House of Commons

Committee of Public Accounts

Department for Work and Pensions: the introduction of the Work Programme

Eighty–fifth Report of Session 2010–12

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume.
Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Philip Aylett (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and Michelle Garratty (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

The Work Programme replaced virtually all welfare to work programmes run by the Department for Work and Pensions (the Department). Having only started in June 2011 this is an early opportunity for us to look at the Programme and how it has been implemented. The Work Programme is designed to help long-term unemployed people into sustainable employment. Over the next five years, the Department expects the Programme to help up to 3.3 million people at a cost of £3 billion to £5 billion. The Department has contracted with 18 prime contractors to deliver the Programme across England, Scotland and Wales. Each of the prime contractors has their own subcontractors.

The Department has done well to introduce the Work Programme in 12 months. The Work Programme has new features which give providers longer to work with individuals and greater flexibility about how they help people into work. Prime contractors receive the majority of their payments once a participant has stayed in a job for a set period of time, with the length of time varying according to claimant group.

The Department believes that the payment by results contracts have transferred the financial risk of the Work Programme to the providers. Although some financial risks have been transferred, the test of whether the Programme is achieving value for money will be broader than this and there are new risks associated with the changes from previous programmes. Among other things, the Department and prime contractors will need to show that more people are in work as a result of the Programme than would have been if it had not existed and that the wider social benefits which underpin the cost benefit analysis are delivered in practice. The Department needs to be alive to the impact the difficult economic environment may have on the Work Programme.

The Work Programme is based in large part on payment by results. The Department is less concerned with defining how clients should be treated and the services they should receive and is measuring success on sustained job outcomes. The Department must seek assurances on a range of issues. For example, that sub-contractors, especially charities, are treated fairly, that they were not misled into accepting inappropriate contracts, and that they receive the number of cases and funding that they were promised. The Department also needs assurances that harder-to-help claimants are not parked and ignored. And to ensure proper value for money, the Department should require assurances that the provider added real value in placing people into work and has a clear understanding of how many individuals would have found jobs by themselves.

The Department currently relies on contractors to set minimum standards of service. However, the Department has no measurable indicators against which the quality of service all participants receive can be judged.

Reliable data on performance will not be available until autumn 2012, some 15 months after the Work Programme started. The Department must assure itself and us that no improper payment is made to contractors before the effective monitoring systems are in place. It is important that this data shows clearly the performance of individual contractors. We expect the Department to use this data when evaluating the performance of prime

contractors and how they manage their subcontractors.

The Department is currently developing its plans to implement Universal Credit in autumn 2013 which could lead to major changes to the Work Programme's claimant groups and payment regime. Any changes the Department makes must address our concerns regarding the quality of service for all participants and the value for money for taxpayers.

There has been significant media coverage recently of investigations into alleged fraud in welfare to work schemes. Whilst allegations relate in the main to previous schemes, they point to an area of significant risk and the Comptroller and Auditor General is carrying out further work on this and will report in May.

On the basis of a Report by the Comptroller and Auditor General,[1] we took evidence from the Department for Work and Pensions on the introduction of the Work Programme

1 C&AG's Report, *The introduction of the Work Programme*, Session 2010-12, HC 1701

Conclusions and recommendations

1. **We commend the Department for introducing the Work Programme (the Programme) quickly. It now needs to demonstrate that the risks of implementing the Programme at such speed and against a background of difficult economic conditions have been effectively addressed.** It was a significant administrative achievement that the Programme was introduced in 12 months. However, the Programme was not piloted, design and development phases overlapped, the business case was devised after the decision to go ahead had been made, and the IT system designed to support the Programme was not in place until March 2012. The Department now needs to demonstrate that, in the face of changes in the volumes of referrals to the Programme and changes in economic conditions, it can still hold prime contractors to the delivery promises they made. The Department also needs to demonstrate that payments to contractors are valid and correct.

2. **Achieving value for money will need to go beyond a reliance on risk transfer.** The Department has transferred some of the financial risk of low performance to prime contractors. Consideration of the Programme's value for money should be wider than whether prime contractors meet their contractual targets. In its on-going assessment of value for money, the Department should include whether the Programme is achieving all its objectives, including whether all participants receive a suitable level of support, and whether the Programme produces the expected wider benefits to society of getting more people off benefit and into work. The assessment should also take into account unintended consequences, such as the risk that participants on the Work Programme are replacing existing workers.

3. **Service standards vary between contractors and are not always measurable**. The level of support that participants require from the Programme depends on the complexity of their needs. However, prime contractors receive an attachment fee on the basis of the participant's benefit type and the Department will pay this fee regardless of the service individuals receive. This raises the risk that prime contractors 'park' the hardest-to-help within each payment group as these individuals may require more support. Conversely, in cases where little input is required, contractors may get paid for doing very little. The Department currently relies on each prime contractor to set out the standard of services all their participants should expect, but these are not always measurable. The Department should require prime contractors to set measurable minimum standards that all participants can expect. It should monitor the quality of service provided by contractors to make sure that these standards are maintained. As part of this it should seek feedback on the quality of service provided from participants on the Programme and should review the results of this regularly.

4. **Reliable data on the performance of contractors in the Programme will not be available before autumn 2012.** Accurate and detailed information is necessary to judge the Programme's performance and that of each provider. The Programme will operate for a full 15 months before participants, prime contractors, subcontractors and Parliament are informed of, and able to compare, performance. This is clearly

less than ideal, and the information to be published must show performance at the level of individual contractors. This should include the minimum performance levels for each contract and the level of performance achieved.

5. **Recent press reports have highlighted the possibility of fraud in welfare to work schemes.** Whilst many of the allegations relate to previous schemes, they highlight issues with the Department's control environment. The Department considers the risks of fraud to be low, even in the absence, before March 2012, of its IT system that will carry out automated checks on whether people prime contractors say they have placed into work have ceased claiming benefits. The Comptroller &Auditor General will examine and report to Parliament on the control environment for welfare to work schemes. Prime contractors should not be allowed to exploit subcontractors. In the Pathways to Work Programme some prime providers retained a disproportionate amount of the payment from the Department and 'cherry picked' the easier-to-help claimants. The Department's Merlin standard is intended to regulate the relationship between prime contractors and subcontractors, and the Department plans to accredit each prime contractor against the standard by June 2012. The Department should make sure its audit of performance against the Merlin standard will properly establish whether subcontractors are receiving the agreed workload and that administrative fees charged by prime contractors can be justified by the services provided.

6. **There is little transparency over the financial affairs of companies which derive their income solely from government.** Where companies depend on public sector contracts for the bulk of their income they can expect their performance, profits and remuneration packages to be subject to proper scrutiny by Parliament on behalf of the taxpayer. In other areas of government spending the Efficiency Reform Group has secured significant benefits, by for instance negotiating rebates from companies that have multiple public sector contracts. The Efficiency Reform Group should extend the scope of its challenge to contracts with companies which have central government as their main source of income. We remain of the view that in the interests of transparency, where private companies provide public services funded by the taxpayer, those areas of their business which are publicly funded should be subject to the Freedom of Information Act provision.

7. **The Department must be vigilant to the impact Universal Credit may have on the Programme.** Universal Credit is due to be introduced from autumn 2013. It could lead to major changes to the Programme—for example, to the definitions of claimant groups and associated payments to prime contractors and to the number of participants joining the Programme. The Department appears not to have considered how the implementation of Universal Credit will impact on the Programme and how this impact will be managed. The Department should report to the Committee in November 2012 on the key changes to the Programme that will arise from Universal Credit, the risks for the Programme, and the actions it is taking to mitigate these risks.

1 Securing value for money from the Work Programme

1. In June 2011, the Department for Work and Pensions (the Department) replaced virtually all welfare to works schemes in England, Scotland and Wales with the Work Programme (the Programme). The Programme's objectives are to increase employment compared with previous schemes, decrease the time individuals spend on benefit, increase time employed for those coming off benefits, and narrow the performance gap between easier and harder to help claimants. Compared with previous welfare to work programmes the Work Programme has new features which give providers longer to work with individuals and greater flexibility about how they help people into work. The Department anticipates that the Programme could help 3.3 million people over the next five years at a cost of between £3 billion and £5 billion. [2]

2. The Department developed the Programme in 2010 using data drawn from 2001 to 2010 where the economic circumstances, with unemployment at 5.6% on average, were considerably different from today's prevailing and predicted economic conditions.[3] The Office for Budget Responsibility's most recent forecast suggests the average rate of unemployment for the first five years of the Programme will be 7.8% and the number of people referred to the Programme over its lifetime will increase by 32% above the Department's initial expectations.[4] These conditions will make the Department's performance expectations challenging for providers to achieve.[5] Nevertheless, the Department assured us that they are confident that the performance requirements set in the contracts with prime providers can be met.[6]

3. It is a significant administrative achievement that the Department has introduced the Work Programme in 12 months when similar programmes have taken four years.[7] However, this has introduced additional risks. These include the Programme not being piloted, the design and development phases overlapping, and the business case being devised after the decision to go ahead had been made. In addition the Programme was launched before the IT system designed to support the Programme was operational. At the time of the Programme's launch the IT system could not carry out automated checks on whether people prime contractors say they have placed into work have ceased claiming benefits. The Department told us that the IT system would be fully operational by the end of March 2012 , and confirmed after the hearing that the system for automated checks had gone live on 26 March. [8]

2 C&AG's reports, paras 1 -3, 1.9

3 Office of National Statistics, www.ons.gov.uk

4 Qq 19, 67, 73

5 Q 36

6 Qq 67-70

7 Q 104

8 Q 135, C&AG's report paras 13, 15; Ev 38

4. In the absence of suitable IT, the Department considers the risk of fraud and error with regard to the outcome payments to providers to be low.[9] Recent press reports have highlighted that since 2009, the Department has launched investigations into nine cases of alleged fraud by A4e.[10] The Comptroller and Auditor General is to report on the control environment for welfare to work schemes.

5. The Department believes the Programme will deliver value for money and that it has transferred the risk of underperformance to providers.[11] However, the risk of poor performance is not just borne by the provider but also by the Department, and participants in the Programme.[12] However, the payment by results model means that only a small proportion of the payment would be made. The Department will still have paid attachment fees and will pay for outcomes that would have been achieved without the Programme—payments amounting potentially to well over £1 billion. Many scheme participants will remain unemployed and the Department will continue to fund their benefit payments.[13] The Department intends in time to phase out the attachment fees.

6. The assessment of the Programme's value for money needs to go beyond transferring the risk of underperformance to providers. It should include consideration of whether harder-to-help participants are overlooked, the service levels that providers deliver and the experiences of participants. In addition, it should consider the impact of other schemes such as the newly introduced Youth Contract, and whether the wider benefits to society expected from the Programme have been achieved.[14]

7. The Department has recognised that the Programme might deliver impacts beyond saving on benefits.[15] The Department's financial case for the Programme relies on the wider benefits to society being generated by getting claimants into paid employment. Whilst such benefits are challenging to measure the Department needs to return to them as it assesses the Programme's success.[16] The Department also needs to protect against the risk of job substitution—a person on the Programme secures a job that would have been taken by somebody outside the Programme— as this has not been taken into account in deciding how much to pay providers.[17]

8. Recently, the Department introduced the Youth Contract to help young unemployed people into work. The Department told us that the Youth Contract sits within the Programme and is a subsidy available to an employer that moves a young participant into

9 Qq 106, 108

10 For example: The Financial Times, 22nd February 2012 Group in fraud probe has been investigated nine times; The Guardian, 22nd February, Four former staff at welfare-to-work company A4e arrested in fraud inquiry

11 Qq 70, 72, and 168

12 Qq 13, 169

13 Qq 72, 94, and 147

14 Qq 72, 147, 280

15 Q 88

16 C&AG's report, paras. 1.12 and 3.2

17 Q 83

work. The Department described the Youth Contract as an employment subsidy for a young person on the Programme.[18]

9. The Department has attempted to address the risk that harder-to-help people will be ignored by allocating participants to one of eight claimant groups categorised according to the benefit they receive.[19] Each claimant group attracts a different level of payment designed to reflect the barriers to employment that category faces.[20] This approach to classification does not, however, necessarily reflect the level or complexity of a participant's needs.[21] A prime provider and a subcontractor told the Committee that some people are much easier to help than others, even if they are in the same category.[22] This could lead to unintended consequences, such as the 'parking' of harder-to-help individuals.[23] One prime provider suggested that the payment regime could also lead to a situation whereby someone in a category that attracts a higher payment is easier to place in work than someone—for example, a young person with no work history—who attracts a lower payment.[24] The Department acknowledged that it is very difficult to reflect individual circumstances accurately in the prices paid to providers. It plans to evaluate the Programme and publish the results to establish how improvements to future programmes can be made.[25]

10. In addition to a system of differential payments, providers have been required to develop minimum service standards, which apply to every individual with whom a provider works. The published minimum service standards vary across prime contractors. One prime contractor's service standards runs to a mere eight sentences whereas another has around 10 paragraphs.[26] Although these minimum service standards are contractually binding, their wording is often vague and unquantifiable, which will make it difficult for the Department to measure actual performance.[27]

11. Participants' experience of the Programme will also be sought as part of the Department's arrangements to evaluate the Programme.[28] The Department's mechanisms to collate customer insight are not, however, as robust as those used in other welfare to work schemes abroad.[29] An expert on welfare to work schemes in other countries told us that the Australian model includes a follow-up 'customer satisfaction' survey to understand the experience of participants. Australia also has a clear complaints process for participants to use if they do not receive a minimum level of service. The Department has no plans to

18 Qq 280, 283

19 Q 4

20 C&AG's report, Figure 4

21 Q 2

22 Qq 2, 3, 221

23 Q 244

24 Q 221

25 Qq 225, 226

26 Q 37

27 Q 52

28 Qq 59, 226

29 Q 52

conduct regular customer satisfaction surveys and the complaints process in place to handle participant redress was described to us as ‘opaque’. [30]

30 Q 52

2 Monitoring and managing the Work Programme's performance

12. The Programme operates a prime contractor model—the Department contracts with individual providers who may manage one or more subcontractor. The Department has contracted with 18 prime contractors to deliver the Programme across England, Scotland and Wales.[31]

13. The prime contractor may refer a claimant to one of its subcontractors.[32] In our report on the Pathways to Work scheme, a predecessor of the Programme, we criticised the Department for its poor oversight of subcontractors and an absence of understanding of how risk and reward was shared throughout the supply chain. In the past, prime contractors have not referred participants on to subcontractors and have 'cherry-picked' claimants that are easier to help. [33] Whilst two subcontractors told us they had a positive relationship with their prime contractors, risks may still fall disproportionately on subcontractors. [34]

14. We heard from A4e, a prime contractor for the Work Programme, about how it passes on £350 to its subcontractors out of the £400 it receives from the Department for each attachment to the Programme.[35] It therefore keeps 12.5 per cent of the attachment payment as a management fee, which it explained to us covered some of its administrative costs, such as managing the relationship with the Department and employers.[36] We were sceptical as to the value the prime contractor added for the management fee it received as some of the services provided, such as liaison with companies like Tesco, may already be carried out successfully at a local level by subcontractors.[37]

15. The Department has introduced the Merlin standard to regulate the relationship between prime and subcontractors.[38] The Department plans to accredit each prime contractor against the standard by June 2012 by checking that prime contractors are meeting the promises made in their bids to secure contracts for the Programme, and their contractual obligations with subcontractors. [39]

16. In February 2012, the Department published information on the number of claimants who have been referred and attached to the Programme in the period June to October 2011. In that period, 370,000 people were referred to the Programme; of these 332,000 were attached to the Programme. The Department has analysed referrals in a

31 Q 228; C&AG's Report, para 1.6 and 2.3

32 Q 2 and 228; C&AG's Report, para 1.6

33 Qq 23,32, 224, 275; Committee of Public Accounts, *Support to incapacity benefit claimants through Pathways to Work* (First report of Session 2010-11), para. 8

34 Qq33, 35, 173

35 Qq 173, 174

36 Q 244

37 Qq 174, 180, 251

38 Q 275; C&AG's report, para. 3.19.

39 Q278

number of different ways—by age and gender, for example, and by provider–and the information is publicly available. It plans to publish similar statistics on a quarterly basis.[40]

17. The Department will not, however, publish information on the number of claimants who have secured long terms jobs, one of the key objectives of the Programme, until autumn 2012 at the earliest, around 15 months after the Programme commenced. This is due, in part, to the fact the Programme's success is based on securing sustainable jobs.[41] The Department also needs to meet the reporting requirements of the United Kingdom Statistics Authority.[42] The Department's contracts with prime contractors and, theirs with subcontractors, prevented disclosure of performance information at our hearing.[43] The Department told us that when it does publish performance information, it will do so in a number of geographically distinct ways—by local authority for example, and parliamentary constituency.[44]

18. A4e has won five contracts with an estimated value over the Programme's life of £438 million. The majority of A4e's income from the Programme will be provided for securing successful job outcomes.[45] A4e's public sector contracts in the United Kingdom also go beyond this Programme.[46] For the 12 months to 31 March 2011, A4e's revenue from its activities in the United Kingdom was £215.9 million, of which £213.8 million, or 99 %, was derived from public sector contracts. A4e's post-tax profit on this revenue was 6.1%.[47] A4e's dependency on public money means that the Government and Parliament have a significant interest in its financial affairs.[48]

19. The Department plans to introduce Universal Credit in autumn 2013 and has been designing it alongside implementing the Work Programme.[49] Universal Credit will replace the different existing benefits, such as Jobseeker Allowance and Employment Support Allowance, which determine the payment categories for the Programme, with a single form of benefit.

