Session objectives

▪ Provide overview of two potential payment model options: GMPTC and firm price by volume band
▪ Q&A on paymech options
▪ Detailed discussion of questions on details of each model
▪ Explanation of next steps
Overview

• Our aim is to develop a model which works for providers and the Authority and supports a good quality probation service.

• We want to get the model right, but we need your detailed input to do this.

• We have provided two strawmen describing how two alternative models might work: GMPTC with profit based on achievement of outcomes/quality/service levels, and firm price by volume band.

• These are both possible models, but the detailed content is presented purely for the purposes of exploring in more detail how such a model might work and providing a starting point for detailed discussion.

• None of the details or the model itself is yet decided, and there are many questions relating to each model and many underlying details which we need your input on.
Principles of future payment mechanism

The payment mechanism should:

- Be transparent and understandable
- Reflect actual workload, including any changes
- Pay providers a fair price
- Incentivise providers to find and share efficiencies
- Incentivise good quality, without risking reasonable costs of core delivery
- Be open to different providers and operating models
- Assign risk to the appropriate party
## Both models

### Payment elements

<table>
<thead>
<tr>
<th>Element</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sentence management / responsible officer duties (includes licence</td>
<td>Active cases OR sentence starts</td>
</tr>
<tr>
<td>and community RO work, pre- and post-release, resettlement, MHR/ATR/</td>
<td>Weight by complexity/tiering and length?</td>
</tr>
<tr>
<td>DRR)</td>
<td></td>
</tr>
<tr>
<td>Rehabilitation activity requirement</td>
<td>No of RARs OR</td>
</tr>
<tr>
<td></td>
<td>No of RAR days OR</td>
</tr>
<tr>
<td></td>
<td>Weighted by intensity</td>
</tr>
<tr>
<td>Accredited programmes</td>
<td>Programme starts</td>
</tr>
<tr>
<td>Unpaid work</td>
<td>Hours delivered</td>
</tr>
<tr>
<td>Remand releases</td>
<td>No of remand releases</td>
</tr>
<tr>
<td>Attendance centres</td>
<td>Hours delivered</td>
</tr>
<tr>
<td>Back office / fixed costs</td>
<td>Active cases OR sentence starts</td>
</tr>
<tr>
<td></td>
<td>Weight by complexity/tiering and length?</td>
</tr>
<tr>
<td></td>
<td>Or by number of frontline staff?</td>
</tr>
<tr>
<td>Mobilisation, transition, transformation costs</td>
<td>Perhaps variable but at wider (SM/RO) bands?</td>
</tr>
</tbody>
</table>
Bidding

1. Bidders would bid a target cost for a range of different elements of the service (including back office/fixed costs) and a desired profit level, either per element or standard across all elements, to give a target price.

2. All of the elements would be added together to give an aggregate target price.

3. The Authority would provide expected minimum and maximum volume points for each service element. Bidders would bid a target cost for these minimum and maximum volume points for each element, and a number of intermediate volume bands, based on their operating model and when costs were likely to increase in line with volume. We would perhaps set minimum and maximum numbers of bands.

Guaranteed maximum price

1. The maximum price could be based either on the target price (e.g. the model services contract sets it at 10% above the target price) or on the target cost (where it would be set at a percentage higher than 10% to allow space for some profit, but which would give a similar level of cushioning against the target price regardless of providers’ desired profit level). This would be standard across all providers and all elements.
Operation and payment

1. Open-book accounting, including for key suppliers – monthly costs template, similar to bid template, with supporting information.

2. If actual incurred costs higher than target cost, the pain would be shared between the Authority and the provider up to the maximum price.

3. If actual incurred costs lower than target cost, the gain would be shared between the Authority and the provider.

4. Differential gain and painshare could be applied on a tiered basis, and a profit cap could be applied to limit any additional profit being due below a certain point.

5. Assessment of actual costs against target costs would likely be based on the aggregation of the target costs for all elements.

6. Actual awarding of profit dependent not only on whether costs below maximum price, but on whether outcome(s), service levels or quality level achieved.

Change of volume band

1. Expected volume levels for each element notified by Authority three months before new contract year.

2. If there was an actual or expected sustained change in volume, the Authority could give a further three months’ notice to apply the changed volume band and thus the applicable target cost and price, for increases or decreases.
Firm price by volume band

Bidding
- Bidders would bid a firm price for a range of different elements of the service (including back office/fixed costs), either per element or standard across all elements.
- The Authority would provide expected minimum and maximum volume points for each service element. Bidders would bid a firm price for these minimum and maximum volume points for each element, and a number of intermediate volume bands, based on their operating model and when costs were likely to increase in line with volume. We would perhaps set minimum and maximum numbers of bands.

Operation and payment
- Firm price paid monthly in arrears for the notified volume band of each element.
- Reconciliation mechanism may be required to address any costs likely to vary if actual volumes different to those expected.

Service levels
- Service credits if service levels, outcomes or quality levels not achieved
## Firm price by volume band

<table>
<thead>
<tr>
<th>Firm Price</th>
<th>Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>£15,000</td>
<td>£17,640</td>
</tr>
<tr>
<td>£17,000</td>
<td>£21,160</td>
</tr>
<tr>
<td>£19,000</td>
<td>£24,681</td>
</tr>
<tr>
<td>£21,000</td>
<td>£28,201</td>
</tr>
<tr>
<td>£23,000</td>
<td>£31,721</td>
</tr>
<tr>
<td>£25,000</td>
<td>£35,000</td>
</tr>
</tbody>
</table>

- **Firm Price**
- **Estimated Cost**
- **Incurred Cost**
- **Profit**
- **Loss**
- **Costs Paid to Supplier**
- **Total Payment**

### Graph Description
- **Firm Price**
- **Estimated Cost**
- **Incurred Cost**
- **Profit**
- **Loss**
- **Costs Paid to Supplier**
- **Total Payment**
Next steps

General Q&A

Round-table discussion of detailed questions

You may also add post-it notes to the questions on the walls at any point during the day.

Please let us know any further views or questions by 28 September at ProbationCommercialTeam@justice.gov.uk

We will then consider the need for a further session in October or November.

Thank you.
Important points to note

MoJ is undertaking this market engagement ("ME") alongside the ‘Strengthening Probation, Building Confidence’ public consultation, which was launched on 27 July 2018. Please note the following, MoJ:

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