TRANSFORMING REHABILITATION – THE RISKS FOR THE VOLUNTARY, COMMUNITY AND SOCIAL ENTERPRISE SECTOR IN ENGAGING IN COMMERCIAL CONTRACTS WITH TIER 1 PROVIDERS
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Abstract
The Minister for Justice has outlined his aspiration for the Voluntary, Community and Social Enterprise Sector to be involved in the supply chain for the services offered in the Transforming Rehabilitation programme and as a result the sector will enter into commercial contracts with Tier 1 providers. Involvement in commercial contracts will raise many questions for the voluntary sector and may involve risks on a number of levels. These include the financial risk of having to deal with contracts in a commercial environment, where payment may include a Payment by Results element, the outcome of which could be a shortfall in payment if targets are not met. There are also issues relating to how moving into the commercial sector and working with ‘for-profits’ companies could impact on the values and status of ‘not for profit’ organisations. Organisations can take steps to help mitigate some of the risk and the Ministry of Justice is proposing a number of safeguards to help smaller organisations, but how reliable these will be requires examination. By examining other Payment by Results schemes with particular reference to the Work programme, the impact on the voluntary sector can be shown.

Keywords
Transforming Rehabilitation; Voluntary, Community and Social Enterprise Sector (VCSE); risk
Current Position

The Offender Rehabilitation Bill was announced in the Queens Speech 2013 and is intended to set in statute the Government’s Transforming Rehabilitation (TR) strategy. The Bill has completed its passage through the House of Lords and is awaiting a date for its second reading in Parliament. One of the main aims of this policy is to deliver annual savings amounting to almost £2bn by 2014/15 (Comprehensive Spending Review Settlement, 2010).

At the time of writing the following information is correct, but due to the fact that this is an evolving process, it is constantly subject to update and change. There are a number of information workshops being conducted by ACEVO and briefings from the Ministry of Justice (MoJ) that attempt to keep those with interest, up to date. One thing that is apparent is that this is a massive undertaking, which is due to be achieved within an exceptionally tight timeframe, a timeframe which with the current rate of slippage, may be difficult to accomplish.

The MoJ states that localism is an important part of this reform, with the Secretary of State Chris Grayling in his speech to the Centre for Social Justice (2013) outlining his desire for the expertise from the VCSE to be utilised in the delivery of services under TR, stating:

There is no question of us paying only lip-service to the voluntary and community sector as we transform rehabilitation. I am determined to ensure these organisations are right at the heart of our approach, delivering it on the ground – working at every level, and forming genuine partnerships with other providers. I genuinely mean that (Grayling 2013: 9 min 44)

This is reiterated by the MoJ in the Strategy for Reform document (2013(c)) where the value of local services are recognised, particularly the fact that local providers are best placed to identify and deliver services for local service users.

Examination of the VCSE sector in providing rehabilitation services shows that it is a diverse sector with organisations of various sizes offering a range of services. The Centre for Social Justice (2013) estimates there are 1,475 VCSE organisations whose service users are offenders, ex-offenders and their families. Of these 3% have an income greater than £5m (e.g. Turning Point (£80m) and Nacro (£71m)), 23% have an income greater than £500,000, 51% have an annual turnover or income of £150,000 or less and 4.8% had no income at all.

This has implications for Tier 1 providers when building their supply chain. Although it is suggested that Tier 1 will need to have some diversity in their supply chain, ACEVO (Information Workshops, 2013) suggest that complex supply chains are more expensive to manage and Tier 1 will have to compete on price, so this will be a consideration. As a result ACEVO suggest that because of the scale and pace of transition it could be a ‘couple of years’ before smaller VCSE can be introduced into the supply chain. If this proves to be correct it has wide implications for VCSE, in that they would need funding in order to maintain service provision until contracts were awarded.
Risks for VCSE

Financial
Traditionally the primary income stream for VCSE has been through grants provided by a variety of funders. This resulted in VCSE having the monies in place before service delivery and it also meant that organisations were not reliant on money coming from one source, which allowed for independence (which will be discussed later in the paper). Many funders are now moving away from voluntary income in the form of grants, to earned income in the form of contracts. This can clearly be seen in Government spending, where grant income between 2003/4 and 2010/11 declined from £5.6bn to £3bn whilst Government spending on contracts between 2003/4 and 2010/11 rose from £10.9bn to £14.2bn (NCVO, 2013).

