

Oxford Economic Forecasting

EMPLOYMENT RELATED SERVICE PROVISION IN THE UK

The Employment Providers' Industry

Position Paper

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1. INTRODUCTION

A group of employment providers has commissioned Oxford Economic Forecasting (OEF) to prepare a position paper which sets out the common issues they face around procurement together with policy ideas for the future. The issues examined include the actual procurement process itself, the management of risk, the style and content of contracts and the general working relationship that providers have with government.

A total of 16 employment providers contributed to this study through either a discussion of the issues at a pre-study meeting, a specific telephone interview or via comments on drafts. A workshop was also held with people from around half of the group of providers attending – a forum which was particularly effective in surfacing common themes and in agreeing potential solutions.

This group of employment providers receives in the region of about £300 million worth of funds from government (predominantly Jobcentre Plus contracts). This is equivalent to about one-third of the sector, as government outsourced spending on employment programmes was in the region of £1.0 billion in 2003/4¹. The group is not exclusive – it is comprised of both private and non-for-profit organisations, aims to have many more members and eventually to represent all employment providers.

This report reflects the consensus view among this group of 16 providers although it does not necessarily mean the views of each and every provider is exactly the same across all issues. The report is structured as follows:

- *strategy and culture (Section 2)*: the key overarching issues which the industry considers of upmost importance in its dealings with government;
- *contract design (Section 3)*: the issues around the design of current contracts and the size and length of contracts;
- *the bidding process (Section 4)*: the problems faced with respect to the procurement process, bidding and bid evaluation; and
- *risk and reward (Section 5)*: the allocation of risk and reward between government and providers and whether current practices are fair and efficient.
- the *Appendices* provides examples of specific problems faced by employment providers together with a list of the 16 members of the group.

This report should be read in conjunction with the recent report published by the Association of Chief Executives of Voluntary Organisation (ACEVO)², which makes similar conclusions. Both reports, together, make a strong case for a fundamental change in the government's approach to procurement in the UK employment provision industry.

¹ A further £139m of spend is on employment credits and allowance payments to participants Source: Department for Work and Pensions (DWP). The total DWP budget for employment programmes such as New Deal, Pathways to Work, Employment Zones, Action Teams etc (including those run directly by Jobcentre Plus) was £1,541 million in 2003/4 (Source: DWP Departmental Report 2004).

² Surer Funding: the ACEVO Commission of Inquiry Report (November 2004).

2. STRATEGY AND CULTURE

Policy position

- A step-change in the culture of procurement is required if the government is to achieve the best outcomes for the employment providers' sector and for the people they help. To achieve this positive change the government should work with industry to:
 - Help raise **awareness** of best procurement practice across government departments;
 - Ensure that relevant government recommendations are implemented in full and without delay through regular **auditing** of previous and existing contracts and by **enforcing** these principles in future contracts;
 - Encourage a **partnership** approach to delivery, namely a funder-contractor relationship characterised by trust and the mutual objective of getting as many people from target groups back into employment.
 - The development of a **"kitemark"** for funders who pass certain basic standards, as recently proposed by ACEVO.
- Changing the culture in which business is conducted can improve operational efficiency, by reducing costs and increasing outcomes, bringing mutual benefits to both government and employment providers alike. Without addressing these issues the government is unlikely to fully exploit the benefits from contested service provision.

2.1 Government objectives

The government objective in the area of procurement is to ensure that funds are spent in a way that minimises costs and achieves intended outcomes, summed up by the 'value for money' criteria. Value for money is not just about accepting the lowest price, it also involves looking at the trade off between cost and performance and other factors such as timeliness of delivery, risks, sustainability, and support costs. Competition is viewed as the main mechanism in which this value for money objective is achieved.

Alongside this are two equally important objectives – first, that funds are only used for authorised purposes (regularity) and, second, that funds are awarded fairly and free from undue influence (propriety)³.

From our discussions with employment providers it appears that the objectives of regularity and propriety are being met well. However, there were widespread concerns that the government could get considerably better value for money than currently, and that reforms around procurement, contract design and the way risks are managed would help achieve these value for money improvements.

