



Review of the Merlin Standard

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This independent review was commissioned by the Department for Work and Pensions (DWP) as part of their ongoing commitment to the Merlin Standard.

Background

DWP introduced a Code of Conduct in the 2008 Commissioning Strategy *'to ensure excellent sub contractual relationships between the top-tier and high performing third sector and other organisations.'*

The Merlin Standard was subsequently developed following an earlier review of the Code of Conduct. The aim of the Standard is to encourage excellent supply chain management and ensure fair treatment of partners and sub-contractors.

After a pilot period, the Merlin Standard commenced full operation in January 2012. Merlin was developed on the principle of encouraging co-regulation and there was active involvement of the industry in its development; and it is overseen by a Merlin Advisory Board composed of key stakeholders. The delivery of the Standard is contracted to an independent organisation, emqc Ltd and the costs are covered by fees charged to those organisations seeking accreditation.

The research

This review examines the experience and views of customers and stakeholders about Merlin after three years of operation. The main research questions were how customers and stakeholders:

- understand the role of Merlin;
- feel the content and implementation of the Standard meets this role and why;
- think the role of the Merlin Standard will need to change in future, if at all;
- think the content and implementation of the Merlin Standard will need to change to deliver its future role. What are the barriers to this?

To establish the current views of providers and stakeholders an online survey was conducted in March 2015, and a total of six focus groups was organised composed of prime contractors, sub-contractors and stakeholders.

Progress to date

Most DWP employment-related service prime contractors are required to be Merlin accredited, which they must attain within the timeframe determined by the terms of their contract, typically within one year of commencement of the contract or its delivery. The assessment process results in a grade ranging from 'unsatisfactory' to 'Excellent'. All accredited organisations are reviewed and re-graded after two years.

In total 41 assessments have been conducted to date. Work Programme prime contractors were the first organisations to be assessed and all 18 contractors achieved a grade of 'Satisfactory' or 'Good' and assessment reports highlighted strengths and areas for improvement. After reassessment the average score increased by 13 percentage points, representing a 20 per cent improvement.

The Merlin Mediation Service was established to allow for complaints by sub-contractors to be considered by Independent Case Examiners (ICE). The use of the Mediation Service has been very low with six sub-contractors originating complaints.

Survey results

A confidential survey was sent to 615 individuals, including prime contractors, sub-contractors, and stakeholders. A total of 118 responses were received which is a 19 per cent response rate. It should be noted that the survey reflects the views of individuals and not necessarily those of the organisations responding.

Overall respondents were positive about the impact of Merlin but with differences between different types of provider. When asked about whether Merlin had achieved its main aim of encouraging excellent supply chain management, the average score was 3.23 (where 5 is best, 1 is worst and 3 is the central point of the scale), but it was higher for prime contractors who were accredited (3.53) and lower for voluntary organisations (2.95).

When asked about 'whether the Merlin Standard has ensured fair treatment of sub-contractors by Prime Contractors', the responses were less positive. The average satisfaction rating was 3.01, with accredited organisations (3.29) and public sector organisations (3.33) the most convinced, while voluntary organisations were the least convinced that Merlin ensured fair treatment (2.67).

When considering the extent of the rigour of the standards to become accredited 62 per cent thought it was 'about right', 15 per cent thought they were 'too weak' and 11 per cent thought

they were 'too rigorous'. A majority of accredited respondents thought the accreditation process was thorough (76 per cent) and efficient (68 per cent) and 48 per cent felt the process was testing and they had to improve their systems. However, only 45 per cent thought 'it was worth the process and cost'.

We asked sub-contractors for their views on the impact of Merlin. 48 per cent thought that Merlin had improved supply chain management, 28 per cent thought that it had not made a difference and 24 per cent disagreed that supply chain management had improved.

The lowest agreement was on whether Merlin had 'given you [sub-contractors] sufficient protection' where 31 per cent agreed that it had, 33 per cent disagreed and 35 per cent were neutral. Sub-contractors were broadly split on whether Merlin had enabled them to openly express their views about lead contractors, with 43 per cent saying that Merlin had and 40 per cent saying it had not.