20. A subcontractor told us that the introduction of Universal Credit represents a good opportunity to revise and improve the categorisation process to a more needs based approach.[50] The Department told us that it had not yet considered the impact of Universal Credit on the Programme as this was something it could manage at a later date. [51]

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40 Q 206, http://www.dwp.gov.uk/newsroom/press-releases/2012/feb-2012/dwp017-12.shtml

41 Q 91

42 Qq 91, 208

43 Qq 9, 11,91 207, 230

44 Qq208, 209

45 Q 265, C&AG's report, Appendix 3

46 Q 113

47 Q 130

48 Q 265

49 Q 292

50 Q 3

51 Qq 292, 293

Formal Minutes

Wednesday 25 April 2012

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon
Jackie Doyle-Price
Matthew Hancock
Stewart Jackson
Fiona Mactaggart
Mr Austin Mitchell
Nick Smith
Ian Swales
James Wharton

Draft Report (*Department for Work and Pensions: the introduction of the work programme*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighty-fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Thursday 26 April at 9.30 am

Witnesses

List of printed written evidence

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The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
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Twenty-third Report	The Major Projects Report 2010	HC 687

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Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765
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Thirtieth Report	Management of the Typhoon project	HC 860
Thirty-first Report	HM Treasury: The Asset Protection Scheme	HC 785
Thirty-second Report	Maintaining financial stability of UK banks: update on the support schemes	HC 973
Thirty-third Report	National Health Service Landscape Review	HC 764
Thirty-fourth Report	Immigration: the Points Based System – Work Routes	HC 913
Thirty-fifth Report	The procurement of consumables by National Health Service acute and Foundation Trusts	HC 875
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Eighty-second Report	Department for Education: accountability and oversight of education and children's services	HC 1957

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 8 February 2012

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon	Meg Hillier
Stephen Barclay	Fiona Mactaggart
Jackie Doyle-Price	Austin Mitchell
Matthew Hancock	Ian Swales
Chris Heaton-Harris	James Wharton

Amyas Morse, Comptroller and Auditor General, **Marius Gallaher**, Alternate Treasury Officer of Accounts, **Gabrielle Cohen**, Assistant Auditor General, NAO, **Ed Humpherson**, Assistant Auditor General, NAO, and **David Clarke**, Director, NAO, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

The introduction of the Work Programme

Examination of Witnesses

Witnesses: **Geraldine Blake**, Chief Executive, Community Links, **Professor Dan Finn**, Professor of Social Inclusion, University of Portsmouth, and **Baroness Stedman-Scott**, Chief Executive, Tomorrow's People, gave evidence.

Q1 Chair: Welcome, and thank you. The House will probably have a vote just before 3.50 pm, so we will see how it goes. I particularly thank the three of you for accepting the invitation to appear before us. I shall explain how we do this.

This Committee holds officials—Accounting Officers—to account for value for money. We have introduced a new way of bringing in some of the people at the coal face first to give us an idea of what it is like for you, instead of always hearing just from officials. This a very short session, usually about half an hour, and is an opportunity for you to tell us the issues that we should be thinking about as we try to evaluate at this early stage—we know that it is an early stage of the Work Programme—what the risks are, and what the Department should be thinking about to ensure that it is effective, efficient and economic in the delivery of welfare to work. That is the purpose.

Meg Hillier: I wish to declare a connected financial interest as my husband is a non-executive director of Prospects, which is a prime contractor for an area of the Work Programme

Q2 Chair: Good. I am going to give you the opportunity to say what you think in that context. Here we are, at an early stage of a five-year programme. Who would like to start? Geraldine, I am throwing it at you. What are the key issues that we should be thinking about in terms of value for money? We are not questioning policy; we are looking at value-for-money aspects.

Geraldine Blake: At Community Links, we have been saying for a long time that the black-box approach would be a better way to deliver interim employment work. We have been saying that having a longer time to work with people who have the most complex problems would be a good thing. We have also been saying that we would be completely ready for payment by results; we are confident about delivering that and about our track record. We think that the Work Programme is a good thing.

Looking forward, there are two things we would like to see that I think could make it even better. One is about differential payments. At the moment, people are sent to us and we are paid on the basis of what type of benefit people are on. People come with a whole range of problems—JSA could be for someone very easy or someone very difficult. Actually, the differential payment should be based on the level and complexity of somebody's needs. At some point, what you need to do through the system is a really good diagnosis of what those needs are.

Q3 Chair: So you mean rather than the category of claimant, the level of need?

Geraldine Blake: Absolutely. We are not saying, for example, "Let's have a different payment for young people", because some young people will be straightforward and some young people will be very complicated. What we are saying is that we need an initial diagnosis that says, "This person is going to be quite straightforward to work with", and, "This person has 10 different problems and is going to require a lot of support over a long time". That is what the payment should be based on.

I think that there is a huge opportunity with the introduction of Universal Credit to be able to do that diagnosis at that stage, when we get rid of all the different types of benefits. Let's do a really good diagnosis at the job centre that identifies what level of support a person is going to need, and let's get that support in really quickly, and not wait until they have been on benefits for 12 months.

Q4 Matthew Hancock: There are already eight levels of support. Are you saying that there needs to be more granularity?
Geraldine Blake: No. I am not saying that there should necessarily be more than eight levels of support. We are saying that those levels of support should not be determined by what benefit you are on.
Jackie Doyle-Price: It is not. The range is from £3,810 up to £13,720. It is not just on the basis of benefits.
Fiona Mactaggart: Yes it is.
Matthew Hancock: If you look at figure 4 in the report, that's a quite helpful one.
Chair: What page is figure 4 on, Matt?
Matthew Hancock: Page 15.

Q5 Meg Hillier: Are you asking for it to be simpler or more complex? I am not quite clear. There is a simplicity about the model. That can lead to problems in complex cases, but identifying the complex cases can take more time and effort.
Geraldine Blake: For people who are sent to us because they are on JSA, there are a range of payments depending on how old they are or whether they are coming in on a voluntary basis, but within that, the range of support those people are going to need is very different. The payments should reflect—
Jackie Doyle-Price: It does.
Geraldine Blake: The support?
Jackie Doyle-Price: It ranges from £3,700 to £13,720.
Fiona Mactaggart: Jackie, one of the issues is that if you take group 7 in figure 4, which is described in figure 3 as employment and support allowance claimants who have recently moved from incapacity benefit, they are a very high-value group. That group includes people who have been temporarily ill, who are on the incapacity benefit when they were temporarily ill, but have a history of working. They are now on ESA and relatively easy to get into work. It also includes people who have never worked and who have been signed off on incapacity benefit and then ESA. If we look at those two people, they are hugely different.

Q6 Matthew Hancock: Coming back to Miss Blake, the question was, do you think there should be more than eight groups? You said no.
Geraldine Blake: I said no.

Q7 Chair: But she does think that there should be more sensitivity.
Ian Swales: "Defined differently" is what you are saying.
Geraldine Blake: It is too blunt an instrument. I think that is what we are saying.

Q8 Chair: You had a second point. We are going to have to come back to this.
Geraldine Blake: The second point is about transparency. For anybody who is working in the Work P+rogramme—prime contractors, subcontractors—transparency about referrals and performance is essential if any of us is going to be able to plan ahead, to look at what the trends are and to think about whether we are going to have to scale up or down, and at whether what we are doing is working well, or whether there are other people we can learn from. If we want to provide a service that is absolutely the best that we possibly can for the people we are providing it to, we need to have a transparent system.

Q9 Chair: Can I just ask some very quick questions, because I didn't realise that you were actually a subcontractor? Are you reaching the 40% in terms of putting people into work?
Geraldine Blake: No, I don't think that I am actually allowed to tell you what our performance is. Is that right?
Baroness Stedman-Scott: Under the terms of our contracts—

Q10 Chair: ERSA published something, and it is the trade association.
Baroness Stedman-Scott: In that case, I respectfully ask you to speak to ERSA. In the confines of the contract that we have signed, we are unable to give you detailed information.

Q11 Mr Bacon: You are contractually prohibited from stating what your performance is?
Baroness Stedman-Scott: That is correct, sir.

Q12 Matthew Hancock: Do you think that you will hit the 40% target?
Mr Bacon: How do you feel about it?
Geraldine Blake: Community Links was the best performing provider on the New Deal for seven years in the whole of London and the south-east region. We were hitting 27%.
Chair: Better than Tomorrow's People.
Geraldine Blake: In London and the south-east region. The Work Programme gives us longer to work with people; it enables us to take a black box approach to do whatever is needed. I am positive about our performance.

Q13 Chair: Are you getting enough ESA referrals?
Geraldine Blake: No, they are coming through too slowly.

Q14 Chair: Out of the £400 that is the attachment fee, can you tell us how much of that you get?
Geraldine Blake: No.

Q15 Chair: I think you can. I have been told in my own borough.
Geraldine Blake: I will find out for you.

Q16 Chair: Do you know?
Geraldine Blake: No, I don't.

Q17 Matthew Hancock: Can I ask the same question to Baroness Stedman-Scott? How's it going?

Baroness Stedman-Scott: Can I just clarify that I am here in my capacity as chief executive of Tomorrow's People?
Matthew Hancock: Yes, sorry.
Baroness Stedman-Scott: As for how the Work Programme is going, like others we are delighted with the black box approach. We have argued for it. It gives us the flexibility to do what we do. We have ended up with four subcontractors around the country, all in very different areas. One of them is in an area where the economy fares better; others where it is not so good. At the moment, we are hitting the average figure. We have 20%, one in five get into work.

Q18 Chair: Are you viable on that basis? Are you viable over time? Is the contract viable?
Baroness Stedman-Scott: When we did our financial modelling on the business model, we didn't start on day one, hitting where we needed to be, so we are building up. We are where we thought we would be at this point in time. Everybody is working very hard to ensure that we do hit the targets and do the best for the people who we are in business to serve. As for the issues around employers, we are having to redouble our efforts to get to them. In some places, we are having to convince them to give people opportunities but, thus far, we are not doing too badly.

Q19 Chair: Are you worried about the economy? Given that the programme was established in 2010 in very different economic circumstances from what they are now, and what they are likely to be, looking at the Office for Budget Responsibility going forward, you are hitting 20% now. Given the economic circumstances, are you worried about the financial viability of your programme going forward? I know that it is an "if" and a "but", but on the OBR forecasts, with a 32% increase in the number of referrals that are coming through to you now—not to you personally, but are going through into the system—what does that make your organisation feel?
Baroness Stedman-Scott: If you look at the two things that keep us awake at night, it is the economy and the ability to create jobs. I cannot argue with you on that one. We can do the job—we are committed to people and we are good with employers—but the other issue for the sector I represent is getting the working capital into the system to allow us to play our own full role.

Q20 Chair: How much of the £400 are you getting?
Baroness Stedman-Scott: I don't know. I will come back to you and tell you.

Q21 Chair: I was told in my own borough by the subcontractors. Do you know how much you are getting?
Geraldine Blake: No, I don't, but I will come back to you with that.

Q22 Meg Hillier: In my borough, one of my providers does not have a contractual relationship with the prime contractor, and they feel that they benefit by the flexibility of not having that contractual relationship. You both have contractual relationships, and are therefore paid exactly on your performance. The financial modelling for the third sector is very challenging—Baroness Stedman-Scott raised that issue. Are there other models that could work? How do you feel that it is going with the contractual model, and would other models work equally as well, as they clearly do in some places?
Geraldine Blake: Do you mean where you are delivering into employment work without a Work Programme contract?
Meg Hillier: Without having a contractual relationship with the prime provider—basically, the deals being done on individual clients.
Baroness Stedman-Scott: I think that I speak for most people. I like to have a contract and to know where I stand. I like to know what is expected of me, and for others to know what is expected of them. If you do not have a contract you are on spot purchasing. If I have understood the situation correctly, the aspirations for referrals and businesses activity on the Work Programme have not come forward for a lot of people who have got spot purchasing. Having a contract is a good discipline and it makes things easier to understand.

Q23 Meg Hillier: One issue that I come across often is the challenge of dealing with people who have disabilities or, in particular, mental health problems. Do you deal with those groups? I am sure that you do. Can you provide any analysis of how things is going so far regarding people who are more challenging to place in the workplace?
Geraldine Blake: ESA referrals are starting to come through for people who have been assessed as capable of working. We found that the level of complexity has gone right up. Some of the people we are working with are exceptionally difficult and a very long way from being able to join the labour market. At the same time as we are providing them with Work Programme support, our advice team is probably also helping them to launch an appeal against the assessment that they are fit to work in the first place. There was the New Deal programme, and our staff are very used to dealing with challenging people. At the moment, however, a whole new level of complexity is coming through.

Q24 Austin Mitchell: You are both charities, and I wonder whether you are in danger of being the fall guys of the system. You took on these contracts and subcontractors on the basis of figures that were calculated at a time when the economy was thought to be doing better than it is. The Audit Office, however, has based its calculations of the success rate on more recent figures that are gloomier, and it is still possible that the economy will get worse. In that case, it will be difficult to reach the targets that will trigger payments. Who carries the can if that happens, and who makes the profit if you succeed?
Geraldine Blake: Taking on these contracts is a huge risk for us. Under the New Deal—

Q25 Austin Mitchell: Does that mean that you could go bust?

Geraldine Blake: It is a huge financial risk. It wouldn't break the organisation, but it is the biggest risk to us. Under the New Deal, Community Links had a £5 million contract directly with the DWP. We were the best performing provider in London and the south-east. When the Work Programme came in, we were not big enough to be a prime provider, although we would have liked to have been. As an organisation that gets more young people into work than any other provider in London and the south-east, we did not feel that we could walk away from this. We felt that we had to be in this game.

Q26 Austin Mitchell: Whatever the risk?
Geraldine Blake: Obviously, my finance director would say no, of course not whatever the risk. However, we had been planning for this. We could see this coming a long time ago so we have been building the working capital to enable us to cash flow these contracts. But you are absolutely right—it is the thing that keeps us awake at night.

Q27 Austin Mitchell: How about Tomorrow's People?
Baroness Stedman-Scott: When we did our financial modelling, we applied a series of benchmarks when deciding whether or not to take the subcontracts. Based on our previous track record and the benchmarks that we set, we agreed a budget and a performance regime that we believed we could achieve. As I said, we are where we thought we would be at this time.
Austin Mitchell: And meanwhile, things are getting worse.
Baroness Stedman-Scott: They are getting worse. You are quite right, and it makes the challenge all the greater. On going bust, we have an intense monthly review in our organisation, and I would not let Tomorrow's People go under because the contract was not working or it was forecast to—

Q28 Chair: Would you walk away?
Baroness Stedman-Scott: I don't like the term "walk away", but I would have some more robust conversations with the prime—
Chair: To try to get more money.
Baroness Stedman-Scott: The economy affects everyone, not just the primes; it affects the subs as well.

Q29 Chair: When the old new deals existed, there were many more public sector jobs around, and I bet that more than half of your placements were in the public sector. That is my guess. Is that right?
Geraldine Blake: I couldn't say for definite.

Q30 Chair: But I'm not that far off?
Geraldine Blake: No.

Q31 Chair: Now that there are no public sector jobs—they are being cut back—you are forced into a much more fragmented private sector environment, which is in difficulty. What about that as a challenge?
Geraldine Blake: You are right. Jobs have gone in the public sector in east London. We are slightly buffered from the full impact because of the Olympics, and not just the Olympics, but because of Westfield, the new Siemens green enterprise zone that is about to open, and the other stuff that comes around the Olympics. But they are very different types of jobs, so we are seeing many low-level jobs in retail, security and so on. One thing that concerns us about east London is that you have a lot of that low-level stuff, and some very high-level jobs, but no pathways to move from one to another.

Q32 Ian Swales: Building on what has just been said, the very first hearing by the new Public Accounts Committee in 2010 was, as the Chair said, on Pathways to Work. One message from that was that there seemed to be a mismatch of risk and reward between the primes and the subcontractors. We heard stories about subcontractors having many more problems when things didn't go as well as expected. It was the subcontractors who seemed to lose. What would you say about the balance of risk and reward between yourselves and the primes? You know what the overall—
Chair: You will have to answer very fast, because we must go and vote.
Baroness Stedman-Scott: The risk in the contracts is high, and for tier 1 subcontractors, let alone tier 2, the risk is great. That is why we must manage our risk very carefully, and make sure that we pinpoint the time, so that if it happens, we can do something about it.

Q33 Ian Swales: Are the primes carrying as much of the risk as they should, compared with yourselves? That is the real question.
Baroness Stedman-Scott: From what I understand, I think that we probably carry more risk that the primes, but at the end of the day, there is financial risk and reputational risk. I doubt that the big primes will want things to go wrong. They will want them to succeed because that will have such a major impact on their business. We are not experiencing with the primes that we are dealing with any bad behaviour. There is an open dialogue, and the ability to tell them how it is.

Q34 Matthew Hancock: Isn't the flip side of risk the incentive, which is what payment by results is meant to achieve?
Baroness Stedman-Scott: Yes.
Geraldine Blake: Yes.

Q35 Chair: Geraldine, do you want to deal with that, because it is going to be an important question?
Geraldine Blake: It is up to us to negotiate the relationship with our primes. We have a very positive relationship with our prime contractor, which is one of the voluntary sector primes—the Careers Development Group. I think it has been enormously positive. It has brought the ability to deliver things such as bespoke systems, and increased employee engagement. There are benefits as well.
Sitting suspended for a Division in the House.
On resuming—

Q36 Chair: Just tell us your take, from having looked at what is happening, on where you think the risks are, what is concerning you—any views that you have that you think that we should have regard to.

Professor Finn: Just by way of introduction, I am not a provider; I am an expert on looking at equivalent systems in others countries and jurisdictions—Australia in particular, which is the country that has contracted out most of its public employment services and has been doing it now for four of five major contract revisions; so it's a good comparator, albeit a very different system.

A couple of quick observations. The Audit Office asked me to do a quick review, which is published alongside their own report and that also tried to signal some of the other kinds of risks that may be involved. The first point I would want to make is that there is a set of risks which are to do with the immediate conjuncture of that—that is, economic circumstances are very different, etc.