There are a number of dangers involved in VCSE moving to contracts from grant funding. Many of these were seen in the implementation of the Work Programme and were outlined in a report by Maddock (2012). The sub-contractors in the supply chain for these services identified the problems as being:

- Cash flow problems and even bankruptcy for sub-contractors who may have to wait up to a year for payment;
- Financial incentives were not passed on to sub-contractors;
- Communication between Primes and their supply chain was poor, which resulted in a lack of opportunity for innovative service provision for those with complex needs;
- Sub-contractors were caught between Primes need to meet targets and the DWP’s desire for innovative service provision;
- There was no guarantee of work from Primes.

There are concerns that many of the problems encountered in the Work Programme procurement process will be repeated in the Transforming Rehabilitation programme. The Secretary of State Chris Grayling, in his evidence to the Justice Committee (2013) admitted that there had been problems with the contracting processes in the Work Programme and there were lessons to learn.

This is evident in research conducted by National Council for Voluntary Organisations (NCVO) (2012) that identified four main issues that impacted on their financial situation. Firstly, the sustainability of contracts. This report found that a number of VCSE had not received any contracts, some had not received formal contracts from the Prime provider and agreement for service was informal perhaps by email or telephone conversation and of those who had received contracts 71 out of 98 were concerned that the contracts were not sustainable; secondly, issues relating to the financial terms agreed with the Prime, which appeared to be a contributing factor as to why contracts were not sustainable; thirdly, payment levels, although this was difficult to assess due to respondents not wishing to divulge commercially sensitive data. However, the authors of the report suggested Primes were passing on an average of 15-20% management fee for referring clients and it was suggested this may warrant further investigation based on data from the
government and Prime contractors; finally, support from Prime contractors. It was suggested that it was important for Prime contractors to assist organisations to manage the payment structure of the Work Programme. It was telling that of the 71 organisations who reported negatively about the sustainability of their contracts, only 6 respondents reported receiving such help.

These issues have been examined in a report by ACEVO and the Shaw Trust (2013), where they recommend refinement rather than reinvention. One of the issues addressed is the funding model, where they state that upfront costs tended to consume all attachment fees and then VCSE were expected to provide services whilst awaiting deferred payments, which put serious strain on their financial resources. Suggestions put forward in the report are higher upfront payments and consideration of the possibility of moving away from per-person outcomes-based payments, and towards a cohort-based funding model.

There are a number of measures being put in place by the MoJ to improve the supply chain, which were outlined in the recent ACEVO information workshops (2013). These include the development of an industry standard contract for all Tiers in the supply chain, with embedded market stewardship principles, which will be discussed fully in the next section.

However, Tier 2/3 will still face a number of issues with regard to finance, in that there will be no guarantee of contracts and no fixed number of referrals, concerns for which were voiced in the Centre for Social Justice Report (2013). Another issue for VCSE is trying to establish a price for their services appropriately, as these are new services that may be untried and the prices quoted would need to be competitive.

The question for VCSE in deciding whether to take on these contracts or not are fundamental and do not as yet appear to have been addressed. Firstly, will there be other streams of funding available for VCSE to engage in offender rehabilitation; secondly, will Tier 1 providers allow VCSE who are not part of the supply chain access to prisons and offenders?

**Contracts**

As the expectation of TR is for VCSE to move into the commercial sector, it is vital that VCSE become commercially knowledgeable. This was outlined by the Secretary of State Chris Grayling in his evidence to the Justice Committee (2013), when examining what had happened in the Work Programme procurement process, he suggested to VCSE organisations:

"some of the reasons you found your participation in that contracting process frustrating were that you needed to be more commercial, and that we needed to do more to help you form partnerships and access financial support." (Q3)
There are efforts being made by MoJ to assist the VCSE in becoming more capable in understanding and negotiating contracts, with commercial skills courses and the introduction of a MoJ industry standard contract to be used by Tier 1.

Two key factors that need to be considered by VCSE when deciding whether to bid for contracts is, what the payment model will be and what factors will inform the results framework.

**Payment by Results**

The payment mechanism suggested for services delivered within TR by the MoJ (2013d) is the Straw Man, comprised of 2 elements, Fixed Fee for Service (FFS) and Payment by Results (PbR). The aim of PbR is to improve service quality by offering bonuses for performance improvement, but withhold payment where targets are not met.

