategy and the Flexible New Deal*, HC 59 2008-09, 5 March 2009

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<sup>28</sup> Some articles may require subscriptions to view full text; Members and their staff can find the articles through the Factiva press service on the Parliamentary Intranet.