2.2 Effective implementation of CCR recommendations

Many of the current issues faced by employment providers are not recent ones. They have been around for many years and have been well documented by various government studies and reports. In particular, the recent cross cutting review (CCR) on ‘the role of the voluntary and community sector in service delivery’⁴ has a full description of the relevant issues. Although this study is directed towards the voluntary sector, the issues and recommendations are directly relevant to the employment providers’ sector. Many other studies by government on procurement over the years have also made similar points and recommendations⁵.

It is not that these recommendations are contentious as they have been accepted (and indeed campaigned for) by employment providers and other stakeholders. Instead, it is that, in the experience of employment providers, implementation of the various recommendations has been patchy.

³ The three objectives value for money, regularity and propriety are sourced from ‘Guidance to Funders, Improving funding relationships for voluntary and community organisations, A Response to Recommendations 19 and 21 of the Cross Cutting Review’, HM Treasury (September 2003).

⁴ HM Treasury (2002).

⁵ See for example ‘Efficiency in Civil Government Procurement, HMT/Cabinet Office, July 1998’. ‘Review of Civil Procurement in Central Government, Peter Gershon, April 1999’; ‘A review of local government procurement in England’, June 2001. ‘Increasing Competition and Improving Long-Term Capacity Planning in the Government Market Place, OGC December 2003’.

2.3 Raising awareness of CCR recommendations

More effective implementation of relevant recommendations can be achieved by raising awareness levels of the policy principles with those responsible for procurement of employment contracts. At the moment there seems to be an apparent disconnect between those which set policy and those which implement the policy.

This apparent disconnect between policy and procurement may be impacting on the government's objective of achieving contestability in the employment providers' market.

Contestability is where public sector markets are opened up in the sense that the public or government is able to make a choice from a number of providers. The theory is that this is likely to improve competitive forces between providers making them more efficient, improving service delivery and value for money.

To some extent the employment providers market is already a successful and mature contestable market as a large number of providers exist. However, the full benefits and efficiency savings from a fully working contestable market can only be achieved if procurement policy and practice also works towards this vision. At present, this is not happening due to lack of implementation and awareness of the relevant policy principles around procurement.

Industry and government can both help in raising the awareness of the relevant recommendations to procurement teams. In particular, the benefits from contestability can be realised by ensuring procurement teams have the appropriate systems, processes and skills to deal with the challenge of contestability.

More effective engagement with each other is also needed if any substantial movement is going to be made on the awareness issue. Good relationships exist between individuals but the overall relationship could be further improved. A concerted effort is needed to improve this situation, particularly to ensure that the correct communication channels are open and that an action plan is developed to resolve this issue.

2.4 Enforcement of CCR recommendations

In parallel with awareness raising, an enforcement angle to solving the problem should be explored.

An agency or person would be responsible for ensuring that procurement and contracts adopted the relevant principles laid down in the CCR. It could also take responsibility for a number of ombudsmen-related functions tackling issues such as dispute resolution, escalation and arbitration of issues. Such an enforcement / ombudsmen type role could be undertaken by the National Audit Office or the Audit Commission.

In addition, the notion of a best practice 'kitemark' award for funders should be explored. This is where a kitemark of recognition would be awarded to funders who

could demonstrate that they follow certain principles such as sharing the responsibility for risk, cutting down on the burden of form-filling and ensuring fair costing and pricing.

This is similar to the recommendation set out in the recent report by ACEVO which proposes voluntary reform of procurement and contracts in the voluntary sector through a Surer Funding kitemark scheme for funders⁶.

2.5 An overall change in culture

Perhaps the biggest change that is needed for benefits and value for money to be properly realised is a step-change in culture. This could be achieved by advocating a new way of working between employment providers and government.

In particular, the relationship between employment providers and those responsible for procurement/contracts should be a partnership based on trust, a shared understanding of the policy objectives and a common vision of the way forward. Early collaboration and consultation should also be championed with the funder working with the provider in the way, say, a high-street bank works with the businesses to which it lends. The overall improvement in the relationship is summed up below.

Current situation	Proposed situation
Traditional	Partnership
Confrontational buyer/seller negotiations	Shared business plans and objectives
Price-focused	Value-focused
Short-term contracts and commitments	Long-term/rolling contracts
Infrequent personal contact	High degree of cross-working

All this is in sharp contrast to the rather adversarial nature of the relationship between providers and funders common at present. Changes along the lines described above will better enable issues and disputes which typically arise in any contracting relationship to be resolved in a more efficient manner. Less time should then be spent on administration, leading to lower costs and allowing more to be spent on the mutual objective of getting people back into work.