Voluntary organisation sub-contractors were the least positive about the impact of Merlin. Thirty-nine per cent thought that it had improved supply chain management and 55 per cent thought it had made no difference to prime behaviour, and only 29 per cent thought Merlin provided sufficient protection.

Focus groups

Focus group participants included Merlin Advisory Board members plus other stakeholders, sub-contractors and prime contractors suggested by DWP and *Inclusion*. Focus group participants broadly reflected the survey findings and contributed a wide range of ideas about how Merlin can be improved and the challenges it may face in the future.

Sub-contractor views: The general feeling was that Merlin had improved lead contractor practices and behaviour but it had not fixed all of the problems and issues that it might have done. There may have been high expectations by some sub-contractors of the extent of support and protection afforded by Merlin, which has resulted in some disappointment. Overall, sub-

contractors were looking for improvements to Merlin rather than scrapping it.

Prime contractors: Merlin was broadly embraced as a positive standard with the realisation that it required time and investment to get right. Some felt that Merlin had established itself as an industry standard that was worthwhile and beneficial to primes and sub-contractors alike. However, some felt it did not have a sufficiently strong reputation for being a rigorous standard. Prime contractors 'had to have it' and given its perceived lack of rigour by some, a few felt that even high grades were not an indication of best practice.

Stakeholders: In general, stakeholders felt that Merlin had improved supply chain management since it was introduced and had brought more rigour to how supply chains should be managed. However, some felt that further steps are needed and not all participants felt that improvements could be wholly attributed to Merlin. While Merlin had been effective at encouraging higher standards the 'jury was still out' as to whether Merlin was widely recognised as ensuring fair treatment of sub-contractors.

Responding to change

The consultation identified a range of issues that respondents thought would influence the future direction of Merlin and these can be summarised as:

- future changes in commissioning priorities and processes;
- the design of new programmes and the nature of capacity and capabilities required to deliver them;
- market composition and conditions, such as the extent of market consolidation and the extent of sub-contracting;
- the extent and nature of devolution of employment programmes.

Within the context of a continued use of prime contractors with supply chains, there is little to suggest that the basic requirement of encouraging excellent supply chain management

and protecting the legitimate interests of sub-contractors will cease. Any changes to Merlin are best seen within two timeframes:

- 1 those immediate changes that can be made to improve Merlin for the duration of the existing Work Programme contracts;
- 2 changes that are either essential or desirable to be made within the context of new programmes and any changes to the commissioning process.

Recommendations

The review makes a number of recommendations for the future of Merlin based on experience to date and the recognition that Merlin may need to respond to changing market conditions. We divide our recommendations into two groups:

- 1 improvements to the current Standard;
- 2 Merlin in the future.

Improving the current Standard

There was a considerable range of different ideas proposed by respondents in the survey and in the focus groups. In summary the headline recommendations are:

- improve publicity and transparency;
- improve market information;
- best practice case studies and market dialogue;
- further improving the rigour of Merlin;
- fees should be more responsive to the size of organisation;
- mutual agreements prior to referrals to specialist provision;
- Expression of Interest form;
- DWP standards in managing suppliers.

Merlin in the future

The original ambition for Merlin was that it was widely adopted across Government wherever supply chains were used. This has not proved to be the case so far and other departments have chosen to develop equivalents. We recommend that DWP should focus on developing Merlin for the employment-related industry and that the Cabinet Office and/or the Crown Commercial Service should co-ordinate relevant activities by other departments to establish the feasibility of a generic standard.

Merlin could be more widely used by local commissioners if the accreditation process was less onerous and lower cost. Irrespective of introducing a sliding scale of fees suggested above, DWP should also consider the value of a reduced version of Merlin that can be used locally. This recommendation also applies in other scenarios, e.g. for small or low value contracts.

There remain detailed considerations that are necessary to inform the development of a regulatory regime that will enable Merlin to adapt to new market conditions. We recommend that in any consultations and/or proposals for future commissioning, the implications for Merlin are considered and proposals made for its future.

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