There are other risks to do with the nature of the design of these types of programmes and how they work their way through over a longer term in terms of the contract delivery. The first thing I would say is that, whilst there are some risks involved for some voluntary organisations in this, some of the more significant risks, I think, lie around the treatment of individual service users going through the programme. The evidence from other countries is that service users can get more or less better deals with either for-profit or non-profit organisations. The status of the organisation is not what determines the level of service and the treatment that actually people receive. The issue here is, to me, one about—one of the issues I am sure you are going to be talking to the Department about afterwards—performance expectations and projections. Even on the Department's own projections, the best part of two thirds of the people going through this programme will not be getting jobs. So there is a question about how they are going to be treated, what are the service levels that they can expect and how is it that providers will anticipate and deliver services, knowing that that is a likely kind of outcome. In the jargon, it is called, "creaming and parking".

How will providers decide who they are going to put their investment in and who they are going to work with more intensively and then what are the circumstances and what is the position of those people who do not get that kind of level of services?

The second issue I would like to point out to people is that, when you look at the evolution of these systems, particularly in Australia and the United States, one of the ways in which you get efficiency and one of the ways in which you drive up the performance of the systems is having far fewer organisations delivering the programmes. What happens over a period of time is that winners emerge. The people who are best at doing this, who have the best procedures and the best systems are the ones who win bigger contracts.

I think that rationalisation of supply chains is going to happen in the Work Programme. Some of the risks may be exacerbated because of the circumstances we are in at the moment, but this is a process where ultimately there is going to be far fewer subcontractors and possibly prime contractors delivering this programme, maybe over the course of this initial contract.

So there are two things: the level of risk to service users and supply chain rationalisation and how do we stop safeguards that might actually stop those efficiency gains taking place.

Q37 Chair: That is the design issue. So how would you design it? What is the design change that you would put in place that would be better for service users, which is obviously the objective of the programme and would mitigate some of the risks that you see? What would you design differently?

Professor Finn: The most immediate thing, and to some extent the contract has already been let and the decisions have actually been made—the notion of the black box is that it is only a black box until the prime contractors decide and design their own service delivery and then it becomes a pretty grey box, because they have got procedures requirements.

One of the flexibilities they were given was in determining their own minimum service standards. If you look at the minimum service standards, they vary across prime providers. In fact, the publication with all the minimum service standards for the different primes can range from one prime, which has about eight sentences, to another, which has about 10 paragraphs. These are very different minimum standards. In the equivalent system in Australia, there is one set of national minimum service standards.

Q38 Mr Bacon: Who lays those down?

Professor Finn: The Department.

Q39 Mr Bacon: Can I ask you about creaming and parking? Plainly, the structure of the chart, with the sustainment payments starting on the right hand side being the biggest chunk, is designed to counter creaming and parking. From your experience, how successful is that type of structure? Does it have the desired effect in incentivising providers to avoid cherry-picking?

Professor Finn: Cherry-picking takes place anyway. If we think about this—

Mr Bacon: There will be some of that.

Professor Finn: What kind of design features enhance service coverage and the number of people who will benefit from it? One of the things about those cohort payment systems is that the risk is that you will get creaming and parking within the groups. There is a significant variation in characteristics within those groups. Equally, you get that in the Australian system, which has the classification—granular profiling—that some people think is an answer to that. It does not necessarily work in practice.

The key thing is to have minimum service standards that ensure that providers cannot be too predictive and cannot ignore everyone. They have to deliver a level service to people. Frankly, they surprise themselves by the number and types of people they can get into jobs, who, predictively, they might not actually work with.

Q40 Mr Bacon: You said that whether the provider was a not-for-profit or a profit-making business was not the deciding factor. What is?

Professor Finn: Over time, the efficiency and ability of those organisations. They have their niche places. There are clearly parts of Australia in which for-profit organisations would not choose to operate, and choose not to operate. In those niches, third sector organisations—in particular, the non-secular, smaller, community-based ones—continue to thrive in the Australian systems.

Q41 Austin Mitchell: How about cheating?

Professor Finn: Cheating in terms of fraud or gaming is a constant risk in the systems. One of the things that the purchaser loses in these black box contracts is real insight into how the contracts work on the ground and how services are delivered.

I have just been in Australia. One of the things that they invented stopped one particular type of gaming, in terms of how the contracts were awarded, but became yet the latest bit of the system that got gamed. One of the biggest gamers was a non-profit organisation that was delivering. A question to ask about the non-profit sector is not just how many organisations there will be, but what will that set of non-profit organisations look like in three to five years' time? If it is like Australia, there will be some non-profits that do very well—in Australia those are faith-based organisations such as the Salvation Army and Mission Australia. The non-profits that do very poorly are community-based, smaller, secular organisations.

Q42 Fiona Mactaggart: Dan, I am interested in what you are saying about the fact that winners and losers will be coming out of this. In Australia, there have been clear winners, but various classes of people have lost. What advice can you give us about managing subcontractors who might stop being able to provide the service, so that we get good value-for-money for the taxpayer and, particularly, for the people who those subcontractors are working with?

Professor Finn: One of the warnings to draw from the Australian system is that they have a shorter contract cycle—every three years, rather than five to seven-year contracts. That gives the purchaser greater opportunity to get rid of poorer providers in the first place, which is an advantage of that system.

There is a key thing to avoid. In Australia, because of black box contracting and perverse incentives that were created in the system, the purchaser's response was, frankly, to re-regulate—to re-bureaucratise—the system, and now it is incredibly prescriptive. Clients must be seen in a certain time sequence; certain things have to be done in certain ways. Up to half the money in the system is chewed up in administrative and process costs.

Let's anticipate that, but we need insight into client experience. One of the basics that they have in the Australian system—I am surprised that we don't have it in ours—is a follow-up survey. What happened to you when you were on the programme? What did you think of the programme? How was your personal adviser? That is then used five, six or seven years on to be able to have a quality indicator of how each of the providers is doing, not only for the people who get jobs but for those who may have had their lives improved but ultimately did not get jobs as a result of the programme.

Q43 Fiona Mactaggart: I had a question that I really wanted to ask Geraldine. You were talking about placing people in Westfield. Your prime contractor is a voluntary sector organisation, and I am quite interested in the situation that I am observing in retail where people are being placed for free in retail operations for work experience. In my view, that seems to be squeezing out permanent employment in relatively low-paid retail. I have noticed companies such as Tesco making their standard contracts four-hour contracts. WH Smith has a zero-hour contract policy, as do places such as Primark in my constituency. I have constituents who have worked in those places and who are not getting the hours of work that they used to have, which is obviously having very substantial follow-on impacts on tax credits and so on. Have you encountered that?

Geraldine Blake: I am not aware of our encountering that. This morning I met the director of Westfield. They had some targets for local employment, which they have exceeded by 50%. They have done some great work with the businesses in Westfield on questions such as "How do we get those local people into jobs? How do we keep them in jobs?"

Q44 Fiona Mactaggart: Do you think the planning targets, which were part of Westfield's getting the planning permission, were very significant in that?

Geraldine Blake: I think they were significant, although I think they were probably too low. They could have challenged themselves more.

Q45 Chair: I have heard the same. Did Westfield do any of this taking people on, not paying them and calling it work experience?

Geraldine Blake: Not as far as I know.

Q46 Chair: Dan, you may not feel able to answer this question, but given the changes in the economy since these contracts were first signed in 2010, and given the OBR projections on employment, do you think these contracts will remain viable over the period of the contract?

Professor Finn: It is about risks. Equivalent contracting periods and processes that have taken place in Australia have found that the providers, when they feel the squeeze, come back as a fairly effective lobby to the purchaser. They will negotiate relaxations—sometimes more up-front funding and sometimes the ability to recruit new and different groups into their service delivery.

Q47 Chair: And perhaps do more cherry-picking.

Professor Finn: Well, the issue to me is about both cherry-picking and the fact that it is here we may see a deterioration in service standards. One of the ways of managing cash flow—let us not forget that if there are more unemployed people coming into the system, the initial thing for providers is a bit more money

coming in, because they are getting more attachment fees.
Chair: Only for the first two or three years.

Q48 Matthew Hancock: Can I ask about that? One of the things I picked up on earlier, Ms Blake, was that you said that you are not getting as many EMA through—sorry, I mean ESA.
Fiona Mactaggart: There is no such thing as an EMA any more.
Matthew Hancock: Quite so. Another value-for-money change. Are you finding that there is more coming through on JSA, and, therefore, in terms of cash flow up front, you are getting one replacing the other? Or am I linking two threads wrongly?
Professor Finn: It is the same attachment fee for both.
Geraldine Blake: I don't think there is necessarily a link between the two. Our referral numbers are, as Debbie was saying earlier, within the spread of what we thought they were going to be.

Q49 Matthew Hancock: So they are broadly as expected, even if the mix is different?
Chair: Well, no, because if you place an ESA claimant in work—I can't remember the figures, but you will get twice as much.
Matthew Hancock: Not necessarily. If it is a group 5, it is less than for JSA.
Chair: It depends on who it is.
Matthew Hancock: You get it quicker. You get the same attachment fee for both.
Baroness Stedman-Scott: We are where we forecast to be in terms of performance for jobs. In terms of flows on with JSA, we are where we thought would be. ESA has been slower, but it is coming through.

Q50 Stephen Barclay: I fully agree with the point about gaming and the risk of the industry coming back and lobbying for changes. What I didn't follow, Professor, is your desire for a top-down, national, one-size-fits-all set of standards. My understanding of the programme was that it is to encourage innovation, that some providers will go and that that is not in itself a bad thing.
This is the Committee representing value for money for the taxpayer. Whereas previously we had a scheme that was funding up-front schemes that then failed, by which time we had already paid the money, here we are paying for success. The industry has paid more than £0.5 billion, which means that it thinks the risk is worth taking. Why are you seeking to move away from that and have some mandated set of standards?
Professor Finn: These are about minimum service standards. The requirement at the moment in the contracts is that each prime provider indicates what their own are. They are required to make them available to the service user coming into the system, who then has rights of complaint and rights of appeal if they are not being given those standards.
When I have spoken to providers, they quite like the idea of common minimum standards. These are minimum standards. The innovation, add-ons and flexibility still exist, but you are comparing like with like. How do you compare one prime provider who says they will see people regularly, another prime provider who says they will see them once every four weeks and another prime provider who says they will see them every fortnight?

Q51 Stephen Barclay: I am not interested in the tick box of how often they see them; I am interested in what the outcome is and whether it works. Let me give you an analogy from a different area. You can have a tick box that says that if you want to travel from Manchester to London, the horse must stop 10 times and be given half an hour each time to eat hay. You might get another innovator that comes along and says, "Well, I failed those service standards, because my horse doesn't stop at all. I've got a car, and it drives from Manchester to London. It does it differently, but it produces a better outcome."
What I am interested in is seeing providers innovate. We should be looking at the gaming around the outcomes, the changing of the outcomes and the phoney jobs which aren't real outcomes. It is how you get to those outcomes. Having a tick box that says someone turns up once a week, sits in the class and doesn't pay attention but is there and therefore ticks the box is what probably went wrong in the past. What I want to see is much more rigour around the outcome, but much more flexibility around the journey to the outcome, whereas you seem to be arguing against that. I just want to understand why that is.
Professor Finn: No, because then you have the other risk, which is the risk of parking. The experience in Australia, in the first contracting round of the job network, was that when providers had clients for up to a year in their intensive assistance stream—outcome payments, service fees—what they found was that most people got jobs in the first two to three months they were with the provider. The subsequent evaluation found that the experience of many of the other people who didn't get jobs was that they barely recalled seeing a provider in the following eight to nine months. It is that issue about parking, as well as creaming, which is clearly what you want—more creaming, more people in jobs—but it is the experience of that other group. Otherwise, what is to stop the provider saying at the inception of the programme, "You're too difficult to place. I'm not working with you."?
Stephen Barclay: There are different groups. There are the hard to reach, the middle tier and the easier tier. You reward those differently. Again, that is what this programme is driving at: different rewards depending on—
Chair: Stephen, just remember one thing. In all these equations, there is another cost to the public purse. If that person is never worked with, they take benefits for ever and ever.
Stephen Barclay: Sure, but you incentivise that outcome, because it is a harder-to-reach client. The programme is incentivising harder-to-reach clients. That's in figure 4.

Q52 Fiona Mactaggart: We are actually arguing about the design of the programme, rather than about value for money. My question in terms of value for money and minimum service standards is this. Is there a way that customers can hold people to account? Everyone gets £400 on the basis of the minimum service standards. Is there a way that a user can hold someone to account?

If you look at Ingeus's minimum service standards, they promise "a flexible service that is convenient and accessible", a "personalised package of support" and "a professional Careers Academy". They will "keep in regular contact with you" and "ensure you can easily contact us". Others say they will see people in measurable terms. I wonder if what you are saying is that these service standards, while they can vary, should be able to be measured, so that someone can know whether their provider is meeting them.

Professor Finn: There are two responses. In the Australian system, that is what you test when you do the customer satisfaction survey on a regular basis. The second thing is that there is a clear complaints process if you feel that you have been poorly treated or that you have not had the minimum service standards—for example, not getting disabled access—which ultimately goes back to the Department. There are such processes inside the Work Programme that are far more opaque.

Q53 Meg Hillier: You talked about the assessment at Jobcentre Plus stage to get more detail before someone is referred to the contractor and then on to you. Can you explain exactly what you are asking there? I am still not clear what it is that you want them to do. Would it save money? No one has mentioned evaluation—actually Professor Finn just did a bit. Are you being evaluated as you go? What is the evaluation process?

Geraldine Blake: You have mentioned easy to help, not quite so easy to help and really hard to help. That is what I was saying right at the beginning. This is not about whether someone is on JSA, ESA or has come off IB, or whatever it is. Some people will be easy to help. If we assess people on that basis and we do that diagnosis properly at the beginning and that is how we do the payments then those hard-to-help people won't get parked because there is a much bigger payment for them. This is not about who they are, whether they have just come out of prison or whether they are young. It is about what their actual problems are. It is about doing a proper assessment with them. It is right that it should not be the contractors or the subcontractors who do that; it should be somebody in the jobcentre.

Q54 Meg Hillier: Do you think that Jobcentre Plus is equipped for that?

Geraldine Blake: We would love them to be equipped for that. That is how you would improve the service.

Q55 Meg Hillier: Are you being valued as you go?

Baroness Stedman-Scott: What I would say is that we employ an internal auditor who goes round everywhere regularly to see that the client journey is as we say it should be.

Q56 Meg Hillier: Best practice perhaps?

Baroness Stedman-Scott: Absolutely.

Professor Finn: The Department has commissioned an evaluation which has been undertaken by a consortium of research organisations and will be reporting back on a regular basis.

Q57 Mr Bacon: Are you in that consortium?

Professor Finn: Yes.

Q58 Chair: Do you mean reporting publicly or to the Department?

Professor Finn: Once it has gone through the Department.

Q59 Fiona Mactaggart: Will that include the kind of survey that you talked about?

Professor Finn: There will be surveys of service users in those two stages, but it is not the regular monitoring model.

Q60 Chair: Anything else before you go?

Geraldine Blake: There is a tension between the commercial environment that we are operating in and transparency about what's working, who's doing this really well and how do we get the best possible service for the service user? The more transparent those evaluation mechanisms are and the more that we are prepared to share what we are doing, the better.

Chair: I have to say that I have a very clear view on this. It is public money. If it is public money, we ought to be able to follow the pound to see that we are getting value for it.

Q61 Mr Bacon: So you would favour all these evaluations being published unvarnished?

Baroness Stedman-Scott: Absolutely.

Q62 Mr Bacon: Even if the Department looks at them first?

Baroness Stedman-Scott: Absolutely.

Q63 Mr Bacon: Professor Finn?

Professor Finn: That is something for the Department. They are the ones who hold the contract.

Q64 Mr Bacon: I am asking not about the Department's opinion, but about yours.

Professor Finn: I am known as a fairly robust contributor to these kinds of debates anyway whether it is tied directly to the evaluation—

Q65 Mr Bacon: You mean that nothing will stop you saying what you think?

Professor Finn: Exactly.

Chair: I don't know what your contract says, but never mind.

Baroness Stedman-Scott: One thing I would ask, and it reflects value for money and effectiveness, is that Transport for London and the DWP have an arrangement about subsidised travel. If you are on the Work Programme, that does not happen. In your constituency, Chair, Tomorrow's People have got a discretionary fund. Let's say that 10 people came and we gave them grants. Eight of them got jobs. One of them is about to get a job, and one didn't. Without that innovation, it wouldn't have happened. If you can open that up to everybody, you will get a better bang because more people will be in work.

Chair: Very good. You always do very innovative stuff.

Baroness Stedman-Scott: We do our best.

Chair: Thank you very much.

Examination of Witnesses

Witnesses: **Robert Devereux**, Permanent Secretary, DWP, **Alan Cave**, Senior Responsible Owner, The Work Programme, DWP, and **Andrew Dutton**, Chief Executive, A4e, gave evidence.

Q66 Chair: Welcome. It is good to see you again, Robert. I welcome Andrew Dutton and Alan Cave. Just some rules of engagement, so that there is no misunderstanding: we are tight on time due to voting and the fact that we started a little late, so—I know you do this anyway Robert—I will interrupt if I think that there is waffling or the question is not being directly answered, and it is only in that context that I will do so. The more we can stick to the questions, the better the engagement will be, I am sure. All right? Let's start by saying that there is a general understanding that we are coming at this early in the programme. We have done this elsewhere in Government with other programmes. We just talked a little earlier about smart meters, which is a classic example. We also had a session with DEFRA about the design of that programme, and I gather from members of the Committee that our recommendations had an impact on how they have taken that forward. I think we all, unanimously around the table, want the programme to work, and you should not see it as an attack if we identify some risks this afternoon. I hope that you can respond in that positive way to the conversation we have and take on board some of the risks that we see, particularly from a value-for-money and effectiveness perspective, as the Public Accounts Committee.

I will start on the economic circumstances which you find yourselves in now. It was 2010 when the programme was designed and you let the contracts. You based it on a much more benign, if not positive, labour market and economic environment. We are in a much more difficult economic environment, with rather gloomy OBR forecasts for the next four years or so. Do you think that in that climate the performance requirements that you have set are too high?

Robert Devereux: We have based our estimates, and in particular, the prices that we have now contracted at, on, as you say, 10 years' worth of analysis.