⁶ “The Treasury and Home Office should endorse the Surer Funding Framework and take steps to ensure that all public bodies implement the principles in contracting by establishing an accreditation body to kitemark funders that conform with principles for better funding.” Surer Funding: the ACEVO Commission of Inquiry Report, ACEVO (November 2004).

3. CONTRACT DESIGN

Policy position

- Significant benefits for both government and the industry can be achieved by better exploiting economies of scale in procurement and in the design and management of contracts.
- Rationalising the number of contracts in particular is likely to be most beneficial by enabling substantial efficiency savings to be made through reductions in administration, management and monitoring costs.
- One way of rationalising contracts could be to group individual but similar contracts into larger more generic ones. Another option could be to group them into a single bidding round where potential providers are able to bid for part or the entire contract. Both options would require substantial efforts to improve co-ordination of tenders across different procurement agencies and specific incentives to encourage the sharing of information.
- New ways of working should also be explored and then tested in the market place, such as for example:
 - Generic regional delivery contracts: Where contracts for different client groups in each region are grouped into a small number of large contracts.
 - Incentive-based contracts: Where priorities between different client groups are set out via the payment structure – higher reward payments for harder-to-reach groups; and
 - Partnership-based contracts: Where groups of providers, both large and small, private and non-for-profit, are encouraged to bid together in partnerships in order to make the best use of available expertise.
- Benefits may also be realised by increasing the typical length of a contract where significant amount of up-front capital investment is required. This could reduce expenditure on costs (property, advertising etc) and attracts better talent through improvements to job security.
- Whilst longer contracts should generally be encouraged, the actual length of a contract should be decided on a case-by-case basis to maintain the benefit of flexibility (e.g. some contracts such as pilots may need to be relatively short.)

3.1 Government objectives

HM Treasury advocate that long term contracts are the way forward: “Quite simply, longer term planning and funding arrangements can often represent better value for money than one year funding agreements by providing greater financial stability. The fiscal framework introduced in 1998 creates an environment in which funding bodies can focus on longer term outcomes, rather than shorter term inputs that are dictated and fixated by short term economic conditions at any specific point in the economic cycle.”⁷

Current practice appears to fall short of this. Many employment providers cited that the vast majority of contracts were too short. The key disadvantage of shorter contracts is the disproportionately higher start-up and exit costs around property (offices have to be opened and closed), advertising (awareness needs to be raised for potential staff and potential clients) and other costs. Many of these costs are passed onto government in the form of higher contract prices.

The market is also characterised by a piecemeal approach in the sense that, despite the same or very similar methods being used, separate contracts are awarded for different target groups (long-term unemployed, lone-parents, ex-offenders etc). Under such circumstances the full benefits from economies of scale and value for money are unlikely to be realised.

3.2 Exploiting economies of scale

Administration costs for both government and employment providers can be reduced significantly by rationalising the number of contracts, increasing their average size and improving the style of contracts.

One way of rationalising the number of contracts is to make them larger by grouping individual but smaller contracts together into larger ones, exploiting economies of scale. This may make it easier to recruit and retain good staff as job security is improved and employees have the chance to gain valuable experience from managing and working on larger contracts.

Larger contracts may even be easier to manage than a series of smaller ones, although some people would dispute this arguing that longer contracts are more complex. To ensure this does not happen, the move to longer contracts should only be encouraged where complexity is not likely to be an issue.

But perhaps the most important economies of scale benefit is the reduction in costs from lower bidding, start-up and exit costs:

- Bidding costs – bidding for tenders is a costly exercise for government both in terms of administration, research and resource costs. Bidding costs are reduced, as the number of requirements to respond to tender is reduced.

⁷ Paragraph 3.20. Guidance to Funders, Improving funding relationships for voluntary and community organisations, A response to Recommendations 19 and 21 of the Cross Cutting Review (September 2003).

- Operational costs – economies of scale in management, monitoring, administration, marketing and advertising are likely to be lower. Providers typically need to incur marketing and advertising costs to recruit staff, create awareness for potential clients and to build up a local network of employers, all of which are costly in terms of the amount of resource time required.
- Start-up costs – there is a significant up-front sunk costs associated with setting up a new operation, from searching for property to recruiting staff. Short-term contracts have a considerable financial burden as opening and closing offices at the start and end of contracts is a considerable cost⁸.
- Exit costs – the costs from winding up of the business will also be lower for similar reasons as described above.