These issues are fundamental when VCSE are trying to place bids for contracts because the bid will rely on projected volumes on the FFS element to enable financial planning and there will be a requirement for sufficient cash flow to meet the PbR element, if that forms part of the contract.

At the time of writing the details of this have yet to be confirmed as the original consultation (MoJ 2013 (d)) resulted in a number of major concerns being expressed by various organisations. For example, Clinks (2013: 1) have made the following statement:

> Clinks would specifically request more detailed numerical information on all aspects of the payment mechanism (including the respective proportions of the Fee for Service (FFS) and Payment by Results (PbR) elements), more information on how primes will be discouraged from passing down undue levels of financial risk and a clearer indication of what proportion of outcomes payments will be linked to binary and frequency reductions in reoffending respectively.

Further issues that were outlined at the ACEVO information workshop remain undecided: will PbR be implemented in the first year or not and will Tier 3 contracts include a PbR element at all? A particularly important issue that does not appear to have been resolved is which model of PbR will be used, binary, frequency or hybrid/grants. Binary looks at the total percentage of reoffending in a cohort and may include a binary ‘hurdle’ where providers will have to meet a specific target in order to get the PbR element; frequency, measures the number of re-offences per individual in the cohort and hybrid/grant which is a mixed model where the cost of delivering service is funded, but additional payments are rewarded as bonus payments if additional impacts are demonstrated.

One issue that was highlighted in the Work Programme where a binary system was used, was the practice of ‘creaming’ and ‘parking’. This is where service users who were most likely to find employment, and so boost figures, were taken by Tier 1 providers and those who were more difficult to help and required more funding, were given to VCSE. This resulted in VCSE on occasions using their own financial reserves to help these clients or clients getting no help at all (Lane, Foster and Gardiner *et al.*, 2013).
Results Framework
When using a PbR payment mechanism how results are decided is vital. A results framework determines the value of which services matter and should be funded and which do not. This will then impact on how innovative service provision can be considered in the funding stream.

There are questions as to how results are measured and who should have input into the development of the framework. Dicker (2011) discusses the difficulty in trying to develop effective methods of measuring the rate of re-offending, which is particularly important in a PbR system. He outlines a number of methods, but each has some element of unreliability within it. He suggests one method would be to look at re-offending rates, but these would not be reliable because not all offenders who re-offend will be imprisoned and those who breach their licence conditions could be called back to prison, but would not have re-offended, which could give a false reading. Other factors such as reducing drug misuse or reduction in debt can result in reductions in reoffending, but are difficult to evidence, and so may not be deemed worthy of funding. There are no reliable measures of all types of crime: the Crime Survey for England and Wales, for example, is subject to sampling errors whilst self-reporting methods are potentially unreliable as offenders are unlikely to report self-incriminating information. Using comparison methods, meanwhile, relies on the comparison groups being matched effectively and the use of predicted measures of reoffending is also seen as being subject to design or operator error.

Another issue identified by Dicker (2011) is how long the monitoring of offenders should be conducted before it is decided the outcome has been achieved. Whilst there are undoubtedly issues related to measuring results via reoffending rates, it should be noted that the Ministry of Justice has a workable definition of proven reoffending which is currently used to measure reoffending rates across Probation Trusts and prisons. Whether this measure is suitable in a PbR context remains unanswered.

Evidencing good performance
In order to win contracts VCSE are going to have to evidence the effectiveness of the services they provide. The MoJ has developed the Justice Data Lab, an analytical service that allows organisations easy access to aggregate reoffending data in order to show statistically the value of their service. How effective this will be is not yet clear, with the first set of results proving to be disappointing. Between April and September 2013 there were 52 requests for re-offending information. Of these 7, requests were fully answered, 7 requests could not be answered due to insufficient data and the remaining requests were awaiting analysis. Another issue when using the Justice Data Lab is that there is a high threshold of data required in a cohort for analysis, which is a minimum of 60 offenders and only data up to 2010 is available, which could exclude a number of smaller VCSE (MoJ 2013 (a)).

It is therefore important that VCSE establish methods of monitoring and evaluating their service provision in order to prove effectiveness of the service provided. Information is being provided that can assist with this which includes the National Offender Management Service's (NOMS) Commissioning Intentions for 2013-14 which outline a
number of intermediate outcomes which, based on current evidence, are seen as having an important influence on reducing reoffending. NOMS are committed to developing innovative services and are aware that small organisations may not have the evidence base to demonstrate the effectiveness of their services. In order to address this NOMS has suggested that these organisations should give a clear description of their service, its aims and who the service users will be. The organisation should then look for reports on similar schemes, to evidence the effectiveness of the service and also put in place their own evaluation methods. However, NOMS (MoJ 2013 (e)) does advise commissioners for services against investing in unproven service provision, but does not give clear indications of how robust such evidence needs to be.