Chair: Sorry, can you say that again?

Robert Devereux: We have based these contract prices, which we have now let, on the analysis of 10 years' worth of data—up to somewhere around 2010.

Chair: Up to 2010.

Robert Devereux: Because we have looked at all the people who could have been notionally put on to the Work Programme in 2007–08, and that is a programme that will then run for two further years.

One of the first things that I did when I looked at the Report and saw how the National Audit Office arrived at this was to ask, given the average that we thought previous programmes had managed to achieve, which is recorded in the Report here, was there any evidence that as you got towards the end of that 10-year period, and people had to deal with the recession, our estimates were plunging off a cliff? The short answer is that they were not. We went through every single person on JSA over a year and then tracked their actual performance through the HMRC's P45 data, and for the last quarter's data that we looked at, the performance of the people who were referred in January to March 2008—looking at their experience over two years—in terms of whether they were likely to get a job at 26 weeks, was pretty much within the bounds of variation of all the averages of the previous 10 years.

Q67 Chair: I completely understand how you got to determining your performance requirements, when you let the contracts—I do get that. I am asking a different question. Since you have let the contracts in 2010, there has been a change in the economic environment. We have much more pessimistic OBR forecasts. You are having to, I think, on your own figures in the DWP, put 32% more referrals into the Work Programme. Does that whole environment give you confidence that in this climate, you can meet the performance requirements set in your contracts with your prime contractors?

Robert Devereux: I am clearly not explaining what it is the first time round. For some of the people whom we have tracked, on whom we have then built the prices, they were experiencing the depth of the recession. For those people, they were achieving a level of performance consistent with the—

Q68 Chair: Was it 40%?

Robert Devereux: The averages that we produced for the JSA claimants for 25-plus was, I think, 38%, on the back of previous programmes. That was the level of average across the period, and we were managing to see something not very far off that, even in the last quarter.

The issue is this: the National Audit Office then comes along doing a completely separate calculation, which has not had the benefit of going through cohort by cohort, on a programme that was around simply for 18 months. The programme was just starting, was rapidly under a notice of termination, and was in the absolute depth of the recession all the way through. The question that you need to consider in the PAC is, would you rather base a contract that will be making payments for nine years—that is how long the Work Programme will continue—on that very narrow window, right in the depth of the recession, with all the conditions that I have just described, or on something that has had a long track record of what had happened in the real world?

Q69 Chair: I didn't want to get into an argument with the NAO. Are you confident?
Robert Devereux: Yes, I am.

Q70 Chair: You are confident. That's all I wanted to know.
Robert Devereux: But there is a second point to make about this. I am not determining the performance here. I have let contracts, and I have transferred risk to providers. We can debate for as long as you like whether the performance will be what it will be right now. All I can tell you is that for every single level of performance that turns up, you would have better value for money and lower provider profits than had I followed the metrics that the NAO was using.

Q71 Chair: We can argue about the transfer of risk and we will come to that in greater detail—
Robert Devereux: You can't argue about the value for money, though.

Q72 Chair: From my perspective, the value for money has to be seen not just in terms of the narrowness of the contract, but if people don't get into work, for all sorts of other reasons, there is an additional cost on the benefit. It may not show on your DWP—
Robert Devereux: I'm going to disagree with this. The taxpayer is about to put in—we have estimated—£3 billion to £5 billion. We have offered you, and the Report records it, a return on that investment that is higher than any previous employment programme that you have had, with the possible exception of simply voluntary programmes for lone parents right at the start of the last Government. Therefore, I am giving you higher value for money—
Chair: If it works.
Robert Devereux: Sorry. There are two things going on here. Later on in the report, it is very clear that if the providers do nothing better than what would have happened anyway, they would make no money at all, and the taxpayer will not be paying for this. It is clearly the case that the question of value for money is critically dependent on what the eventual performance is. But we would be in a much, much worse position, Chair, had we erred on the side of giving them higher prices, because somehow, we thought that the NAO's 26% was a good number. I don't think it's a good number.

Q73 Chair: I have to, at this stage, allow the NAO to come in.
Amyas Morse: Interestingly enough, we also thought carefully, as we have done all the way through, and we have been in touch regularly, about these projections. What we did was to take our projection—which is one, and we are not saying that it is definitely predictive—and apply the same base information that Robert used. We found that we came out with the same predicted level of performance that he did.
Let me just deal with one thing. We are not saying that there is something weird about our methodology. We are only talking about where we are in terms of what is a reasonably predictive state of the economy—you can debate—and what relationship that may have to the amount of jobs available and the results achieved. I think that is right.
Robert Devereux: I don't.
Chair: Wait a minute.
Amyas Morse: As it happens, the level in the sample that we used is more or less the same as that that has been put here.
Dave Clarke: Over the period of FND, if you take the unemployment rate as an indicator, the unemployment rate in the average period was 7.9%. We have calculated that, if we look at the projections from the OBR over the first five years of the contract, the average is 7.8%. The period over most of the New Deal was about 5.1%.
Amyas Morse: So we are not saying that you definitely will not reform. All this report is saying is that there are risks to be managed. What we say is that it is not unreasonable to point out the difference between those sets of numbers. That is really what we do. Therefore, it is not unreasonable to say, "If that is true, what tensions and risks to be managed does that create?" We really go no further than that.

Q74 Chair: I am going to Fiona. In the end, I don't want an argy-bargy between the two of you. It does not take us anywhere. I want us to move on as there are some key issues.
Robert Devereux: It is a little bit unfair not to have a discussion about the substantive disagreement in this Report. Normally, when we come to these Committees, we have agreed a Report. This is the first time in my life I have come to one where we have disagreed.

Q75 Chair: To be honest, you have made three appearances before me, and every time you have disagreed with the Report—every time. This is your third appearance and you have disagreed yet again with the Report.
Robert Devereux: This the first time that the NAO has recorded the disagreement; I normally make it up on the spur of the moment. The reason I don't think you can gloss over it is because, for better or for worse, press coverage has consistently said that the NAO thinks that we will not make this target. It is really important to understand that the NAO has made an estimate here. It is not simply reading off a National Statistics press notice that 26% was the observed figure. That is simply not the case. There is a large proportion of what the NAO has done that is estimation, because it has not had the time or resources to track through thousands and thousands of HMRC records as my people have done. I am at least entitled to be cautious about the Report.

Q76 Chair: Let me say something to you. I say this as a constituency MP, I have had the biggest frustrations with the Work Programme of anything I have had to deal with at constituency level. I have met all three of my prime contractors. They all consistently refuse to give me information, however tough I am. If you have data that contradict what they

are saying, put them out in public. Give them to us and then we can make a proper assessment. The longer you keep them behind closed doors, the more suspicious everybody gets.
Robert Devereux: That is a completely separate point.

Q77 Chair: No, it isn't. It is a really important point.
Robert Devereux: I'm sorry, but it is. You are asking about prospective forecasts.
Chair: No, I am asking, as Barking MP, that I should know how many people—
Mr Bacon: You missed out an indefinite article, I'm sure.

Q78 Chair: The MP for Barking. Stop doing that to me, you guys.
How many people have been referred to the programme? How many people come on ESA? How many people are on JSA? How many people are placed in work? How long have they been in work?
Robert Devereux: I know you are asking that.

Q79 Chair: And I have been denied all that information. That would give me a feel of whether the programme was successful. I have put PQs in and you have refused to answer them.
Robert Devereux: I know you are asking that. The conversation we were just having was whether the retrospective look by the NAO is different from my retrospective look. It is nothing to do with the performance of the Work Programme. I estimated prices for the Work Programme, because I had to have the prices before I let the contract. The NAO has estimated FND on the basis of the past. It is a separate point.

Q80 Chair: Robert, that is clear. What we are all saying is, when you set those contracts in 2010 you say you set them with the information and knowledge of the 2008 recession. I hear and understand that. All that has happened here is that the NAO has taken a different view of the impact on the economy of this recession—I won't call it "a recession"—of these changes in economic circumstances.
Robert Devereux: Which is an unusual thing for an auditor to do, to take a prospective look at the economy.
Amyas Morse: Not fair.
Chair: Hang on a minute.

Q81 Mr Bacon: Could you say that again, Mr Devereux?
Robert Devereux: What I said was that it is an unusual thing to do for an auditor to take a prospective view of the economy.

Q82 Chair: Do you want to come back? Okay, Ed.
Ed Humpherson: It is really important that the Committee understands that it is intrinsic to almost all audit activities that the auditor forms a view on the prospective analysis and projections undertaken by the audited entity. That is a fundamental feature of all audit, so it is simply not correct to say that it is not the auditor's job.
Chair: And we've done it on lots of things.
Ed Humpherson: If you look at our work on our financial statement audit and almost all of our value-for-money reports, they will have an engagement with the projections made by the audited entity.
Chair: Let me go to people who want to ask questions, but let's try and move off the row.

Q83 Fiona Mactaggart: I want to ask about something completely different, which will perhaps be a good thing. I do not think that any of the calculations that I have seen look at this issue of job substitution as part of the programme, because the way that you measure whether someone succeeds is whether the people who are referred to them get put into jobs.
In my constituency, one of the things that is happening is that many people are being given work experience—unpaid—in retail, and the retailers are then, I think, being directly encouraged to employ people who have had this one, two, three-month interview process, so they have a very confident employment experience. It is much better than an interview. When they are offering jobs, a company such as A4e, which operates in Slough, can say to Primark, "If you want more of our free workers, I hope you are going to give our people 20-hour jobs." I am sure it is not quite as overt as that, Andrew, but I believe that there is a risk of it happening. I want to know how—it is not even in the Report—we protect against the risk of job substitution as a result of this programme, because it is not factored into how people are paid.
Robert Devereux: I will make one point pertaining to economics and then I will ask Alan to pick up the point about the internship idea.
It is part of all the employment programmes that when you find people who have already had a very long spell of unemployment we are positively interested in them getting into work. The way in which the employment market works is that one of the biggest single predictor of whether you are going to be in work later on is whether you have had a job previously. It is in society's interests to get people who have been out of work a long time into work first.

Q84 Fiona Mactaggart: But you only pay if they have 20-hour jobs, don't you?
Robert Devereux: I only pay if they have jobs that last for 26 weeks if they are JSA people.

Q85 Fiona Mactaggart: And for how many hours in the week? That is the critical issue in this.
Alan Cave: Sixteen.
Robert Devereux: Which is the level at which the tax credits kick in as well.

Q86 Fiona Mactaggart: At the moment, but not soon.
Robert Devereux: It is the level now. I have to work with the system that I am in.

Q87 Fiona Mactaggart: Yes, but you are introducing a system in two months' time in which those people would not qualify for tax credits.
Robert Devereux: Two months' time?

Q88 Fiona Mactaggart: Isn't it? Very shortly, the tax credit requirement is going to be 24 hours. Do you see what I mean?

Robert Devereux: I do. On the question you are asking about whether these people who are going to work are substituting for other people, if the reality is that long-term unemployed people are going into work and other people are not, it is actually a good thing for long-term unemployed people to go into work. That is what the programme is designed to do. That is why Governments spend money. This does not make money for the taxpayer. This makes money in a cost-benefit analysis, because there is a wider benefit to society, so it is a positive side of the programme.

Alan Cave: Can I talk about the work experience point for a minute? It is an observed big change in the labour market over the last 10 years that more and more companies are using work experience as a tester of whether somebody might be an established employee. Those of us with kids know that that is the reality in the labour market. Many providers have become quite skilful at taking somebody on a programme with a very weak CV in terms of actual experience, who is therefore likely to fail at the first and second hurdles of most recruitment processes for most employers, and finding opportunities for them to get some quick blocks of work experience. It will not be paid and the provider will not get anything for them, but it is going to greatly improve the likelihood of their getting a proper job—if I can put it that way—and one that will lead to a job outcome for which we will pay. My experience in going around providers is that that is wired in to most of their processes with our claimants who come on to their programmes.

Q89 Matthew Hancock: I am not going to get into the specifics of the ding-dong with the NAO, but I want to ask some questions that follow on from that. The first is that presumably the backward-looking projections refer to results against the forerunners of this proposal. I realise that the Work Programme follows a long stream of thinking that has happened over a number of years, so presumably those numbers are against the forerunners of the Work Programme. *[Interruption.]* Yes? Was that a yes?

Chair: Hang on a minute. Just to get this clear, your stats are based on the real numbers on flexible New Deal? *[Interruption.]* No, but not yours. Yours do not have regard to the real numbers on flexible New Deal. That is how I understood it.

Robert Devereux: I can only answer one question at a time.

Q90 Matthew Hancock: I just wanted to get it clear that the NAO numbers are based on the FND. My next question is the same one that I asked the providers. On the actual Work Programme itself—in other words, the proposal that we are looking at today—how is it going? Do you have any figures? We got broad indications that it is on track, in terms of the two providers that we spoke to. Apparently, there are some constraints about figures being put into the public domain. Are there any figures in the public domain? Maybe A4e could say whether they think it is going on track, given that we are—what?—seven months in.

Robert Devereux: This comes back right to the point that the Chair was making earlier on. This is a two-year programme.

Q91 Chair: A five-year programme.

Robert Devereux: No, for an individual it is a two-year programme. The person who on the last day of their second year gets a job, we are prepared to pay right to the end of the following six months for the job outcome and potentially for another twelve months after that for sustainment payments. In practice, it will be over three years from June 2011 before I know whether or not the average payments for the first cohort in June have actually achieved the 40% for JSA 25+ that we have talked about.

If you ask me the question, "What can I tell you now?" the answer is precious little. If somebody actually gets a job outcome that I could talk about today, they would have to have been in work in July. It is a 26-week job outcome. We can talk about whether or not people feel good about this; it is far too early to say. The reason, therefore, why the national statisticians are not prepared to talk about this until later is that they are going to tell you on 21 February about data that they have about who has been referred to the programme, and they are going to tell you in the autumn what the job outcomes at that point are going to be. Even at that point, we will be talking about people whose maximum chance of actually getting to a job outcome will be up to, let us say, about March of this year. That is very early in the three years that I have just described.

Seriously, we are not trying to be difficult about this, but if you want to know the answer to the question, "How is this programme going?" and you set up a programme deliberately giving people two years to work—because we all believed that one year was not long enough—and deliberately incentivising sustained payments, it will take a while before we all know. That is the basis on which the statisticians are answering.

Q92 Matthew Hancock: I have a follow-up to that. I totally understand that, and I am sure the Committee recognises it. The question on value for money is: if the projections are wrong, who bears the cost?

Robert Devereux: You have a chart, which the NAO constructed—on page 28—which talks about what happens at different levels of performance.

Q93 Chair: Which chart are you pointing us to?

Robert Devereux: Figure 11 on page 28. What that chart shows you is that, at the point at which the providers do nothing better than what would have happened anyway, which is the yellow line at the bottom, there is no value for money in this and they will all make a loss.

Q94 Matthew Hancock: There is no value for money for whom—for you or for them?

Robert Devereux: In the event that, literally, we end up on the line at the bottom—

Matthew Hancock: The yellow line.

Robert Devereux: We will have paid attachment fees and nothing else—attachment fees and just the job outcomes that go with the dead-weight cost.
As soon as you get into the sort of levels you have seen on previous programmes and above, you are at value for money, on the first line up after that—the brownish line—of £1.45 for every £1 you have invested. The green line is £1.95 for every £1 you have invested and the line at the top, the bidder's provided, is £3.15 for every £1 you have invested. It clearly matters what level of performance you get in order to be able to answer the question what the value for money is.

Q95 Chair: It is interesting because—I do not know how many people have seen it—Ian Mulheirn at SMF did some work on that chart. There are a number of questions on it. One is that this assumes active targeting, which I do not know whether I understand. It seems to me that you are cherry-picking.
Robert Devereux: Active targeting means different things to different people. Active targeting in a black box system. What we have tried to say to these providers is, "Look, if a guy turns up unemployed"—hypothetically—"with an extraordinarily good CV, I do not want to waste your time in making him go through various bits of process if you can get him into a job on day one."

Q96 Chair: So, it is not cherry-picking.
Robert Devereux: Active targeting says, when people come through the door, think about what they might need, but there is no floor to what they might need if actually you can get them into work straight away. The first thing that most providers do with somebody is say, "I wonder if you're job-ready now

Q97 Matthew Hancock: Hold on, can I just finish my line of questioning? So active targeting is about how you deal with something, not about who you get. If I am right, they are randomly allocated aren't they, which helps? Cherry-picking is tricky, but—
Robert Devereux: They are randomly allocated. You can see from this profit chart that they way in which the providers can make profit is by getting above the dead-weight costs. Dead-weight are real people—they are going to come through the door. Nobody knows who the dead-weight is. It is difficult to assess. So, a smart provider will look at you, if it were you, and say, "Actually, I bet I can give him a job quite quickly. I will spend very little money and I will get you into work."
Matthew Hancock: Is that an offer if it all goes wrong? *[Laughter.]*

Q98 Fiona Mactaggart: Is that what Professor Finn called creaming? He talked about creaming and parking, and I think that that is what he called creaming.
Robert Devereux: I thought I heard him be positive about creaming, on the basis that the whole point of this is, if you have a system like the previous deals, we consistently told providers minimum things they must do. Consequently, what I understand as active targeting is the ability of the providers to think rationally about what is the minimum they can do to get someone to work, and then spend more money on the people who need more.

Q99 Matthew Hancock: My last question on this thread is that we do not know how it will pan out. We heard from the providers that it is going all right. Your argument is that the value for money, if there is no improvement, is basically flat for the taxpayer, from what I take away from figure 11. But if your assumptions about the 40% are wrong, who bears the loss for that?
Robert Devereux: At the moment, I have let contracts where the only thing for sure that I am going to part with are attachment fees for people I am referring.

Q100 Matthew Hancock: In a sense, if you have managed to let contracts on optimistic assumptions—agreed assumptions between you and the providers—then it is the providers who will lose out, won't they?
Robert Devereux: Correct. The whole point about payment by results—forgive me for being obvious—is to let the contract. We have the argument on what the prices are, but the point I was making earlier is we have set prices lower than we would have done if we had followed the NAO's advice. As a consequence, we are going to get better value for money for every level of performance that eventually turns up.