Such high entry/exit/sunk costs are ultimately paid for by government, as they are not recoverable when an organisation exits the market.

There have been some encouraging signs that more benefits from economies of scale are trying to be realised, with some regions grouping small but similar contracts. But new more radical ways of working should be explored, for example a generic regional delivery model described below.

Box 1: A generic regional delivery model

Under this model, employment contracts would be rationalised so that overall a much smaller number would be awarded per region. Rather than concentrating on individual target groups (a feature of the current system) a generic contract would stipulate that the successful employment provider would direct help to many difference client groups in a region.

To ensure that the easiest clients are not the only recipients of assistance, a scale of incentive payments would probably be needed where higher payments are awarded for getting the hardest-to-reach client groups back into employment.

The result of such a larger regional delivery system would be significant benefits for government and the industry, by a reduction in procurement costs, administration costs, time spent managing and monitoring the contracts, and by enhanced productivity.

Contracts would be awarded on the basis of excellence in the field so that partnerships which brought together a mix of providers – both large and small, private and not-for-profit – would be viewed favourably. The strength of the results over time and the procurement process in general, would decide the appropriate mix and partnership of employment providers used for contracts.

⁸ There are also disadvantages of short contracts around the way that property assets are depreciated in the financial accounts.

3.3 **Longer contracts**

Another rationalising option is to have longer contracts. This is particularly important where significant up-front investment is required. It is not appropriate for this paper to set a precise length of how much contracts should be longer – each contract is different and should be decided on a case-by-case basis (e.g. short contract length for pilots). However the benefits of longer contracts typically shared with larger contracts are clear:

- Longer contracts are likely to improve performance, as they are a good motivating factor for staff, improving job performance and outcomes. In particular, they are likely to improve job certainty meaning that good staff can be recruited and more easily retained, leading to lower staff turnover which, in turn, retains valuable skills and knowledge within the provider.
- Long-term contracts reduce financial risk, a benefit to both funder and employment provider. With lower risks, management can concentrate on the delivery of the service to the public. Less time would be spent exhaustively drawing up bids and re-bidding for contract renewals. Longer contracts also allow cash flow to be more easily managed (see Section 5 for a more detailed discussion of risk.)
- Long-term contracts reduce outcome risk. Longer contracts allow for the possibility that programmes can be adjusted and improved over time, and experience of delivery built up, thereby lowering the risk that contracted outcomes will not be met.

3.4 **Managing the change**

The length and size of contracts are fundamental to improving outcomes, the efficient running of the service and value for money in the sector. But any change needs to be handled carefully, to reduce the risk that any providers are not inadvertently squeezed out of the industry as this would mean a loss of valuable experience.

Moreover, the presumption that contracts should be longer and larger, in order to exploit economies of scale, should not be at the expense of innovation. This is made clear in the recent HM Treasury review that: “in drawing up contracts providers should always consider innovative methods of working.”⁹

⁹ Recommendation 18: The Role of the Voluntary and Community Sector in Service Delivery, A Cross Cutting Review (September 2002).

4. THE BIDDING PROCESS

Policy position

- Operational efficiencies can be gained by slimming down the amount of information needed in the bidding process, particularly at the earlier stages, by communicating to procurement bodies that information required should be directly proportionate to the size of the actual contract.
- Consistency in information requirements and, where possible, the use of an Approved Supplier List should be encouraged. This could significantly help in reducing evaluation costs for procurement agencies and bidding costs for employment providers.
- The criteria which is used to decide which bids are successful also needs to be more widely communicated to employment providers, together with the weightings which are typically used.
- Tenders should be more widely advertised and, where possible, information notices should be used to warn potential providers that an invitation to tender is imminent. Where possible, deadlines for the preparation of bids should be lengthened to allow providers time to mobilise staff and resources.
- Efficiency gains can probably be realised through improvements to IT and related systems and processes. In particular, the development of a web-based form filling capability where employment providers are able to fill in forms which are then directly input into Jobcentre Plus databases and computer systems.

