

DWP Framework SPV Briefing

Introduction:

You are receiving this information to follow up on a meeting or phone call with one of our team in which you expressed initial interest in our model. DWP have now requested clarification from organisations who are wishing to be involved in consortia or SPVs by 17th August 2010. This briefing gives you more information on our intended approach and is as a result of a number of questions that have been raised during those meetings. We hope you agree that this model is best delivered in the spirit of collaboration and so we would appreciate your support in encouraging everyone to work together in their approach rather than ending up with numerous, diluted SPVs. We also hope that this model provides everyone with a fair and sustainable opportunity to deliver services to your respective customer groups.

Our initial intent is to form 11 Special Purpose Vehicles (SPV) (one for each Lot which equates to the 9 England regions, 1 for Wales and 1 for Scotland) in order to secure a place on the upcoming DWP Framework. This is intended to be in addition to individual approaches by constituent organisations and so won't be competitive or exclusive. The Work Programme (DWP) is the first of a number of contracts that are likely to follow the format outlined in the Freud Report (2007), with the expectation that other commissioning bodies (SFA, NOMS, DOH) will move towards a similar structure. The principles of these commissioned services are:

1. A move towards large-scale, complex contracts
2. A transition from 'on programme' payments with outcome funded elements (such as Flexible New Deal), towards payment paid from savings to the treasury / specific government departments.
3. A Prime Contractor taking overall responsibility for these contracts, building and managing a supply chain underneath them in order to gain the most possible outcomes

Who are we?

Hopefully many of you will recognise the name Northwood from our relationship with DWP. We have provided a very successful support programme for the previous rounds of DWP commissioning, working with both suppliers and the DWP teams to ensure that consortia and SPVs are able to tender on a level playing field. Our senior team brings over 40 years of experience in the Welfare-to-Work, training, employability and business support fields. Northwood is led by James Jennings. James is a Prince 2 Practitioner and has spent the past ten years creating, implementing and delivering successful welfare-to-work, training, learning, business support and economic regeneration programmes for major consultancies, large companies and training providers throughout the United Kingdom, including recently at Board level. His experience with government programmes includes strategic management, operational management, quality assurance, project management, direct delivery and research and development throughout the country with Jobcentre Plus, LSC, RDA and DWP contracts up to £34 million per annum, including Employment Zone, New Deal PSL, NDDP and Business Link contracts. In the last 12 months, James has won and implemented over £100m of contracts and has progressed consortia through to ITT stage for contracts valuing £800m in the last 12 months. The Consortium Management model has been recognised as best practice by DWP, who have requested our Quality Assurance methodology to roll out nationally across their contract management functions. We also have a long-standing relationship with the Cabinet Office (OTS, now OCS) to ensure the continued survival of voluntary and community organisations within the changing procurement climate.

What Should the SPV Look Like?

We feel the SPVs should differentiate themselves from the individual Prime Contractor approaches and have the following features:

1. Aligns with the principle of Big Society by creating a community groundswell, structured around established local and Third Sector organisations with a strong track record
2. Demonstrates sufficient financial capability to progress through PQQ (Framework) and ITT (Work Programme)
3. Demonstrates expertise and management capability in order to progress through PQQ and ITT

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4. Provides a funding regime that is appropriate for each individual organisation to perform well (based upon manageable sub-contract size, geographical/customer group coverage and cashflow requirements). This will be achieved by:
 - a. Upfront investment by a financier at the SPV-level which allows the SPV to mitigate the cashflow requirements at each tier (see diagram in Appendix I)
 - b. Large organisations functioning as regional / sectoral leads with a financing model of circa 30% on programme, 70% outcome funding (e.g. £800, £4,500)
 - c. Front-line organisations delivering a clearly defined sub-contract to a specific area or customer group on a sustainable yet targeted financial profile (e.g. £1,800, £1,800)
5. Enables small organisations to have a say in the management and running of the programme
6. Supports the cultural and organisational transformation amongst smaller organisations necessary to move from grant-funding to a cashflow-dependent delivery of services
7. Preserves the supply chain and creates a collaborative environment instead of the existing competitive situation
8. Provides a vehicle for cross-department delivery, increasing value and reducing duplication through a 'joined-up' approach