Q101 Matthew Hancock: So, no matter who is right between you and the NAO, the taxpayer wins.
Robert Devereux: We win.
Chair: Amyas wants to come in on that.
Amyas Morse: We didn't give you advice. As a matter of fact, we simply indicated a risk. But I would just like to say something. Do understand that there is a big assumption in what you just said—I know you know that, Robert. The big assumption is that you have contractors making little or no money, and you can hold them to the contract even despite that. Well, maybe it will work like that.
By the way, I will just take the chance to say you have done a lot of things to fortify your ability to hold them to account. Because we happen to be talking about projections, I do not want to get into a position, which I do not feel, of being generally critical about the Work Programme. We are not—the NAO is not taking that view, nor does our report say that. But if you pitch the expected level high and you encourage people in the bidding process to discount on the fee structure they take, and then you hold them to that later on, what you are doing is raising the level of performance they have to have at which point where they strike break-even, which means it is easier for them to start making losses. None of that is necessary, even though it all may be great value for money.
All we are saying to you is, yes, but that does presuppose that in those circumstances you can hold them to the contract and they stay at that contract. We are not predicting they won't; we are simply saying that we think it is a realistic risk for you to consider how you are going to manage. I think it is fair enough for us to point that out to you.

Robert Devereux: I agree entirely. Paragraph 17 of your own Report records four risks, which the NAO kindly says we are actually on top of. But how much nicer for an Accounting Officer to be here, with your challenging me about whether the providers are going out of business, than being challenged on a contract where actually you think I've given them too much money. This is a delight.

Q102 Chair: I just wanted to say one other thing. I was looking at figure 11—I am sure you have seen the amendments that SMF put to it—because just taking out Amyas's point there, if you put in the discounts which average at 5%, immediately the whole profitability of the contract changes. Alan Cave looked to me as if he had seen the SMF stuff.
Alan Cave: Sorry, no.

Q103 Chair: You can't see it from here. But they have set down two figures. One takes it down, assuming the discounts, which immediately takes you into a negative. They then do one, which you will dispute, which is even more negative, which is on the assumptions of the NAO's job market.
Robert Devereux: Sorry, I did the calculations myself. The footnote clearly says that the NAO has not put the price discounts into this report, right? So I did the same thing that you did—you just drop these lines. All it does is to reinforce the reality that, if these providers do nothing better than would have happened in the economy anyway, they will make a really serious loss. But at the sort of levels which we think they can achieve and they think they can achieve, actually they will make a profit. But at that level we will be at very good value for money—much better than you have had before.

Q104 Stephen Barclay: From time to time we see things that have gone wrong. Could I start by picking up on paragraph 12 of the report, on page 7, which says that it was "a significant administrative achievement" to deliver this in 12 months rather than four years. So just from a balance point of view, that is notable and is to be commended, and I am sure a great deal of work—
Robert Devereux: Mr Cave and his team.

Q105 Stephen Barclay: I am sure a great deal of work went into that.
Obviously, there are risks with that and one of the risks the report picks up on is that of fraud, in terms of launching ahead of the IT programme. I can understand the logic of that on one level—wanting to crack on with it—but it is a clear fraud risk. Could you clarify how you are mitigating those risks and how we will get visibility of how effective that mitigation is?
Robert Devereux: Okay. This is an area where I genuinely think this risk has been significantly overstated. Let me explain why—

Q106 Chair: Significant?
Robert Devereux: The implication of paragraph 3.10 on fraud and error I think is significantly overstated. Let me explain why, because my own internal auditors have supported me in this view, okay?
In respect of the IT, slightly contrary to what you might have imagined when you read it, we made sure that from day one we had the IT capacity to make referrals to the Work Programme and for them to claim an attachment fee, which is the only thing on day one I needed to do. As I described to you earlier, even if the first person through the door—a JSA over-25—got a job outcome, they would not be getting a job outcome until 31 December.
It is the case, as the report records, that the all-singing, all-dancing IT that enables me to check everything line by line will be there in March 12, okay? Now, that is not because, somehow or other, we sort of decided to take a long time over it; it is precisely because, actually, the policy question about exactly what the payment-by-results mechanism would look like was still very much live and debated as we ran into the spending review, right? So what we have then done is to say to ourselves, "Let's make sure we have enough IT to get this thing started in June '11. Let us then make sure we have something that can automatically check every single claimant back to the ordinary records by March '12", right? In the meantime, some people—

Q107 Fiona Mactaggart: Will it happen in March?
Robert Devereux: Yes.
Fiona Mactaggart: Good.
Robert Devereux: In the meantime, some people will get job outcomes and we will have paid for them, okay?
The only basis on which there's going to be any error or fraud is if, actually, when I then come to check all of these from March onwards, it turns out that actually there is an error and, by the way, the provider has gone out of business and I can't chase after them—they have no assets and I owe them no money.

Q108 Mr Bacon: That was one of my questions, actually.
Robert Devereux: This is so low a probability that my own internal auditors did not regard it as being worth investing more money in doing any further checks on what is essentially a transitional problem where we have got long contracts.

Q109 Stephen Barclay: I want to come on to something else, because I am conscious Mr Dutton has largely not had any questions so far.
I was struck by paragraph 14 on page 8, which talks about the "significant cost in terminating existing welfare to work contracts". I would be interested to know how much your firm was paid in terms of termination, given that you are contracting with Government on this contract. How many other contracts do you have in your relationship with Government?
Andrew Dutton: If I start with the FND settlement, in our contracts, as in all providers' contracts, there was a provision for settlement. My contract and the confidentiality agreement I signed with DWP unfortunately do not allow me to tell you what my

settlement was, so I would refer that question to DWP if you want further information.
Chair: Can you tell us, Robert?

Q110 Fiona Mactaggart: Did anyone try to talk to you about places such as Berkshire, where you were the previous provider and the current provider, on negotiating whether there can be a continuation? You are not the only provider that is continuing to provide what is admittedly a different programme in the same place.
Andrew Dutton: We had very active conversations with the DWP about transitional arrangements. Clearly, the best thing for customers and for us as the provider would be to have had a transition whereby we already provided services. We need to recognise that it was a competition under EU procurement rules, which means that the DWP had to mark its review of those bids and determine who was best to deliver those services, whether that is A4e or another provider. That outcome could not necessarily have been controlled by the DWP.

Q111 Stephen Barclay: Going back to the other part of my question, how many other contracts do you have with Government? What is the total cumulative value of all of those contracts?
Andrew Dutton: We have other contracts with other Government agencies. We deliver Skills Funding Agency support for apprenticeships. We also, for example, run the Money Advice Service. So we have a series of contracts, and our total revenue in the UK last year—we are also an international business working in seven countries—was approximately £160 million to £180 million of a total of £230 million[1].

Q112 Chair: Out of that £160 million to £180 million, how much was from public sector contracts?
Andrew Dutton: Most of that would be from public sector contracts in the UK[2].

Q113 Chair: So you are a public sector contract business?
Andrew Dutton: Yes, we are.

Q114 Chair: Do you think you should be subject to FOI?
Andrew Dutton: Where appropriate, yes, we are, and we have received many freedom of information questions that are effectively taken through to us by the Department.

Q115 Chair: So why can't you tell us how much you got for the termination of the contract?
Andrew Dutton: The reason I can't tell you what I got is because I signed a confidentiality agreement with the Department, and the Department has effectively asked us to keep that information confidential.

Q116 Chair: Robert, can you tell us?
Robert Devereux: I'll ask Alan to do that.
Alan Cave: This contract, let by the previous Government, contains that clause. Because the negotiations are not complete with all the ex-FND providers—

Q117 Stephen Barclay: I was not asking about them all; I was asking about Mr Dutton's.
Alan Cave: The same point applies: while negotiations are ongoing, it does not help us to get value for money—

Q118 Stephen Barclay: Is the confidentiality clause that prohibits this in the settlement contract that you are currently negotiating—if it is currently being negotiating, I cannot understand how it has been signed and is, therefore, legally binding—or was the confidentiality clause in the original contract?
Alan Cave: In the original contract.

Q119 Stephen Barclay: That said, if it is terminated, a confidentiality clause will be binding.
Alan Cave: That is right.

Q120 Stephen Barclay: That goes to the heart of what I cannot understand. The very first thing you are taught as a lawyer when looking at a contract is that the most important thing is the termination clause, because if you can walk away from a contract, you can renegotiate. That is the most basic, elementary thing that you learn. Time and again, we had the same issue with the Department for Transport on the M25, and we have had it in a number of hearings. The basic failure within Whitehall is to have adequate termination clauses, because things change—Governments change and society changes—and that is perhaps an issue that the Treasury Officer needs to take away.
I find it remarkable that we have a business that is turning over some £180 million from our constituents, that has a multiple number of contracts with the taxpayer and that is bidding for new work with the taxpayer in the same field, yet we are paying, so far, £63 million, with more to come, for work that is not being done on a contract that was front-loaded in the first place. That seems a remarkable waste of money.
Alan Cave: I may have given the misapprehension earlier, and I would like to give a bit more detail, if that would help. The termination clause itself is completely transparent and visible. You can look up on our website to see every clause in the contracts. What is not transparent is the fine detail of the settlements that we make when we enact that clause. If it helps, I can give an indication of the sorts of things that have been allowed and not allowed in these discussions. I am happy to elaborate on that later, if that would help.
Chair: Do it now.

Q121 Stephen Barclay: I am not asking whether the nature of the clause is transparent. I am asking why it was so poorly drafted. It has bound your hands. If you were in the private sector and had multiple contracts with a firm and a relationship with a firm you would

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1 Note from witness: For the 12 months to 31st March 2011 A4e's total revenue was £234.3m of which £215.9m was UK revenue.
2 For the 12 months to 31st March 2011, of the £215.9m UK revenue, £213.8m was derived from public sector contracts.

use that negotiating clout to say, "Okay, we are not continuing with this piece of work, but we have another piece of work and we have a whole load of other things we are doing with you and we want to negotiate a deal."
Alan Cave: Okay. There are two things on that. First, we have separate processes which under EU law we cannot join together. One is for the procurement of fresh programmes. We have to run those as open, competitive processes, which do not allow us to do side deals with individual competitors on the basis of previous relationships they may have had with us. That is just a constraint we have to operate under. Secondly, and if I could just complete what I was saying earlier, we have taken a very strict interpretation in these negotiations with the exiting FND providers about what is allowable. It is only those things which were breakage costs that they could not justifiably be expected to bear, given that they had invested, for example, in office leases or they had to make staff redundant and had to bear a cost as a result of the Government terminating the contract early. So we have not allowed anything which is a predictive, profit stream or anything that is to do with future business. We have been very strict about that.

Q122 Mr Bacon: So if they carry on needing an office, which if they continue to have a contract they probably will do, were you able to knock that off?
Alan Cave: Yes, and bear in mind that the NAO report makes the point about the amount of movement around. There are not that many FND providers who are servicing in the same areas. The contract boundaries are very different. So there is a very small amount of continuity. We are talking typically about leases on buildings which a provider had to exit and staff they had to make redundant because they were closing down in the south-west and starting in the north-east, or leaving the business completely.

Q123 Chair: No doubt they let the lease to the new contractor?
Alan Cave: No, that is not something that we allow.

Q124 Fiona Mactaggart: When will we be able to know who got paid for what? I understand that we cannot at the moment because you are still negotiating with other people. I want to know when we will be able to know.
Alan Cave: I don't know, is the answer; we can come back to you on that.
Robert Devereux: We will come back to you.

Q125 Chair: Will you come back to the Committee and just note that we want to know because that is one of the value-for-money aspects?
Robert Devereux: Absolutely.

Q126 Stephen Barclay: You mentioned, Mr Dutton, some £180 million. Was that turnover?
Andrew Dutton: Yes.

Q127 Stephen Barclay: And your profits on that?
Andrew Dutton: Round about the 4% margin as an international group.

Q128 Stephen Barclay: No, on the £180 million.
Andrew Dutton: In terms of operating profit I could get back to you, but I could not tell you the exact operating profit.

Q129 Stephen Barclay: But roughly?
Andrew Dutton: As a rough business our net operating profit is 4% to 4.5% over the past four years.

Q130 Stephen Barclay: Perhaps we can have a note.
Andrew Dutton: Yes, of course[3].

Q131 Mr Bacon: Can I ask a question about paragraph 3.10, Mr Devereux, which you were talking about earlier? You mentioned that your internal auditor is not worried about this risk of contractors or sub-contractors going bankrupt. That was one of my concerns. Paragraph 3.10 basically explains how until the computer system is fully up and running the Department will complete limited checks and it will not reconcile them to the prime contractor's records. But subsequently, there will be some sort of clawback process. Can you explain how that clawback process will work and how are you guarding against the possibility of people going bankrupt, because it has been known for people to go into Government schemes, take the money and then set up new entities? It happened with the individual learning accounts.
Alan Cave: Referring back to one of the Committee's recommendations after the Pathways report, you asked us to look very closely at this whole area of checks and controls on payments. You asked us to make sure that we had three things: systematic checks against benefit records; contact with individuals and their employers; and, where errors are found, the rest of the provider claim would be investigated and deductions included. Those are exactly the three things that we have built the controls for the Work Programme on. Every claim, including the ones made in this interim period, will run through those three checks, 100%, so there is no claim—

Q132 Mr Bacon: You mean afterwards, ex-post?
Alan Cave: Afterwards.

Q133 Mr Bacon: That is precisely what it says in paragraph 3.7 that it cannot do: "However, it could not complete an automatic check against other records that somebody was in work and off benefits, and could not make a payment for a successful job or sustainment outcome…nor could it generate complete management information."
Robert Devereux: Not in the interim period, before March 2012. So every single payment that has been made by March '12 will be put through the process that Alan has just described.

Q134 Mr Bacon: The Department also estimates that 10% of these payments could fail the check to prove that employment had started. Of the £60 million, you

3 Note from witness: On the UK revenue of £215.9m for the 12 months to 31st March 2011, A4e;s post tax profits were £13.2m, which equates to 6.1% overall. A4e's group profit after tax for those 12 months was 3.7%

are saying that you expect £6 million may be exposed, as it were. Is that right?
Robert Devereux: Let us be clear where that figure has come from. We have looked back at previous programmes, in which people have submitted claims, and seen their failure rate. Our observation is that many of these failures are actually because, for example, people gave us the wrong telephone number to ring the employer with, and so when we fail that one, they simply resubmit it with the right telephone number and we pay with it later. So the gross amount of failure, which is largely to do with administrative cock-up, is not the same as the risk that the taxpayer is actually facing. Have I explained that?

Q135 Mr Bacon: Yes. You have said that this is an interim problem and that once the IT system is fully embedded by the end of the March 2012, you should be able to solve this problem.
Alan Cave: The end of next month.

Q136 Mr Bacon: Yes, March 2012. I am interested in what happens should there be any slippage. How much does the £60 million rise for each month's delay—if it went on a month beyond March to the end of April, two months beyond, to the end of May, or three months beyond, to the end of June? It is not unknown for IT systems to slip. Indeed, it says in paragraph 3.12: "The Department's budget for introducing the management information system was £4.6 million. However, it underestimated the complexity of the project, and the budget now stands at £8.6 million." This is obviously small beer compared with many other government IT projects, but it is still a lot of money, and it has nearly doubled. So what are the implications of slippage? How much extra would it cost for each month's delay?
Alan Cave: First, there will not be a delay. I am the SRO for that project. It is on time and it is going to start in March, so the rest of what I am about to say is hypothetical. The implication behind your question is right because of course, from December and January onwards, we are now picking up the job outcomes for those who have been in work for six months, so as we go past March the payment curve is really quite steep.

Q137 Mr Bacon: It gets steeper.
Alan Cave: Yes it does. Which is why we judged March as being the time when we still had a manageable number of people to put through a manual process—up until March—and, indeed, we allowed for a couple of months of contingency in case something should have gone wrong. It is not going to go wrong, it will be there in March.

Q138 Mr Bacon: But what is the answer to my question?
Robert Devereux: £20 million per month—job outcomes[4].

Q139 Mr Bacon: So it goes from £60 million to £80 million to £100 million to £120 million—is that what you are saying?

Robert Devereux: What we are saying is that, in the amount of job outcomes going through, a small number—very small, given the earlier conversation about the delay in this—will have occurred by the time you get to March. That is the 60.

Q140 Mr Bacon: So as long as there is not a further delay, and it is delivered on time, that is fine. It is just that we have seen backlogs in a lot of different areas, whether the Rural Payments Agency or the CSA, and they have their own way of running out of control—
Alan Cave: I would be very happy to write to the Committee on 1 April confirming it.
Mr Bacon: If you are doing it on 1 April, you had better do it in the afternoon.

Q141 Austin Mitchell: The £63 million that was paid to 12 of the 14 contractors, with two to be decided in the spring, was paid to the same contractors to do a similar job. How many of them stayed doing that job in the same area?
Robert Devereux: It says that in paragraph 2.4: "eight of the 40 contracts were awarded to prime contractors with experience of delivering welfare to work schemes in" precisely the same "area."

Q142 Austin Mitchell: So it would be fair to see it as a bung to these companies to stay on and do a different contract.
Robert Devereux: No. For the reasons that Alan has just described, we are simply precluded from making decisions about the new contractor on the basis of past things. All we've done is taken perfectly straightforward contracts and made the minimum possible payment consistent with the fact that we had chosen not to continue with the contract. There is rule of law. They had a contract. That's what we've done. We've not in any way sought to reward people for profits foregone when they've moved into a new world.

Q143 Chair: Can I just ask you a question about that? It seemed rather surprising to me that in managing the contract process, you did not have regard to the past performance of contractors. Why not?
Robert Devereux: We didn't have regard to the past?

Q144 Chair: It's somewhere in the report.
Robert Devereux: One of the things we have deliberately tried to do is not just to produce a completely new way of contracting that transfers risk to the providers and gets a higher level of performance. We're also deliberately trying to set these contracts up on the basis that you would bring in new entrants and put a little more—

Q145 Chair: I understand that. Let me be completely specific. We had—
Robert Devereux: New entrants can't have a past performance, so I can't use it as a criterion.