4.1 Government objectives

Government policy in this area is that bid evaluation should be transparent based on value for money, well communicated weightings and priorities for evaluation criteria and that the information requirements should be proportionate to the size of the contract. However, it is clear, not just from employment providers themselves but from various government reviews, that these objectives are not being met:

- “It is a perennial complaint of suppliers that the time (and therefore cost) it takes to bid for major government contracts, and the bureaucracy associated with the process, are excessive by comparison with the private sector, even allowing for the different requirements of EU procurement rules on fair and open competition”¹⁰.
- “Despite declared Government procurement policy being based on value for money rather than lowest initial cost, many inputs from industry highlighted a perception that the culture of the Civil Service is risk averse and the 'safe' option is justifying the lowest up front cost. While Invitations to Tender do usually

¹⁰ Increasing Competition and Improving Long-Term Capacity Planning in the Government Market Place, OGC Report to the Chancellor of the Exchequer (December 2003). (Page 25).

specify the value for money criteria, it does not appear to be standard practice even to specify the relative priority and weightings of the different criteria.”¹¹

4.2 Better transparency in the evaluation of bids

The bidding process needs to be more transparent so that bidders can be better informed about why their bids were not successful. This in turn will help spread best practise across the industry.

There is a common lack of understanding of the weightings given to different criteria. One of the easiest ways which this can be addressed is to publish more widely the different criteria used to evaluate bids together with the weights given to each different criteria. Where possible, criteria should be more consistent across different sectors and regions.

The results and outcomes of each contract should be allowed to be the ultimate judge of performance. In particular, where providers have been successful in a particular sector or area, contract extension should be encouraged as the way forward rather than the need for a new costly bidding process to be undertaken each time.

4.3 Reduction in information requirements

A radical change in the culture of procurement towards larger and longer contracts (as described above) would significantly help in reducing bidding costs. In other words, a reduction in the number of bids per year is the easiest way of reducing the burden of information requirements.

Information requirements can be further reduced by:

- reducing the amount of information required for each bid and particularly the amount of information which is required at the initial stages of the bid;
- developing a more consistent UK bidding process. Guidelines should be put in place, communicated and enforced (e.g. standard templates should be followed on the length of the method statement) so that information requirements are uniform across different regions of the UK;
- spreading the bidding process over a wider time period rather than concentrating it in, say, a few months of the year;
- using an Approved Supplier List (or Framework Agreements) and Expressions of Interest more widely through two or three stage bidding processes.

The use of an Approved Supplier List is a particularly effective tool for reducing the burden of information. But any changes should be carefully implemented as there is a risk that an over emphasis on such arrangements could put providers who have not yet been established at a disadvantage.

¹¹ Review of Civil Procurement in Central Government, Peter Gershon, April 1999.

Expressions of Interest could also be very beneficial in reducing the level of information required. They are well recognised in the procurement sector as a way forward but it appears they have not been implemented widely in this sector.

Furthermore, employment providers can more easily manage information requests if they are made aware of bids which are in the pipeline. Providers are often given only a short response time for tenders, but if they were forewarned that a tender was about to be advertised then this would give them time to mobilise staff and resources, and therefore effectively more time for the actual preparation of the bid.

4.4 Management and monitoring of contracts

The adversarial nature of the relationship between funder and provider means that a significant proportion of time is spent monitoring and checking the way a contract is going. But this process is costly, and the time and money spent on monitoring would be better spent on producing outcomes. Furthermore, there is a feeling that the monitoring that does occur is insufficiently inquisitorial at establishing what parts of contracts are successful and how to transfer best practise across providers.

Standard principles around the management and monitoring of contracts should therefore be set out and communicated to all parties to raise awareness. Particular areas where guidelines would be beneficial are the distinction between funder and provider. Providers should have the flexibility to deliver the outcomes set down in contracts in a way that they think best.

Monitoring should also be as unobtrusive as possible, and should be 'value-based' in the sense that where best practice is found it should be communicated widely across the industry.

4.5 Access to IT and consistency in systems and processes

A common complaint in this industry is the amount of resources which has to be devoted to administration and form filling.

Considerable efficiency gains in this area can be realised through improvements to IT and related systems and processes. This could be achieved by exploring whether and how employment providers can have front-end access to the computer systems held by the jobcentre, subject to any data protection issues.