In partnership with New Philanthropy Capital, Clinks (2013) have developed a number of guidance documents to assist VCSE in this area. What remains in question is what level of evidence will be required by Tier 1 from VCSE in order for them to be satisfied of the effectiveness of a service and offer a contract.

**Impact on status of VCSE**

The VCSE has a long history in this country and is trusted to provide services that may otherwise remain unavailable and to speak out on behalf of the vulnerable and disadvantaged (Baring Foundation, 2011). One important aspect of these institutions is that they receive monies from a variety of funders and as such remain independent (Cabinet Office, 2012). The Government’s commitment to now involve the VCSE in commercial contracts has a number of implications for the VCSE, which were highlighted by the Baring Foundation (2013).

One of the main concerns about losing financial independence was the fact that VCSE would lose the ability to speak out against issues of perceived injustice or poor statutory provision or regulation. The Baring Foundation Independence Panel (2013) stated:

‘If the voice of the sector falls silent and charities look to their contract terms rather than their mission when vulnerable people turn up on their door step for support, our democracy is damaged, our society is less compassionate’ (p12)

If VCSE rely solely on their contracts for funding, they are unlikely to risk those contracts by speaking out against the organisation that holds those contracts, whether that be government or a private company. Private companies within the Work Programme were suggested to have included ‘gagging clauses’ to ensure the silence of the VCSE (Rees, Taylor and Damm, 2013). The aim of these clauses was to prevent subcontractors from saying anything that may attract adverse publicity for the DWP and that departmental approval was required before any statements to the press were made. This caused concern for subcontractors and in their opinion proved to be a substantial barrier to the dissemination of information, resulting in the loss of useful material (NCVO, 2012). There is also the suggestion in the Baring Foundation Report (2013) that VCSE may impose self-censorship, not speaking out even if no ‘gagging clause’ exists, so as not to risk losing out on the contracts.
Another issue with regard to contracts is the fact that VCSE will be contracted to profit making companies, which may not lie well with ‘not for profit’ organisations and there is the suggestion that this can lead to mission drift where commercial realities impact on the direction and objectives of the organisation (Charity Commission, 2012).

This appears to be evident in other funding streams with the Department of Communities and Local Government Guidance (2012) where local councils were advised to identify so called ‘fake charities’ and ‘sock puppets’ and to cease funding for them. A number of high profile organisations responded to this guidance including NCVO (2012) who described it as ‘short-sighted’, as one of the important functions of the VCSE is campaigning on behalf of the disadvantaged and to bring to the attention of government, issues where policy may be not be appropriate and need review.

Another issue highlighted by the Independence Panel (2013) was that involvement in commercial contracts would result in a loss of identity for VCSE. The Panel identified three features that establish the identity of VCSE organisations; firstly financial independence as discussed above; secondly, brand power, where individual organisations build a solid reputation by their delivery of service and campaigning and as a result can rely on strong public support; finally, knowledge power where organisations develop insight and understanding about their service users and the services they require.

A final issue identified by the Independence Panel that relates specifically to TR, is that at present prisoners are not compelled to work with VCSE organisations, which leads to successful recruitment of service users. However, this will be lost if VCSE start to provide court-ordered services, because service users may be subject to sanction if they do not attend which could lead to loss of trust in the VCSE as they may be perceived to be a statutory organisation rather than a voluntary one. This was confirmed in research conducted by the Centre for Social (2013) where 64% of respondents were of the opinion that a reason for their effectiveness was due to service users choosing their service, rather than being compelled to use it.

Safeguards for VCSE

There are a number of agreements and institutions in place that are supposed to assist in ensuring that VCSE receive fair treatment when involved in working with government departments. The Compact is the agreement between government and civil society organisations first established in 1998 and then amended and developed in 2009 and 2010. In 2011 the Commission for the Compact was disbanded and responsibility for oversight of the Compact is now shared between the Office for Civil Society and Compact Voice.