Q146 Chair: Of course they can't! I'm going to come back to A4e, but we had A4e in when we looked at Pathways to Work. Its performance on that was,

[4] Footnote from DWP: £24m/£27m/£30m April-June 2012.

frankly, abysmal; I can't remember the other one. It was—was it 8%? *[Interruption.]* It was 9% into work. If you, as a sensible person, were letting a contract in your home for anything or if you were a private business, you would look at past performance before you decided. It would be a factor. It doesn't mean that everybody would necessarily meet that criterion. You might not be able to look at the past performance of everybody, but—
Robert Devereux: So let's be very pleased that they can't make money at that level of performance.

Q147 Chair: Well, we're not very pleased! I'm getting rather fed up with this, because at the end of the day, the purpose of this programme is to support unemployed people back to work. If a provider doesn't perform, more people stay on the dole. That's not a good outcome. It may not cost the taxpayer as much money, but it's not a good outcome and I don't think we should be saying that.
Robert Devereux: I thought we started this on the basis that we were pleased the Work programme was in place and we were inquiring as to the value for money and managing of it.

Q148 Chair: You're trying to take it off the point. All I would ask you is this. Why didn't you look at past performance of contractors in the evaluation of the bids?
Robert Devereux: How would I do that for a new entrant?

Q149 Chair: Obviously, you can't for a new entrant, but you could have done—
Robert Devereux: If I can't do it for a new entrant, how can I do it fairly?

Q150 Chair: Well, because there have been—*[Interruption.]* Everybody talks about this as a brand-new programme. I have to say to you that the Flexible New Deal also had a performance-related pay element, although not to the same extent, so this is an evolution of past trends. We have a lot of data. There are a lot of data in the DWP around that.
Robert Devereux: We are still required to let a contract through a fair and transparent process where there are clear criteria. If I can't use a criterion for some new entrant—

Q151 Mr Bacon: Are you seriously saying that you could not take into account the fact that A4e had dreadful performance in the immediate predecessor programme or one of the immediate predecessor programmes?
Robert Devereux: How would I do it fairly under procurement rules?

Q152 Mr Bacon: I'm not asking you to ask me a question. I'm asking you a question, to which I'd like a yes or no, and I think the answer is—
Robert Devereux: Is no.

Q153 Mr Bacon: I think the answer is yes. Are you seriously saying that despite the dreadful performance of A4e, which we saw over the Pathways to Work Programme—I seem to remember that it was delivering 9% when it was expected to deliver 30%. You're seriously saying that that really poor track record is not something you can take into account?
Robert Devereux: I am saying that.
Alan Cave: That's right, and I would just remind the Committee that you did conclude last time that all the Pathways to Work providers were pretty much equally falling behind on performance, so I don't think it would have been a differentiator, actually.

Q154 Jackie Doyle-Price: To be fair, though, we're comparing apples with oranges there, aren't we? Ultimately, if a provider isn't delivering, you do have measures under the contract whereby you can take action in relation to the provider, so we will get to the outcome we want.
Robert Devereux: We haven't talked about that part of the contract, but I think it's another rather good thing that was put in. We've been talking about the competition for the market, precisely because we've ensured that two or three providers are in every single region. We also have instituted competition within the market, so after year 3, I believe, if there's daylight between the performances of the two, we will start shipping more people to the more successful person.

Q155 Chair: Which is a very good thing. Can I just ask this? Is it EU rules that are telling you that you can't take—
Alan Cave: Yes.

Q156 Chair: It's EU rules that prevent you from taking past performance into account. I'm astounded. Can you write us a note on that?
Alan Cave: Absolutely.

Q157 Austin Mitchell: Any chance to attack the EU! I would be grateful for that information. I just want to move on. This programme was obviously imposed in haste. You did not have a trial, a pilot, or anything, and you did not do a cost-benefit case before it was conceived. Will you not have to go to the Treasury for more money? Paragraph 1.35 states that "the costs of the Programme cannot be met by its current settlement with Treasury with a 16 per cent increase in referrals", and yet, you were thinking of 2.4 million going on the programme at the start. Now, we have 3.27 million going on to the programme, so are you not going to be out of money?
Robert Devereux: No. The reason for that is because the settlement that we did with the Treasury was based on a margin above the numbers at the time that we expected to go on to the Work Programme. We are now at the position where our latest forecast—which, exactly as you say, is higher—is coincident with a budget that we have already secured.

Q158 Chair: Even at a 32% increase in in-flow?
Robert Devereux: It is not—
Chair: I think it is a figure from the DWP, which has put out figures on the increased number of people going into the Work Programme—it was 32%.
Robert Devereux: The NAO in fact—

Q159 Chair: No, it is your figure, which I saw before I came here. You must know what figures you put out.
Robert Devereux: All I can tell you is that I asked exactly the same question that Mr Mitchell did; how can it be that this calculation was done? The answer is that the calculation is the point at which, given that we had more cash in our settlement than was consistent with particular volumes—

Q160 Chair: Does Alan Cave know the answer?
Alan Cave: Looking at the table, I think it is about 20%. So, we adjusted the projections we had of volumes going on to the programme in light of the last OBR update, and that led to the figures that were published in December. Those are about 20% higher.

Q161 Chair: It said 32%.
Alan Cave: They were 20% higher over the course of the programme.

Q162 Austin Mitchell: The NAO's calculations of the success rate are based on more recent figures than the contract figures were based on. Unemployment is higher and the economy is not doing as well. That creates the possibility that some of the contractors—I am not sure whether it is the main contractors or subcontractors—are not going to be able to fulfil their targets. Ministers told us that this was a good system—and I agree—because they will be penalised. If they do not reach the target, they do not get paid. In that situation, do you anticipate that contractors or subcontractors will be allowed to go bust? As Ministers are telling us, schools and hospitals can go bust if they do not manage themselves in a financially competent fashion. Do you anticipate that you will have to bung them some more, or will they be able to cut standards? What is going to happen?
Robert Devereux: It is integral to a payment-by-results contract that if the results do not turn up, you do not get paid. Ministers have already acknowledged that that could indeed result in a provider going to the wall. Ministers have made it perfectly clear that we have arrangements in place to secure both an immediate response from the contractor in the same area and to get another contractor off the framework provider, in order to continue with the service provision. We are not sitting here thinking that this programme stands or falls by whether every single provider stays in business exactly as it is at the moment.

Q163 Mr Bacon: How does the pricing work in those circumstances? If you have to call another contractor off the framework because somebody has gone to the wall, is it just at the same prices that were being paid to the previous contractor?
Alan Cave: We would run a quick mini-competition between all the providers in that regional lot of the framework for that particular contract.

Q164 Mr Bacon: Would you expect that if a contractor or, shall we say, several contractors, had gone to the wall in a particular area, that would affect the prices at which people would bid?
Robert Devereux: It would depend on what the other provider in the same region had done. We told you that we have deliberately constructed competition inside the market, so if we have a perfectly good provider, and somebody simply is not that good and goes bust, my hunch is that people will not pitch a price any higher than the other guy, because otherwise that would be a good benchmark. That is what I think the answer would be.

Q165 Mr Bacon: But at the end of the day, it's a hunch. It depends on your word, as you say, and on economic conditions. It seems quite likely that if there is a lot of failure in a particular region of the country—and in paragraph 1.20 the report refers to the fact that "providers in areas of high unemployment will find it more difficult to achieve nationally set targets." If you had a concentration of failure in a particular area, the likely response from the market would be to demand a higher price to take part. Would you agree with that?
Robert Devereux: If we had several people in the same area in that position, I agree that, as a matter of economics, that would be what would follow. With regard to regional disparity, typically every single one of these regions has more variation in unemployment inside it than there is between the regions. So everybody is having to manage areas that have got hotspots and very difficult labour markets. That is the nature of welfare to work.

Q166 Mr Bacon: We are really talking about the 600,000 people that Sir Leigh Lewis used to talk about, who have been workless for a very long period of time in many cases, aren't we? Is that right?
Robert Devereux: That's not true of everybody. Even out of the people who flow on to 12 months at JSA, 90% of them flow off benefit before they get to 12 months. There is quite a big churn in JSA, even for people who will not get to 12 months. It is also the case, correctly, that there are other people who have not been in work for a long period, but I would not want to make that synonymous with the Work Programme.
Austin Mitchell: You are going to have to make some concessions to companies that are in difficulty. One of the earlier sub-contractors referred to the pleasure of having the Olympic site and Westfield. For some reason that I do not understand neither the Olympic site nor Westfield came to Grimsby. It is going to be much tougher—
Meg Hillier: Nor did they come to Hackney.

Q167 Austin Mitchell:—to get people into work there. The contractor is therefore going to be facing more difficulties. What allowance are you going to make for the difficulty of the area? Are you going to change the terms to allow them to run it in a less expensive fashion, lower the standards or whatever?
Robert Devereux: I'm afraid I'm going back slightly to the answer I gave you before. Grimsby is in the same geographical region as Leeds[5].
Austin Mitchell: It's better.

[5] DWP Correction: the adjoining geographical region

Robert Devereux: I've been to both. They are both very nice. The point is that the contractor who is covering Grimsby is having to manage Grimsby and Leeds together. So whichever one you think is having difficulty is having to manage both of those. We are not in the business of having a soft touch with these contracts. We have let the contracts; we have transferred risk. We understand, and I perfectly agree with, the National Audit Office recommendations about things we ought to keep an eye on, and we are keeping an eye on them. But we are not sitting here thinking that any minute now we are about to write another cheque.

Q168 Austin Mitchell: Yes, but you let the contract under another set of conditions. Things have got worse since you let the contract.
Robert Devereux: I have transferred the risk of that to the providers.

Q169 Austin Mitchell: So, Mr Dutton, you're the sucker. They have transferred the risk to you. The name of the game has changed. The conditions have changed. There is more unemployment and it is more difficult to get people jobs. What do you do if you can't reach your targets in that situation?
Andrew Dutton: We have to work very hard. From our perspective, we looked at the contract, at the volumes that were going to come through, how quickly we thought we could place people into work and what percentage of job entry we would make. It is really important to say that the economic conditions are a consideration when we bid—of course, they are. If you look at national statistics at the moment, there are 436,000 jobs publicly available. You can at least double that in terms of vacancies that are open in the UK—so 900,000 to 1 million vacancies.
The thing that is most important for us as a provider is how we work with an individual and how we tailor support around them. The biggest effect we can have is by supporting people to gain new skills, thinking through how they can potentially move into a new industry, matching that individual to the employer and, very importantly, making sure that we have really strong relationships with employers. We need to have dedicated vacancies that are specific to those people we are targeting from long-term unemployment.

Q170 Stephen Barclay: Why weren't you doing this before?
Andrew Dutton: We were doing that before.

Q171 Stephen Barclay: No, you weren't. We have already addressed the fact that your previous programme failed. You were on, I think, 9% against a target of 30%?
Andrew Dutton: Our actual performance on Pathways to Work at the end of the contract was 24.2% of people into work, and we sustained 52.7% of those people in work for six months. The point at which the Committee looked at Pathways to Work was in the middle of that programme. If you look at the success of it by the end, it was a very different picture in terms of—

Q172 Chair: And your target was?
Andrew Dutton: Our target at the time was 34.2%.

Q173 Stephen Barclay: So you missed your target. I have great sympathy with the Department, because it is transferring risk, and, on behalf of the taxpayer, quite rightly. My concern is sub-contractors in the form of charities, which are potentially less commercially savvy than your private company, which does not put your annual accounts. I presume that you file your finances with Companies House, but you do not put your annual accounts because it is a privately-owned company and it is not exactly transparent around its finances. To what extent is there a risk that charities doing a lot of good work on the ground have entered into, perhaps, less commercially savvy contracts with the providers, and when push comes to shove, it is the subcontractors that will get squeezed, as opposed to you as the main provider.
Andrew Dutton: I disagree with the premise that we as prime providers, as A4e, or that any others in the market will put the squeeze on our subcontractors. We, as an organisation, have contracted with one of the lowest management fees—12.5%—in working with our providers. We pass down payments as and when we receive them from the DWP. That is a performance-based contract. We expect all of the providers in our network to perform. Their performance is therefore critical to ours as a prime contractor, but also to theirs in terms of whether they remain in our supply chain.
We worked very hard, both in pre-contracting and contracting, with each of our providers, particularly those in the third sector, to capacity-build. We put them in touch with the Foundation for Social Improvement, which capacity-builds charities, so that they can absolutely think through the contract that they are signing. All I can do is ask the boards of those charities, when they are signing up to the contracts that we have put in front of them—and we gave them many different options in how they could contract with us and the majority chose to just take reflective terms and conditions of those that we took with the DWP, so we did not vary those contracts in how we were paid, or vary the terms and the conditions for the DWP. We take the significant risk as a provider, as A4e. Providers deliver more than 49% of our volume that comes through. Some 51% is delivered by A4e. We are taking the risk of working capital for our provision. The providers that we have in our network are taking the working capital risk for their provision.

Q174 Chair: Mr Dutton, I have got to interrupt you there, because you happen to be, as you know, a prime provider in Barking and Dagenham. As you know, I have had two meetings with you in the constituency. The second meeting was with a subcontractor, which is a charity called LifeLine. At that meeting, you—or your representatives—told LifeLine that you get £350 as an attachment fee. Actually, you get £400. There was a mistake in what you told them. You then give LifeLine only £300. I cannot for the life of me see any value that you add for that £100 you take off as sheer profit from each person that is referred to

LifeLine, which I have known for years and which is a good, local charitable employment provider.
Andrew Dutton: If there was misinformation at that meeting, I apologise.

Q175 Chair: Then why do you take £100—25%?
Andrew Dutton: We take 12.5%.

Q176 Chair: You take 25%. It was clear in that meeting. LifeLine gets a £300 attachment fee for everybody you refer to them.
Andrew Dutton: For every single one of the providers in our network, we take a 12.5% management fee on their behalf.

Q177 Chair: They get £300, Mr Dutton.
Andrew Dutton: We get £400 and our subcontractors get £350.

Q178 Chair: No, I was there. We did this meeting, we had several witnesses. It was £350 and £300. Let me go on. Perhaps you can write to me, because I can assure you—I have a note of the meeting—that they were told £350, so I was surprised when I read in the report that it was £400. They get £300. Even if it was £50, I cannot for the life of me understand what you give them for £50. Nothing. The only thing that you could say that you gave them, in a meeting of about an hour, was that there was a contract with London Transport, which ensures that London Transport vacancies are referred down the line, across London. That is a great thing to have, but it does not sound to me like value for money.
Andrew Dutton: We as a prime provider contract with our subcontractors, and we take a management fee. In return—

Q179 Chair: For doing what?
Andrew Dutton: In return for that management fee, we do several things. Very importantly, in the work that we do, we work with large employers, regional employers and small and medium enterprise to effectively get vacancies that are dedicated to the providers—

Q180 Chair: Mr Dutton, with the greatest respect, LifeLine has worked with the Tesco's, the Asda's and all those for ever and ever. The only thing you could add of value was London Transport. LifeLine has a far better knowledge of and relationship with all the SMEs and local providers. You don't even know who they are. When I had the first meeting with you, you hadn't a clue about my local economy.
Let me go on. The other thing that emerged at that meeting was that, because money is so tight, every adviser at LifeLine has 120 clients. Assuming they work a 40-hour week, even if they used every minute of that for direct contact with the individual, that would give them 20 minutes, and not to follow it through or anything like that. How on earth can you provide a quality service if within the finances available, a very good local provider has to have 120 clients for each adviser to make the finances stack up?
Andrew Dutton: I can't speak for how LifeLine undertook their modelling, in terms of how they decided the number of people that they were going to have to support the number of customers that they have through their door. What I do know is that in A4e, our average—

Q181 Chair: Can you just tell me: do you think that is a quality service for people who have been out of work for a minimum of nine months?
Andrew Dutton: I think the service that LifeLine provides—

Q182 Chair: Can it be a quality service with 120 clients for each adviser?
Andrew Dutton: It absolutely depends on the mix of the customers that that individual adviser is working with and what services that individual organisation is providing. Therefore, I believe that LifeLine provide a very high-quality service. I think they would agree—

Q183 Chair: I know they are a good organisation. They are a charitable organisation, and they are really good. I just challenge you. There is no way with that sort of cohort, even if they are all JSA—don't let's even touch the ESA—who have been out of work nine months to a year, that 120 to one will give you any—it will have to be a totally online service, bar a few. In that context, your top management last year took £4.7 million. Is that correct?
Andrew Dutton: The total remuneration of the board? Sorry, I don't know where you are quoting your figures from.

Q184 Chair: I think it's from your report on accounts and dividends. It's a private company, isn't it?
Andrew Dutton: We are a private company, yes.

Q185 Chair: So you pay £11 million in dividends. So they don't pay PAYE, only corporation tax.
Stephen Barclay: I couldn't find the numbers.
Chair: Well, my researcher got this from somewhere.

Q186 Stephen Barclay: Are these for this year? Would they have been lodged at Companies House?
Andrew Dutton: Anything that's being quoted will be for a previous year.

Q187 Stephen Barclay: Yes, that's my point. From a transparency point of view, your profits for this year are not public yet?
Andrew Dutton: No, profits for this year are not public, or remuneration. It would be previous years we're dealing with.

Q188 Chair: Do you think these are 2011–12?
Stephen Barclay: They can't be for 2011–12, because 2011–12 hasn't finished yet.

Q189 Mr Bacon: When does your financial year end, Mr Dutton?
Andrew Dutton: The financial year end is 31 March.

Q190 Chair: It seems to me that in a context of meanness to my very good provider in Barking and Dagenham, your top management are taking off £11 million in dividends, which is a tax-efficient way of

trying to get more money into the pockets of the people who own the company, and £4.7 million in management. Those are the figures I've got.
Andrew Dutton: Dividends that are paid to shareholders of our company reflect—

Q191 Chair: But it's a private company.
Andrew Dutton: It is a private company.