This does not necessarily mean that employment providers will have access to confidential information held on claimants. For instance, considerable efficiency gains could be achieved by the development of a web-based form filling capability where employment providers are able to fill in forms which are then directly input into Jobcentre Plus databases and computer systems.

5. RISK AND REWARD

Policy position

- There is a cost to risk and this is a cost which is ultimately paid for by government. If contract and delivery risks can be better managed and reduced, value-for-money will be improved as costs reduce. Better management of risk and/or lower risk could also mean that providers should be able to spend more time on delivering outcomes, instead of managing risk.
- Appropriate allocation of responsibilities is another key to risk management. Risks are better managed and reduced by whoever can reduce the risk most cost effectively, which requires a realistic and open dialogue between all parties about the appropriate allocation of risk
- These principles could be followed better in relation to the predicted number of referrals often set out in many contracts:
 - Where providers face lower revenues if the number of outcomes (which is closely related to the number of original referrals) is lower than expected then they should be able to directly influence referral numbers through, say, direct marketing to target groups.
 - Where it is not practical for providers to be directly responsible for referrals, then contracts should stipulate a guaranteed minimum (or range of) referral numbers so providers can set their bid prices accordingly.
- Overall, risk can be better managed by a step-change in the culture of contracting and procurement. A partnership approach based on co-operation with shared vision and goals is likely to achieve better results than a confrontation relationship between funder and funded based on opportunistic behaviour.

5.1 Government objectives

Government policy on risks have been previously set out in a review in 2001 of procurement by Local Authorities¹²:

- “Both the local authority and supplier need to have an open and robust approach to commercial relationships. Proper attention should be paid at an early stage to considering how risk should be managed and the respective roles which authorities and suppliers should play. Decisions on the best management of risks should determine its allocation between authorities and suppliers. All must accept that the incidence of risk will affect tender prices.”
- “Greater use of competitive markets offers considerable scope for lower costs and better performance - as is well illustrated in the utilities and in the private sector. It enables suppliers to use private sector business practices to good effect, while allowing authorities to concentrate on the political task of deciding what services should be delivered and by whom”

However, more recent reviews have found that these principles are not being followed. The CCR¹³ in particular acknowledged that the voluntary sector was bearing the negative consequences for risks it could not control. The report identified two sorts of risks: “the risk associated with the funder making assumptions about likely levels of demand for a service which turn out to be unrealistic [and] the risk which comes with the responsibility of delivering output goals.”

The CCR concluded that “it seems unrealistic to expect providers to absorb all the risk associated with the first of these risks but the second is slightly different. Provided the output goals are discussed and agreed in advance it seems reasonable for the provider to bear the risk of non-delivery in return for a degree of flexibility in how services are delivered.”

5.2 Managing risks

There is often a large upfront risk for organisations around cash flow. In the initial stages of a new contract, costs can range from extensive marketing, advertising and staff recruitment to property search costs and initial rent/lease payments to secure property and land. But revenues are not paid until the outcomes start to come through at a much later stage. This causes financial costs in interest rate payment/overdraft fees from managing negative cash flows.

The upfront risk can be reduced by making forward payments to cover set-up costs. This has been accepted by the CCR as a way of reducing risk, but it appears that implementation has been limited to date.

Another way of managing risk is to lengthen the contract as longer contracts might reduce financial and outcome risk (see section 3.3). Longer contracts allow cash flow

¹² A review of local government procurement in England: Executive Summary, June 2001.

¹³ Paragraph 6.8-6.9; Cross Cutting Review.

to be more easily managed and allow for programmes to be adjusted over time to improve performance.

As well as these general issues of managing risk, there are also specific ones around particular types of contracts. Box 2 gives a case study of risk issues around so-called referral type contracts.

Box 2: Managing risks in referral contracts

There is a particular concern about the risks involved with so-called ‘referral contracts’, where the number of people which Jobcentre Plus expect to refer to employment providers is set out in the actual contract.

In some cases the actual numbers of people who are subsequently referred to providers is lower than the contracted target. As employment providers are paid on the basis of the number of people they get into employment, lower numbers of initial referrals directly impact on outcomes and ultimately translate into lower revenues.

Given that employment providers have limited control on these job-centre referrals, it seems that they bear the risk of apparent poor performance but do not have the control to manage it.

Potential solutions to this could be to allow employment providers’ to directly influence the number of referrals from jobcentres or to receive a minimum guarantee for referral numbers.