Therefore, initial intent is to form a legally constituted SPV which can bid as a Prime Contractor in its own right. Best practice, as recognised by DWP suggests that a consortium should have the following features:

1. Structural separation of decision-making / board membership from delivery (i.e. a mechanism to ensure that board decisions are not conflicted based upon their role in delivery or individual organisation loyalty)
2. Clear sub-contracting arrangements and an independent infrastructure function
3. Open management structure, which can include a range of community stakeholders in advisory or 'non-exec' capacities and provides expertise to cover all of the following:
 - a. Strong understanding of each geographical area covered by the potential contract
 - b. Strong understanding of each customer group covered by the potential contract
 - c. Excellent employer and local labour market understanding and links
 - d. Supply Chain Management, Quality Assurance and Infrastructure
 - e. Financial expertise / backing and the associated due diligence requirements
4. Links to / inclusion of key local stakeholders, including Jobcentre Plus, Local Authority, Local Probation Trusts, Colleges / Learning Providers etc.

In addition, in order to position a consortium to take advantage of the Work Programme, it will need to demonstrate:

1. Clear financial backing or underwriting in order to reliably manage cashflow requirements through one or more of:
 - a. Parent company guarantees*
 - b. Investment commitments
2. Legally constituted format

(Our structure has been constructed so that Parent Company Guarantees are provided through a commitment to deliver a part end-loaded sub-contract, with the size of the Parent Company Guarantee being equal to the cashflow requirements of that organisation delivering their service).*

This will have the following benefits to a range of stakeholders:

Stakeholder	Benefit
Finance Provider	<ul style="list-style-type: none"> • Variable ownership options of the SPV – it is a new entity and therefore it will be easier to negotiate equity share.

	<ul style="list-style-type: none"> • Due diligence process through an established and understood management infrastructure as well as influence on the selection of supply chain and board of the SPV. • Geared risk – the amount required to manage cashflow is generally far less than the annual contract value and capital return will still happen with far reduced actual outcome payments. • Project finance – the cashflow funding doesn't need to be committed until after the contract has been won.
Commissioner	<ul style="list-style-type: none"> • Ownership of services by local organisations and individuals (aka Big Society). • Integrated delivery with Local Authority – leads to levered additional resource, thereby further increasing outcomes. • Reliable management with strong track record. • Structure ensures no conflict of interest with built-in anti-fraud systems • System makes capacity building of not-for-profit and SMEs a commercial advantage, thereby preserving and developing the supply chain • Clear demonstration of financial capability through association with finance partner. • Ability to switch funding of delivery from commissioned services to 'savings to the treasury' – critical in a climate of structural deficit reduction
Ministerial Team	<ul style="list-style-type: none"> • Progression of Big Society approach • Inclusion of the Third Sector in a meaningful way • Likelihood of positive customer experience and good news stories • Outcomes and associated savings to the Treasury
Local Stakeholder	<ul style="list-style-type: none"> • Ability to be involved in the overall management of the public services contracts • Minimal initial commitment and no financial commitment
Delivery partner	<ul style="list-style-type: none"> • Stability • Ability to achieve a fair and sustainable sub-contract • Responsibility within their sub-contract for delivery of <i>just</i> their specialist expertise – management and infrastructure is undertaken separately • Ability to be involved at SPV board level – therefore able to contribute to the strategic oversight of delivery.
Customer	<ul style="list-style-type: none"> • Performance • Ability to access seamless delivery • Better funding regime at front-line will provide higher quality and more responsive service • Local ownership of public services contracts is generally seen as more accessible and effective by service-users and statistical analysis

Legal Structure:

The procurement processes within DWP have purposely pushed the point at which a legal structure needs to be formed as far back in the process as possible – in the case of the Framework, a legal entity won't need to be formed until just before the Framework Agreement is signed. This has a couple of advantages, including the ability for the financier and members to choose from a range of legal entities. We are recommending a structure which is as close to a PLC-type environment as possible. For instance, we may choose to use a model of 100,000 shares, with each share worth £500 and each organisation purchasing one share and the financier taking the remainder (or as many as is needed depending upon the mechanisms they choose to use to finance). For example:

1. Ownership of nominal share by each member of the supply chain. This doesn't preclude non-members from being involved in delivery through sub-contracted agreements however.
2. A clear and agreed due diligence process for selection of supply chain members for each specific opportunity by NVC as an independent (non-delivery) infrastructure function

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3. Clear generic Terms & Conditions for any element of delivery with specific clauses to define the delivery role of each organisation in specific contracts
4. 12 voting members and 4-6 non-voting observers (such as DWP, Local Authority etc.)
5. The Board provides regular management of delivery against a pre-agreed scope from the financier
6. Infrastructure entity responds to the requirements of the Steering Board
7. Monthly presentation of performance data and items for action (such as performance below profile)
8. Annual election of 10 board members (excluding financier chair) by all regional delivery organisations, delivery organisations and stakeholders
9. No discussion of commercially sensitive finance at Board meetings (due to Black Box approach of sub-contracting), therefore minutes can normally be made publically available
10. Annual Events where all delivery organisations, DWP and key stakeholders meet to review progress and elect next board

What Does This Mean to Me?

The reason for this proposed structure is to provide the easiest possible running of the SPV. Using this model, your commitments over and above that from a normal sub-contract with a Prime Contractor will be:

1. Operational Time – attendance at a monthly management meeting if you are elected as a Board Member
2. Operational Time – attendance at twice yearly partnership meetings if you are a member of the SPV
3. Organisational Liability – you will need to have an ownership stake in the SPV in order to allow your balance sheet to be taken into account during the DWP assessment. The structure of the SPV is that this ownership stake is likely to be limited to a liability of £1.

The structure has also been created to allow sub-contracts between the SPV and your individual organisations to act as the Parent Company Guarantee (which provides DWP with the assurance that the SPV meets their Financial Viability Risk Assessment). This means that you will not need to contribute money to the SPV (beyond the £1 liability of share ownership), however you will have to commit to continuing to deliver the sub-contracts that you agree with the SPV for individual tendering rounds (in the same way as you would have to commit to continue delivery with DWP). This also means that your only reason for being an owner of the SPV is to have a seat around the management table – therefore if additional organisations need to be involved for subsequent contracts or the financier requires large percentages of equity then this is unlikely to be a negative situation for many organisations.

We realise that this may still require a sign-off from your respective Boards, however we are anticipating that the structure is such that there is minimal risk in being involved in the SPV.

During the writing of the Framework submission therefore, it is likely that we will need the following information:

1. An understanding of your track record (performance, expertise of working with specific customer groups or working in specific geographic areas)
2. Your premises and staff numbers
3. Quality standards and accreditation
4. Your last three years accounts (which DWP require to assess the financial viability of the SPV)

Please note: the information requirements may change depending upon the specific questions asked in the Framework questionnaire. We will try and keep the information that we ask for to a minimum though.

There is no fixed sub-contract size or payment method, however we are suggesting that there will be three types of sub-contract available from the SPV. It is anticipated that different types of organisation will prefer different types of sub-contract. For example:

Type of Sub-Contract	Pros	Cons
Regional Lead (e.g. £25m per annum, funding per person of £800 on programme and £4,500 on outcome)	Large-scale contract, requiring delivery across a large geographical area and sub-contracting as per existing Prime Contracts.	Requires significant (circa £1.5-5m) cashflow investment.
Delivery Organisation (e.g. £1-5m per annum, funding per person of £1,800 on programme and £1,800 on outcome)	Provides significant on-programme payment, minimising the need to cope with large cashflow gaps in the early stages of delivery.	Margin will be smaller as exposure to risk is less.
Completely outcome-driven contract (e.g. £7,000 per person)	Appealing to organisations who use supported employment or who claim an employment outcome very early in the customer journey.	No payment until person moves into employment, therefore need reserves to cover cashflow and certainty of outcomes.

Progress:

We have already held a number of events throughout the country and have gained tentative buy-in from 10 large organisations which collectively have turnover in excess of £2 billion. This should be sufficient to progress through the Framework selection. In addition, we have established dialogue with 9 potential sources of funding and this has been progressed as far as is possible with the current information. We will get more information out at a regional level as soon as the Framework specification is announced as we are anticipating that different large-scale organisations will be involved in each region.