Q192 Chair: So presumably the executive are the shareholders.
Andrew Dutton: We have a small group of shareholders, and the dividends that we pay to those shareholders reflect the personal risk of having owned a business over 21 years. At times in their life, they have effectively put their own houses and mortgages on the line. When businesses perform well, it's appropriate that shareholders—

Q193 Stephen Barclay: No one is disputing that. We very much support people investing in companies and doing well. There are no issues with that. We are just trying to get a handle on it. What is the highest concentration owned by one individual?
Andrew Dutton: The highest concentration owned by one individual—I would need to come back to you on the exact figures—is 87%, or 87.5%[6].

Q194 Stephen Barclay: So, on the £180 million that is funding the advice and which the taxpayer is paying, 87%—you are going to provide clarification on that—of the profit goes to one individual, but it is not in the public domain what that equates to in terms of hard cash. The Department is right to shift the risk. I am just trying to understand whether we are getting value for money from your organisation.
Andrew Dutton: In terms of the dividends that are paid at any moment in time—some years dividends are paid and some years they are not—in that particular year a significant dividend was paid.
Amyas Morse: May I ask about the fact that you got this contract via competition?
Andrew Dutton: We did get this contract via competition.
Amyas Morse: So these are interesting, but they don't necessarily reflect on the value for money of the contract. They are interesting facts—

Q195 Chair: I want to ask a final question. A4e designed the contracts, or helped the Department to design them. This question is really to Mr Devereux and Alan Cave. Is that right? My understanding is that in the work that was undertaken to determine how you were going to contract, you took advice from A4e. It was paid £300,000 for that.
Alan Cave: I do not think that that is an accurate representation. We did our best, through a very busy period, to consult with the whole marketplace, particularly with all those in the framework, at key times, to get their view about what might work best and where the risk profile was in order to manage that risk, but there was no specific—
Chair: I gather it was paid £300,000 for that work.

6 Emma Harrison owns 85.51% of the Equity Shares in A4e

Andrew Dutton: No, that is not true. Not on the Work Programme, no.
Chair: So, that is definitely not true.
Andrew Dutton: No provider was paid anything to help design the Work Programme.

Q196 Chair: But is it appropriate that those who helped to design the contract then went on to compete and win contracts?
Alan Cave: But they didn't.

Q197 Chair: So A4e didn't help you to design the contract.
Alan Cave: No.
Chair: Go on, help me.
Robert Devereux: I think it's ships in the night here. I think that what Alan just said is that, very reasonably, we went and talked to the markets before we put the contract out, meaning that we would get the contract straight. He said definitely that we did not pay anyone for that, but it is pretty typical, I think, to be talking to a market to make sure that the market understands what the ITT's going to look like.

Q198 Meg Hillier: Mr Dutton, how many clients per adviser do you have? Or is it different for different contracts in different areas?
Andrew Dutton: It is different for different contracts in different areas, but the average, for example, where we have jobseeker's allowance customers is one to 80.

Q199 Meg Hillier: Just to be absolutely clear about how that works, you get the money for accepting someone first of all. That is the up-front money—the taxpayer's money. Then when someone is placed in a job you get money. Is that at that point, or when they have been in the job for some time, and if so how long do they have to have been in the job for?
Andrew Dutton: They have to have been in a job, depending on which type of benefit they are on, for either three months or six months.

Q200 Meg Hillier: So, the minimum is three months.
Andrew Dutton: The minimum is three.

Q201 Meg Hillier: So if someone is put in a job and they last for only a month, there is no financial benefit to you at all.
Andrew Dutton: None at all.

Q202 Meg Hillier: Except that someone might get experience.
Andrew Dutton: Of course, which is extremely valuable for the person going through the programme.

Q203 Meg Hillier: In the work that you are doing, do you do any measurement of the social capital—the benefits? Do you do qualitative work? I know that there will be an evaluation that the Department will do, but are you doing your own qualitative as well as quantitative work on the outcomes?
Andrew Dutton: We are doing some qualitative work, in terms of understanding that we will place a significant number of people into work over the life of the programme. There will be some people who do

not, through the programme, find their way into long-term sustainable employment. That does not mean that those individuals have not improved their lives through that two-year period of their work with us. We will be looking at how much further progress towards work or towards their integration into society and into community we have helped provide. We will enable people to work within charities and businesses where they have gained experience. So we will be looking at how the programme has worked qualitatively for us as well as quantitatively, in terms of output.

Q204 Meg Hillier: Given that the harder-to-reach people have dealt with organisations such as LifeLine, which was also active in my constituency, do you also do a qualitative analysis of them and the work they are doing? Do you have break clauses in the subcontract that you have with them, if you feel that they are not performing, whether it be on the financial side or on the outputs?
Andrew Dutton: We are certainly not looking at the qualitative measures within our subcontractors. If they are charities, for example, they might themselves be looking at those qualitative measures. Yes, we do look at the quantitative measures, in terms of their performance, and as the DWP has minimum performance standards with us we have set the exact same minimum performance standards with our subcontractors, and we do have break clauses, as the DWP does with A4e within our contracts.

Q205 Meg Hillier: I want to ask two things of you, Mr Devereux, and perhaps Mr Cave also. MPs cannot get figures locally about the number of referrals and so on. You made a good argument about the challenges of assessing part-way through a programme. It is helpful for us to know the number of unemployed people in our area, and to look at the trends of how long people have been unemployed. For example, I have particular issues in my area with young people and men over 50, but I have no idea of how many of them are in the Work Programme. I have no way of assessing that. Why can't that information be made public? It is taxpayers' money, and it is a programme to get people into work. We are elected Members of Parliament, and this Committee is the Public Accounts Committee, yet we have no data that can give us an assessment of what is working, even in our own areas. Why is that?
Robert Devereux: I tried to explain earlier that on 21 February, which is not many days away, we will publish information about referrals in every area. That will be broken down by age, gender, disability indicator, ethnicity, primary health condition, lone parent status, etc., as well as geography. We have deliberately waited until we have just enough to make it worth producing a statistical series, but having started doing that, we will then continually update that series.

Q206 Meg Hillier: So we can ask for it locally. We can ask our providers, and they will provide that locally from that date onwards. I want to be really clear about what we are entitled to as elected representatives.
Robert Devereux: We put clauses into contractors' contracts to make sure that the dissemination of information passed proper statistical tests. I do not want to get letters from the UK Statistics Authority telling me I have done it wrong, so we have used advice from our own statisticians to say that this is the time frame over which you can do different things. From February, we will publish referral data, which will be broken down as much as we can, and that will be a series that we will continue to update. From the autumn, we will publish job outcome information, and that series will continue. The reason for not starting any sooner is that there simply isn't enough information to make it a reliable statistic.

Q207 Meg Hillier: I hear what you are saying, and it was my Government who invented the UK Statistics Authority, so we take some responsibility for the unforeseen consequences. Perhaps it was not thought through. If I go to my provider locally after the 21st, it will be able to give me local figures for Hackney South and Shoreditch, the Chair will be given local figures for Barking and Dagenham, and Mr Hancock will be given his figures. Will they be broken down to that level? Mr Cave is nodding, so that is fine.
Robert Devereux: The statistics will show you by geography what the results are. We are doing that properly, to make sure that they are properly clean. I am not expecting providers to give that information as well. Their information obviously comes to us, but you would pay statisticians to make sure that things are properly QA'd and so on.

Q208 Meg Hillier: But will they get it locally?
Robert Devereux: Yes.
Meg Hillier: That's good to know.
Robert Devereux: By local authority, parliamentary constituency, and Jobcentre Plus district—every geography you can imagine.

Q209 Meg Hillier: Great. You will be getting many questions from many of us.
That is good news, because transparency is important. The trend in Governments is that the private sector now provides many public services, yet we hear how hard it is to get information about where the pounds go. There is an issue there that is probably more than you can answer today, and it is probably for Ministers. I want to go back to the issue about risks, and you passing them on. You have emphasised that over and again, and there has been a debate in Government for some time about passing the risk over. Your job is to look at the money, and we need to look at the money, but I am concerned about my constituents and what they are getting. A4e is a prime contractor in my area. If it goes bust because it doesn't meet the target and it can't survive, what happens to those clients? You can do a quick mini-bid, but what happens to them in the meantime?
Fiona Mactaggart: Do you have to pay an attachment fee again?

Robert Devereux: In the first instance, the existing provider in the same locality will be asked to deal with those clients.

Q210 Meg Hillier: Immediately, overnight?
Robert Devereux: Immediately.

Q211 Meg Hillier: So how will they have the capacity overnight to do that?
Alan Cave: This is not an inflexible business. You are talking about premises and people, providers from nothing to 100% start-up in the space of three months in terms of getting work programmes started, so there is a lot of flexibility in the system. We think it is possible to transfer clients across, and it has been done in the past.

Q212 Jackie Doyle-Price: In the previous session, we heard from Professor Finn that we perhaps need minimum standards that users can expect. Having visited one of my Work Programme providers, the message I got was that it would be successful where it could tailor a bespoke programme of support for each individual case. Everyone has a different story and different challenges, and the moment that you start designing processes, or trying to generate standards, you are kind of throwing the baby out with the bathwater. From your perspective, Mr Dutton, having heard what Professor Finn said, do you think that there is any room for minimum standards in this programme, or would you be in favour of the philosophy of bespoke support?
Andrew Dutton: I believe that there is room for minimum standards in terms of the quality of the service that those people coming through the programme should accept and expect. On how that minimum service level should be applied, I agree that if there are qualitative measures, they should be measurable—that was really the question being asked. If those minimum service standards begin to control the way that we as providers, both prime providers and subcontractors, are able to operate our business, I think that we will be genuinely going backwards in terms of what is so exciting about the Work Programme, which is that we are able to tailor individual services for every person who comes through it. There is room for qualitative measures, but whether we have the flexibility and freedom to work with each customer in the right way must be kept a paramount consideration in every stage of thinking that through.

Q213 Jackie Doyle-Price: The best measure is whether the person gets into work.
Andrew Dutton: It is.

Q214 Jackie Doyle-Price: And obviously your payment reflects that. To what extent are we looking for minimum service measures as an excuse for not delivering against that outcome, bearing in mind that the Department will be looking at the performance and will have the flexibility to favour particular contractors if some are underperforming?
Andrew Dutton: If—and it is an "if"—a minimum service level or standard were introduced, there would have to be a conversation between all the prime providers and our subcontractors and the Department to determine whether that was appropriate. Whether that then changes the way that services are delivered, or how we are controlled, comes back to the same answer that flexibility remains paramount.

Q215 Jackie Doyle-Price: You have transferred the financial risk to the providers, but you still own the policy outcome risk, which is about delivering people into jobs. What sort of indicators will you be looking at when picking out where some providers are not performing?
Robert Devereux: The first answer to that is that we have contractually included minimum performance levels. Let's go back to Pathways, which is the thing that you criticised us for previously. That achieved absolutely nothing more than would have been the case had the programme not existed. The minimum contractual standard for ESA clients now is higher than dead-weight. If all I get for ESA claimants is the minimum performance standard, I will be ahead of where we were previously, and I will be delivering you value for money. Fundamentally, as you said earlier, this is about getting people into work. That is essentially what we have achieved by having a programme, particularly for those harder-to-help cases from the ESA case load. Compared with previous programmes that achieved absolutely nothing, we are now in a position where the minimum contractual standard is higher than it was.

Q216 Jackie Doyle-Price: So from your perspective, given that targets are in the contract and the providers are bearing the risk, we have something that minimises the risk to the taxpayer in terms of delivering outcomes, and you will be tough on those providers who don't hit those targets.
Robert Devereux: Two things will happen. If in a particular environment, contractor A starts to part company with contractor B in terms of performance although both are above the minimum standard, it will start to lose market share and that will hurt its profits. If one of the providers starts to sink towards the minimum performance level, then—subject to various rules about getting performance plans and the rest of it sorted out—we can take its contract from it. In my view, this is a really good contract.

Q217 Fiona Mactaggart: Isn't it true that providers can take £400 for a person and do effectively nothing?
Robert Devereux: No. It is the case that we will pay £400 for an attachment. If that is all they do, they cannot make money from it.
Fiona Mactaggart: I accept that.
Robert Devereux: So the question is theoretical and practical simultaneously. I will pay £400—

Q218 Fiona Mactaggart: So you will pay £400 and someone can do nothing for that £400.
Robert Devereux: They have to meet the minimum standards. If, by the time we come to measure the performance in year one, they have not managed to achieve minimum performance above the non-intervention rate, we will be back on their case. It

is twofold. We are only paying the attachment for—literally—the act of attachment, but the contract has got conditions in it about what actually happens at the minimum performance level. It depends which year you are talking about. Market share adjustment occurs from year three onwards.

Q219 Fiona Mactaggart: Mr Dutton, you heard Geraldine's evidence earlier, and Professor Dan Finn's, and both of them were saying that we want granularity in assessing people. We want more accurate assessment. Do you do an assessment when people come to you?
Andrew Dutton: Yes, we do. Irrespective of the benefit type when someone arrives on our programme, we do an immediate assessment to understand the needs of that individual.

Q220 Fiona Mactaggart: Am I right in thinking that some people are much easier to help than others, even if they are in the same category?
Andrew Dutton: Correct. The point that was being made is that the eight categories that are currently in the Work Programme and how they are paid for are a strong proxy for how much support those individual customers are likely to need. You could see a circumstance in which someone who had long experience—a 15-year CV—had fallen sick, was ill for a period and returned to work, versus, for example, an 18-year-old who had no experience at all and no CV to support them into work. Therefore it may be easier to help the person who is on employment and support allowance and has a 15-year CV and a great number of skills than the 18-year old who does not. Yet, in terms of the payment, the 18-year-old would be deemed easier to help than the person who is on employment and support allowance.

Q221 Fiona Mactaggart: Does your assessment feed your referral system? We know that the Department refers blind. Does your assessment inform your referral to subcontractors?
Andrew Dutton: In some instances, yes. We have some subcontractors who work specifically in geographical areas, and we immediately pass the referral straight on to them. We have no intervention in that process in terms of that referral. We also have partners in our network who are specialist intervention partners. For example, they may be able to support us with people who have Asperger's syndrome. We will look at that individual, assess them and then pass them on specifically to that specialist provider.

Q222 Fiona Mactaggart: That will cost you, as I understand it?
Andrew Dutton: Correct. Obviously it will cost us money to make that initial assessment. In certain circumstances, we are receiving a management fee, because we are undertaking work with that customer before supporting them to go on and get the specialist support that they need from the great network of providers that we have within our framework.

Q223 Fiona Mactaggart: Mr Dutton, I am not including you in the accusation that I am about to make next, although I think your organisation might be guilty of it. I want to address the whole issue of parking and creaming. It seems absolutely clear to me that, within these very broad categories, you have said, in your own words, that some people within the same category are much easier to help and much less expensive for you to manage than others. It seems there are two ways to make money. One is to collect the £400 for everyone. The people who are utterly hopeless—you park them. It is quite possible, with the minimum service standards that you all signed up to, for some organisations to park them completely. At least A4e says that your advisers have to be within 35 or 40 minutes' travel, which is a measurable thing. Many of these things are absolutely unmeasurable.
It seems the way to make money is to park the ones who are too hard—put them into the "too hard" box—and work on those who are on the margins. We know schools do this to get people into the five A to Cs category. I am concerned that that is a really alienating experience for the people who end up being parked. I actually like the payment schedule in figure 4, which says that you get paid as you achieve milestones. That is a sensible arrangement. But I do not see that this reflects the real challenges of people. Within these categories, the challenges can be completely other from that which the payment reflects. What is there to reduce the risk of parking and creaming?
Andrew Dutton: There are several things. First, we as an organisation, like any prime provider and the sub-contractors, have a duty to every single person who comes on to our programme. We absolutely do make sure that they get the support that they require. My view about how this contract was let is that the financial mechanisms mean that it would be impossible for me and other organisations to make a profit if we focused only on those individuals who are easiest to help. The complexity of the model and how it is constructed mean that—notwithstanding the fact that you may have someone who is easier to help on employment support allowance versus someone who is harder to help, for example, on jobseeker's allowance—we have to assess the needs of that individual and their distance from work, and then work with them to enable them into long-term employment. The great thing about the Work Programme is that we now have two years in which to do that.
We have additional mechanisms in the contract that really start to reflect how the current economics of business is working. There was some debate earlier about the fact that there are some employers who are working on zero-hour contracts, there are part-time contracts and there are short-hour working contracts. One of the things that this contract now allows us to do for people who may have been deemed harder to help is to continue to support them over two years, to enable them to gain work experience and begin to count that activity towards their long-term sustainable employment. It is in our interest, therefore, to try to get as many people as we possibly can into as much employed activity as we possibly can, because that is how the economics of this contract work. I understand and recognise the fears that people have about parking and creaming, but I genuinely believe—

notwithstanding, again, that I operate a significant number of contracts in Australia—that the mechanism that the DWP has put in place in this instance means that we as providers have to perform, and if we do not perform we do not get paid.

Q224 Fiona Mactaggart: What it does not do is reflect very accurately in the payment the risk and challenge posed by individual people. There are a couple of things, Mr Devereux, which the report makes me think I would have considered if I had been running the programme, and I was wondering whether you had considered them. One thing I would have considered was bunging a bit of money into the appeal system for ESA claimants so that you got them through the system quicker, and I would be interested to know why you did not do that.

The other thing that I am surprised you have not considered is whether it would be appropriate to make the initial assessment more accurate—so that these categories were less crude and less inaccurate—so that you could reduce the risk of parking and creaming. That actually alienates constituents at both ends. I have had complaints about providers in my constituency both from people who feel that they are well qualified and need only one little extra thing, which they end up not being able to get because someone thinks that they can sort it out themselves, and from people who feel that they are being parked and are very frustrated by it.