5.3 Use of incentives

The use of incentives should be championed where possible to encourage more efficient performance. Some contracts already have an incentive structure embedded within them, but these are not common. The standard contract should reward providers where they exceed targets, whether in the form of an additional payment or another benefit such as a longer contract.

Contracts which do not have incentives to exceed the target, but have a downside if outputs are not reached should be discouraged. These not do encourage employment providers to get more people into work.

The risk and reward should be characterised by a carrot-and-stick approach rather than penalties alone. Employment providers are able to accept risk where they have control over it (e.g. the responsibility to go out into the market and identify people) but contracts where the number of referral is dependent on a third party are likely to be more costly, as bidders will price in a risk.

5.4 General principles

In general, “risks should be placed with the party best able to manage them, at the lowest cost”¹⁴.

But there are a whole host of other general principles around the management of risk such as:

- Risks should be ‘managed’ up front, before the terms of the contract are finally decided. That means deciding who will bear the risks (funder or provider) and how they will be compensated for doing so.
- There is a clear trade-off between the risk that the provider bears and the cost of the project to the funder: providers will bid lower if there are less risks or take the additional risks if they are properly compensated.
- Employment providers are more likely to accept a high proportion of the risks if they can be sure of a long-term relationship with the funder.
- Managing the risk may also mean being innovative and flexible about the design of the contract – not being tied to a model of fixed-price or cost-plus.
- When a funder enters into a long-term, risk-sharing relationship with a provider, it is essential that the provider should have a track record of expertise in the area.
- A close working relationship between the funder and the provider throughout a project, with the funder sharing the responsibility for ensuring the project is delivered on time and to specification, is often the key to success.

¹⁴ Principle III (Chapter 9), Surer Funding: the ACEVO Commission of Inquiry Report, ACEVO (November 2004).

APPENDIX A: EXAMPLES OF COMMON PROBLEMS

Table A.1: Examples

Issues / Problems	Impacts	Recommendations
Dealing with government is bureaucratic	<p>Significant amounts of resources have to be devoted to dealing with the requirements of tenders and contacts</p> <p>The overall procurement process is time consuming and inefficient</p>	Reduction in information requirements
Short tender deadlines	<p>Higher costs as mobilisation of a bid team is difficult.</p> <p>Missed tenders</p>	<p>Information notices should be used to warn Invitation to tender is imminent</p> <p>Improved communication</p> <p>Tenders should be more widely advertised</p>
<p>Delays deciding tender requirements, which are subsequently compensated by reducing time allowed for implementation and start-up</p> <p>Delays from the award of the contract to the contract going live</p>	Higher costs through difficulties in securing property and staff up and running	<p>A reduction in the number of contracts (through larger and longer contracts) is likely to reduce the complexity of procurement</p> <p>Contract process more easy to manage and delays reduced</p>

<p>Overly prescriptive contracts</p>	<p>Detrimental to innovation and flexibility</p>	<p>Recognition that private sector is best placed to decide how best to deliver employment solutions</p> <p>Contracts set the targets. The winning provider should be responsible for delivery</p> <p>Non-government sector allowed scope for managing the delivery of a broader set of outcomes set by government</p>
<p>Changing requirements – subsequent change of tender requirements after ITT deadline</p>	<p>Raises bidding costs as organisations have to re-scope their methodology</p> <p>Inclusion of wrong providers in the final tender (Exclusion of provider who would otherwise have bid for the work)</p>	<p>A rationalisation in the number of contracts should simplify procurement and reduce incidence of bidding for contracts (and the associated costs)</p>
<p>Inconsistency between different contracts and different regions</p>	<p>Additional effort in the production of bids, the management and monitoring of contracts</p>	<p>Guidelines on the timescale for bidding, the contract monitoring process, and the contract length and type</p>

APPENDIX B: THE GROUP OF EMPLOYMENT PROVIDERS

The organisations which are members of the group are:

- A4E
- BTCV
- Enham
- Fern Training and Development Ltd
- Instant Muscle
- National Association for Supported Employment
- Papworth Trust
- Pecan Ltd
- RBLI Employment Services
- Reed in Partnership
- Remploy
- Shaw Trust
- Tomorrow's People
- Training for Life
- Working Links
- YMCA Training