The aim of the Compact is to set out core principles that are shared by the public sector and the third sector that allow for partnership working within communities. Every government department is signed up to the Compact and local authorities and other public bodies have a local Compact. The Compact is used in areas such as involvement in policy design and consultation, funding arrangements and ensuring involvement in the delivery of services.
One important issue outlined in the Compact is that organisations are allowed to:

‘Respect and uphold the independence of CSOs to deliver their mission, including their right to campaign, regardless of any relationship, financial or otherwise, which may exist’ (Compact, 2010: 8).

This is particularly important in light of the issues discussed above about VCSE maintaining their ability to speak out and campaign about issues that raise concern, without being in fear of losing contracts or being subject to ‘gagging’ orders within these contracts.

There have been a number of criticisms about the lack of governance by the Cabinet Office in ensuring compliance to the Compact. The National Audit Office (2012) found that although departments were supportive and there were examples of good practice, on the whole there was poor implementation, with the Compact not being embedded in the practice of the departments. There is also difficulty for organisations that may wish to complain about non-compliance in that the ‘understanding and recording of complaints is inconsistent and greater clarity here could help improve the Compact’s implementation’ (National Audit Office, 2012: 5).

One of the reasons this may be the case is due to the lack of central oversight. The National Audit Office suggests:

‘The Office for Civil Society is responsible for the Compact on behalf of government. However, we found its precise role with regard to the Compact was unclear. The Office for Civil Society’s roles and responsibilities in relation to the Compact are not set out in Compact guidance or on the Cabinet Office’s website. There is no body centrally that identifies and disseminates good practice on the Compact’s implementation’ (National Audit Office 2012, p7)

The MoJ in its market stewardship principles for TR, has stated that Tier 1 organisations are expected to follow the principles embedded within the Compact (MoJ, 2013). However, as can be seen above, poor implementation within departments and no commitment to ensure compliance, VCSE is unlikely to be able to expect compliance by Tier 1 organisations.

Moreover, within their market stewardship principles, the Ministry of Justice has included ‘Merlin Plus’ an enhanced version of the existing Merlin Standard principles as a more practical, robust set of measures embedded within the service specification and contractual terms and conditions that Tier 1 providers must adhere to in terms of supply chain management, fair treatment of sub-contractors and the development of healthy high-performing supply chains.

These principles, first developed by the Department of Work and Pensions (2012), are built upon four fundamental and integrated principles. Firstly, supply chain design, providing innovative design where organisations can share good practice and design new
solutions to complex problems. Secondly, commitment, to the supply chain relationship both at procurement and during delivery of service, where Tier 1 providers should communicate with their supply chain clearly and consistently. Thirdly, conduct; Tier 1 providers have a responsibility to manage their supply chains with integrity and openness and in compliance with regulatory requirements. Finally, review, ensuring the supply chain works effectively in providing the services required by customers whilst also having a positive impact on the wider community.

A review of the effectiveness of the Merlin Standard in the Work Programme (Lane, Foster, Gardiner and Purvis, 2013) shows that the views from Tier 2/3 were mixed as to whether the Merlin Standard was effective in protecting them in the procurement process and management of service delivery. Of those interviewed, success in securing referrals appeared to solicit recommendation of the Merlin Standard, which included many Tier 1 providers.

This suggests that two of the main elements that form the Market Stewardship principles for the TR contracts are not viewed as being effective in protecting Tier 2/3 organisations. This will be of major concern to those who may think about bidding for contracts.

**Conclusion**

Getting involved in bidding for contracts or open-trading now accounts for 55% of income for the VCSE. Whether to bid for contracts in the new TR services will be a major consideration for VCSE organisations. Indeed, an important question for VCSE is what the landscape for rehabilitation services *outside* of the TR contracts will look like. These reforms may result in restricted access to prisons and prisoners for those organisations who sit outside the formal contracts that will be introduced, raising questions about how they might continue to work in this sector without working with, and for, a Tier 1 organisation. Moreover, it is likely to lead to even less alternative funding being available, raising the possibility of even fewer opportunities than exist under current arrangements.

There are many factors that are unknown and undecided, but it is possible to examine similar schemes to see what the implications for VCSE might be. There are risks both financially and ethically, but lessons from the work programme appear to have impacted on how the MoJ intend to involve VCSE and the MoJ are attempting to offer some guidance and protection. How effective this guidance and protection has been will not be known until the first evaluations of the scheme are undertaken, which may not be available until it has been running for some time.
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