Ways Forward:

This is a brief potential project plan, according to the timetable for bidding outlined by DWP:

Activity	Timetable	Responsibility
Submission of Expression of Interest	By 30 th July 2010	NVC
Positioning and dialogue with Ministers to ensure approach is understood and anticipated	By 30 th July 2010	Potential Consortium Members
Positioning and dialogue with DWP to ensure approach is understood and anticipated	By 30 th July 2010	NVC
Release of PQQ documents	Early August 2010	DWP
Detailed financial analysis	Early August 2010	Potential Consortium Members
Engagement of Further Appropriate Partners in each Region (Regional Leads and Delivery Partners)	August 2010	NVC and Potential Consortium Members
Agreement on formal constitution and Steering Board	August 2010	Potential Consortium Members
Initial agreement of Scope (geography / customer group) of Delivery for Each Consortium Member with initial SLA to that effect	August 2010	Potential Consortium Members
Development of Financial Backing Facility	September 2010	NVC and Potential Consortium Members
Agreement of Service Level Agreement between Consortium Members	September 2010	Potential Consortium Members
Formal Constitution	September 2010	NVC
Construction of Policies, Procedures, Systems and Infrastructure / Implementation Plan	September 2010	Potential Consortium Partners
Submission of PQQ	September 2010	NVC
Selection of Framework Providers	November 2010	DWP

Completion of ITT	Jan 2011	NVC
Implementation and Contract Negotiation	April 2011	NVC
Contract Delivery Start	June 2011	Consortium

We very much hope that this SPV becomes the regional contract of choice and Work Programme is merely the first in a long line of high performing, locally-owned public service contracts. This is certainly the intent of the DWP, who have stated that they will encourage other government departments to commission through the framework as well.

Finance Options:

A brief financial model has suggested that there are a couple of options, dependent upon the decisions made by DWP. *Please note, these figures are based upon estimates and models and would need more information from DWP before becoming accurate, however they should serve to highlight the potential routes for the regional / sectoral leads*

Option	DWP pays SPV		SPV pays Tier 2		Tier 2 pays Delivery Partners	
	OPP	ORF	OPP	ORF	OPP	ORF
1. DWP maintains all funding on 'savings to the treasury'	£0	£7,500	£800	£4,500	£1,800	£1,800
Cashflow needs	£14m		£4m (per delivery partner)		£0	
2. DWP is willing to pay some amount upfront	£500	£6,500	£1,200	£4,000	£1,800	£1,800
Cashflow needs	£14m		£1.5m (per delivery partner)		£0	
3. Financial underwriting is limited	£0	£7,500	£500	£5,000	£1,800	£1,800
Cashflow needs	£8m		£6m (per delivery partner)		£0	
4. Financial underwriting is plentiful	£0	£7,500	£1,500	£3,500	£1,800	£1,800
Cashflow needs	£22m		£2.2m (per delivery partner)		£0	

Key and assumptions:

1. OPP = On-Programme Payment, modelled as 12 equal payments monthly in arrears from point of referral
2. ORF = Output-Related Funding, modelled as 12 equal payments monthly in arrears from job entry
3. Above figures assume:
 - a. Annual achievable contract value of £160m per annum (this is larger than suggested by DWP for one contract but would be representative of likely Lot-wide delivery across a number of contracts as per the way in which the framework works)
 - b. 50,000 referrals per annum
 - c. 40% of people enter and sustain employment

Next Steps:

In order to progress this in the first instance, we are undertaking four broad actions (as per high level project plan above):

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1. Establish financing facility
2. Position with ministers and DWP
3. Develop financial models further and identify within each regional / sectoral lead organisation their appetite and capability to manage risk
4. Create groundswell of interest and buy-in from key organisations in each region, including initial selection processes to maintain the ethos and principles of the consortium

Subject to the organisations which are currently driving this wishing to continue development, this can be achieved by:

1. Establishing roundtable discussions with their networks in each region (including identifying 'advocates' within their organisation who have the contacts, credibility and understanding of the potential membership within their region)
2. Using senior members of the organisation to gain buy-in from ministers and senior DWP / Cabinet Office / DBIS staff
3. Using existing relationships with financiers to present the proposition to as many organisations as possible.