Robert Devereux: I understand that. This set of prices, as has just been said, begins to move us towards trying to reflect some of the average difficulty. I quite like the example you gave because it is really quite difficult to know, unless you are down to the individual, whether that young person is really more difficult than the seemingly really difficult sick person. You have to ask yourself the question "Is it pragmatic to think that the rate at which I am going to pay is going to be based on a subjective assessment of whether this person is easy or hard?" Whose assessment? Mr Cave's? The provider's? Some third party judge?

The reality is that we have got to work with a system that is going to put millions of people through, and we have got to think about something that has a bit of a structure that moves us in the right direction. Everything that we have done here takes us really a long way forward compared with where we were. If you ask me whether I can conceive of something even better—well, probably, but it would be a lot more complicated and you could not possibly get there without the knowledge that we will get from this contract now. Let us come back when we have some results that we can talk about.

Q225 Fiona Mactaggart: So you will try to draw the knowledge out of this through, for example, getting responses from people who are on the programme to inform the way that it is delivered by different suppliers. How will you make some of that public?

Alan Cave: There are two things. You heard Professor Finn talking about the start of the evaluation programme, which will have a very large sample of actual individuals going through the programme. A big dataset will come out of that and it will be repeated during the course of the programme—it is not a one-off. Professor Finn also referred to the more regular sampling of an individual. We are doing some of that. The folk who work in the contract management of this are already looking at 1,000 individuals each month in relation both to the minimum service standards and to what their experience has been in terms of getting a job. That will generate a lot of information. It is not the case to think that by letting these contracts, we have become blind to what has been going on. There will be a lot of data.

Q226 Chair: Will you publish that?

Alan Cave: Yes, I am sure we will.

Q227 Mr Bacon: I have a couple of quick questions. Mr Cave, one presumes in the design of this model that some providers will be more successful than others. You have talked about gaps opening up. Are you happy with this? Or are you expecting that there will be some sort of consolidation or shake-out with some contractors being more successful than others to the point where some just move in and take over the space occupied by others, so that we will end up with fewer providers than we had on day one?

Alan Cave: We don't have a plan or a target for this. It is likely that there will be differences in performance between providers. The dynamics of a contract are such that that might lead to some considerably outperforming others, which would be a plus. What we have done in designing the letting of the contracts and the framework is to give ourselves the maximum protection against a consolidation in the industry which is too rapid and too complete. We have 35 organisations in the framework and 18 delivering the current set of contracts.

Q228 Mr Bacon: Eighteen primes?

Alan Cave: Yes.

Q229 Mr Bacon: Mr Dutton, you are one of the primes. How many people are covered under the contracts that you have in total?

Andrew Dutton: In terms of?

Mr Bacon: In terms of the people who you will be seeking to help.

Andrew Dutton: In terms of the contract that I have with the DWP, I am afraid that I cannot provide you with that information in this meeting. The data that will become available on the number of people attaching to the programme will be published in a couple of weeks.

Q230 Mr Bacon: So we will be able to see how many attachment payments you get?

Andrew Dutton: Yes, you will.

Q231 Mr Bacon: Which will be a proportion of the total you have? Where you succeed in getting someone placed and get the initial attachment payment, we will be able to see the total number of those but we will not be able to see—from what is going to be published in a few weeks' time—what

that is a proportion of. In other words, what the total was, of which you got attachment payments for some. Is that correct?
Robert Devereux: No, you will get referrals and attachments.

Q232 Mr Bacon: So we will know how many people have been referred in total to A4e?
Andrew Dutton: Yes.

Q233 Mr Bacon: But you can't tell me today?
Andrew Dutton: I can't, no.

Q234 Mr Bacon: Second question: you have said that 87% of the company is owned by one person. How many shareholders are there all together?
Andrew Dutton: There are five shareholders.

Q235 Mr Bacon: How much do you own?
Andrew Dutton: I do not own any of the company.

Q236 Mr Bacon: You have no shares in the company at all?
Andrew Dutton: No.

Q237 Mr Bacon: Did you say that you had a profit of 4%?
Andrew Dutton: Our net profit over the last year was 4%.

Q238 Mr Bacon: That is the profit after tax?
Andrew Dutton: Yes.[7]

Q239 Mr Bacon: If the turnover of the company is £180 million of your UK contracts, the implication is that the profit from that £180 million will be just over £7 million, and 87% of that will be ascribed to the one individual who owns 87% of the shares. Is that right?
Andrew Dutton: The calculations that you have just made are not correct in terms of the way that that would work. It is important to note that, where profits are made, they are also reinvested back into the business and not necessarily taken in dividends. In terms of value for money, the question for me is that this is an outcome-based contract. A4e will be paid on the outcomes that it delivers, and it will only be successful going forward on those outcomes. We absolutely welcome that. Therefore, the success of our shareholders and of the business becomes more dependent on the outcomes that we deliver for the people who come through our programme.

Q240 Mr Bacon: Mr Devereux is nodding. I think we all favour rewarding performance, but I have a slight concern. In the coalminers' compensation contract, a partner of a firm in Doncaster paid himself a salary—I stress, salary—of £16.9 million. When we had the hearing, the permanent secretary of the Department of Trade and Industry confirmed to us that it was not the intention or the designed output of the programme to make certain solicitors in Doncaster into multimillionaires. None the less, that was the result. You talk about the economics of the programme and the marketplace, and employers changing their requirements and demand for labour. Of course, how they change their demand for labour is, to some extent, influenced by this enormous truck coming down the road with all these people who may be placed, for whom there is a series of payments. That is influencing the market in itself. I fear—I hope I am wrong—that the opportunities to game the system might end up being sufficient for some people to make a great deal of money without necessarily having achieved substantially or spectacularly different outcomes. Reassure me that I am wrong.
Andrew Dutton: I genuinely do not believe that that is the case. In the modelling that we undertook to take on the Work Programme, where significant risk has been passed to providers, we have to make sure that we are performing across all groups, in terms of the cohorts that come into the programme, to generate strong profitability. The great thing about the Work Programme is that we can generate strong profitability only by placing significant numbers of people who are out of work into long-term sustainable employment. If the company is gaining, more importantly, the individual has gained long-term sustainable employment. Even more interestingly, from the AME savings and in DEL savings that are made, the benefit to the Treasury, in terms of how the report has constructed it, is very significant.

Q241 Stephen Barclay: In reply to Mr Bacon, you said that you would get paid only if there is a successful outcome.
Andrew Dutton: Correct.

Q242 Stephen Barclay: But isn't your management fee paid on the attachment?
Andrew Dutton: The majority of our payments—
Stephen Barclay: The majority, I accept, but you do get paid—
Andrew Dutton: As you can see in the report, up to 86% of our payments will be based on outcome; in three years' time, all our payments will be based on it.
Stephen Barclay: I am just clarifying that that is correct.
Andrew Dutton: Yes.

Q243 Stephen Barclay: I want to come back to the 12.5%. We can clarify whether it is 25% or 12.5%, but, taking it as 12.5% for the management fee, what are we getting for that? It just struck me that much of it should be automatic if the payment is by automatic electronic payment. The management of the relationship with DWP is pretty opaque. Could you spell out for us lay generalists what that 12.5% covers?
Andrew Dutton: I can. It covers some of the administrative costs that A4e has to undertake as a prime contractor in auditing our part of the network, because we have significant obligations to ensure that our partners undertake the services that we have asked them to undertake. On their behalf, we also manage the relationship with the Department. We also manage the contract, and contractual changes where they might occur. Equally, we go and represent ourselves—

[7] In the last financial year, A4e's total group profit (including overseas) after tax was 3.7%

Q244 Stephen Barclay: Contractual changes?
Andrew Dutton: For example, if new provider guidance comes in from the DWP on how we need to manage customers, we manage that information into our provider network. That does not come directly from the DWP to the subcontractor; it comes to us as prime contractors.

Q245 Stephen Barclay: So if DWP comes along and says, "We want to change things on the contract," you will not come back and say, "There's an additional cost for making those changes." You are absorbing that already—front-ended, irrespective of what those changes will be—within the management fee.
Andrew Dutton: The way the contract works is that, depending on the changes, they will go through a change control process. Both parties will impact that change, and if they both deem that there needs to be a change to a contract, there will be one; if not, there won't. We are obliged immediately to implement statutory changes from DWP and retrospectively look at the impact. In addition to the things that I have listed on how we support our—

Q246 Chair: Let's get clarity on that, because Steve asked a really good question. I do not know what the terms of the contract are, but would you be tempted to negotiate an increase in price? Would you not?
Andrew Dutton: At the moment, the contract that we are running for the Work Programme is performing as we expected, and we have no reason to suggest that—

Q247 Chair: If there is a change, might you be tempted to negotiate an increase in price?
Andrew Dutton: I think the question would always be: what is the change?

Q248 Chair: You would not rule it out?
Andrew Dutton: I would not rule it out, depending on the change.
Chair: Thank you. I think that is where we want to be.
Mr Bacon: I am still confused as to what—
Andrew Dutton: If I may finish in terms of the additional services that we provide? For example, we also work very hard with national and regional employers to get dedicated vacancies that are specific for the people who are working in our programmes down to our subcontractors. We have signed national contracts with Asda, Royal Mail, the Tussauds Group, Greggs the bakers[8] and WHSmith where the vacancies are specific to A4e. We will also, where we can, provide those vacancies out to other organisations for—

Q249 Mr Bacon: How are those contracts different from the ones that Tesco may have signed with other providers?
Andrew Dutton: It depends on how they have done it. We do not have a specific contract with Tesco, but, for example, with some of those providers, we are what is called a "prime provider", and therefore the vacancies will come through A4e and we will then manage those vacancies out into our own network and—

Q250 Stephen Barclay: I am just trying to get to the value added. You are saying, "Actually, one of the things we are doing is"—instead of the Chair's point about local charities having relationships with their local supermarkets or whatever—"we have gone national and negotiated a value-added contract." I just find it surprising that, if we have 18 providers, Tesco would have 18 different ones with each of the providers.
Andrew Dutton: That is absolutely the point. They will not necessarily do that. For some of the very large organisations that we have contracted with, we are what is termed a "master vendor". For those vacancies that they want to put into the network for unemployed people through the Work Programme, all those vacancies will come through A4e, and we will effectively manage them into our own network of branches and into our subcontractors. Those large organisations have also asked us, where appropriate, to ensure that those vacancies become available into the regions where we do not operate. There is significant cost in negotiating those contracts on behalf of ourselves and our supply network.

Q251 Chair: Who do you have a contract like that with?
Andrew Dutton: As I just listed, we have, for example, contracts with Asda, Royal Mail, the Tussauds Group—

Q252 Chair: And you are the only ones?
Andrew Dutton: In some of those instances, we are the only ones, in others we are—

Q253 Chair: Which ones are you the only one with?
Andrew Dutton: I would need to come back to you on the exact detail of where we are the only provider.
Chair: I would like a note on that, because—back to my local knowledge—frankly my local providers have relationships with the local Asda, the local Tesco and so on and so on. They do not need you.

Q254 Stephen Barclay: To return to Mr Bacon's point, I fully accept that there is no guarantee that a 100% dividend would be paid, but if, on the figures you gave earlier, a 100% dividend was paid, that would equate to £6.264 million from the taxpayer going to just one individual in your company.
Andrew Dutton: For an individual who has owned a business for 21 years, has at times taken no dividends and has ploughed her own cash as a primary shareholder back into that business. When businesses are successful, shareholders are entitled to take dividends.

Q255 Stephen Barclay: I do not dispute that. I am just trying to work out the numbers. It equates to £6.26 million. This is that management fee attached to helping the vulnerable into work.
Andrew Dutton: I am very happy to come back on what we have reported in our management accounts,

[8] As from April 2012

to make those available to the Committee, and come back and say exactly what those figures are.

Q256 Mr Bacon: Who is the main shareholder?
Andrew Dutton: The main shareholder of A4e is Emma Harrison.

Q257 Mr Bacon: I was surprised when you said that you are not one of the five shareholders. You are the group CEO for A4e.
Andrew Dutton: I am.

Q258 Mr Bacon: Do you have any financial interest in any entity that obtains financial benefit from the A4e contract with the DWP?
Andrew Dutton: I, as an individual, am remunerated in line with the market. I have potential share options if and only when there is an event where shares are sold on behalf of the company, so I have an interest over them, for which I have had to pay personally, but in terms of having—

Q259 Mr Bacon: You have bought share options?
Andrew Dutton: Effectively, I buy share options, yes. As you would in—

Q260 Mr Bacon: When you say "effectively"—
Andrew Dutton: It is a private company, so it is not quite the same as a public limited entity, but effectively I pay money over to the company for those shares and then—
Mr Bacon: Could you repeat that last bit? I did not quite catch it.
Andrew Dutton: I pay money over for those shares, and in a sense I then hold those shares, but it is a private company, and therefore realisation of anything depends on how the majority shareholder manages that.

Q261 Mr Bacon: When you say you pay money over for those shares, you mean you pay money over for the opportunity to purchase those shares at a point in the future, subject to the conditions laid down in the option?
Andrew Dutton: Correct.
Going back to value for money from the Work Programme, we as an organisation going forward are going to be paid by results. There is some attachment fee in accepting, but the majority of revenues that we will generate from the Work Programme, in excess of 80% and moving to 100% over the life of this contract, is based on the performance that we, and our subcontractors, will deliver over the life of that programme. That's really the value for money question that I think the Committee is considering.

Q262 Mr Bacon: So you do have skin in the game, not because you are a shareholder at the moment, but because you have put your own money up to buy share options, essentially.
Andrew Dutton: Yes.

Q263 Mr Bacon: How much have you had to spend on buying share options?
Andrew Dutton: I think that is a private matter between myself and the company in terms of how much I have paid for shareholding. The real issue is about the value for money of the Work Programme and how we will be paid going forward. That's what the Committee is here to understand.

Q264 Chair: I'll tell you what's interesting about this, and I am sorry to subject you to it, but you are one of the first examples we have had of a company that is entirely dependent on public contracts for your existence. Therefore, you move, in our view, into a new arena—this is not being aggressive in any way—and we, in terms of looking for value for money, have an interest in following the pound into your company, whose business is entirely public contracts. Whether it is the DWP or the Home Office, it is entirely based on public contracts. You and Emma Harrison have to accept that that means there will be a different relationship and a different interest in the remuneration and profits made, because the profits you make come from the taxes that ordinary hard-working people pay.
Andrew Dutton: I do accept that. We, as a company, in terms of the revenues that we generate from the Work Programme, will, for the majority of cases, be paid only when we are successful. Being successful means putting people into work.
Chair: That's not the point, though. That's only part of the equation. That's really what we are saying.

Q265 Meg Hillier: I want to ask Mr Devereux whether there is any requirement in the contract for minimum financial reporting on companies about their profits, other than what they file at Companies House.
Robert Devereux: I don't know the answer to that.
Meg Hillier: If you don't know the answer, perhaps give us a note. You are the guardian of taxpayers' money in this case, and it would seem to me to be a possible option.
Robert Devereux: Yes, it is. Remember, of course, it is the case for the companies you have just described. We have let contracts based on competition. Different parts of the market have looked at the value of the contract and made their own assessment about what the profit margin is, and therefore produced the discount. I can sleep soundly in bed thinking that I have managed to produce enough people to bid for this—it was a very healthy competition—and I know that they were bidding good prices for it. I have some confidence in that. That is not the same as also looking over their shoulder and working out exactly what the share option deal is. I have put this into a competitive market.

Q266 Meg Hillier: I am less worried about the absolute detail of a share option than I am about seeing what the turn of profit is on the taxpayer's pound, as the Chair said.
I have quite an important point, picking up from Fiona Mactaggart's point about some existing zero-hours contracts. I speak to people in my constituency who do five-hour shifts and do a couple of those, or work short hours in schools. For the people you are placing,

Mr Dutton, you are paid if they are working 20 hours a week or more. Is that right? Or is it 16?
Andrew Dutton: If they are working 16 hours, every day that they are accumulating work will ultimately go towards a long-term, sustainable payment, yes.

Q267 Meg Hillier: Just to be clear, if you were placing me in a job tomorrow, it would have to be a minimum of 16 hours a week, every week, for a period of—
Andrew Dutton: Three or six months. Absolutely.

Q268 Meg Hillier: If we are looking positively at this, it could mean that we see an end to some of the zero-hours contracts, although I can see the point Fiona Mactaggart was raising about current people in those jobs. Is this actually a way that the Department is going to effectively force contractors to offer a minimum contract of 16 hours a week?
Robert Devereux: We are paying for 16 hours in work, which is not the same as the existence of a 16-hour minimum contract.

Q269 Fiona Mactaggart: If people who had zero-hours contracts got 16 hours every week, they would be very happy, let me tell you.
Robert Devereux: Exactly. This is the difference between the form and the substance of the contract. What we are paying for is 16 hours paid employment in a week. We are not asking a question about the nature of the contract, which could have been a zero-hours contract, but none the less generates reliably 16 hours.

Q270 Meg Hillier: If someone is regularly getting 16 hours on a flexible contract, for a lot of people, that is—
Robert Devereux: Quite good, yes.

Q271 Meg Hillier: If you are a graduate of the Work Programme, for the provider to get the money there has to be 16 hours a week worked.
Robert Devereux: A JSA person would have had to have had 26 weeks and worked 16 hours in every one of those 26 weeks, whatever the nature of their contract.

Q272 Meg Hillier: Which is better than a lot of my constituents are currently getting, which is my point.
Robert Devereux: Which is good.

Q273 Meg Hillier: It could be. Are you monitoring that that stays on and beyond?
Robert Devereux: That is exactly what Alan's team is for.

Q274 Chair: Could I just ask some cleaning-up questions that we have not covered? We have had quite a lot on the primes. I have seen in some of the literature that there is feeling that you should regulate the primes more, to ensure that they do not simply pass on the risk to the subcontractors; that they do refer people on—the ACEVO survey suggested that they did not—that they don't cherry-pick; and that they do use the voluntary sector in the way that Francis Maude promised they would, so that the voluntary sector gets 35% to 40%. There is the issue of profits. It may be that you feel we are being oversensitive here, but we are dealing with the legacy of PFI, and one issue that has arisen from that is that the previous Government ought to have put in place measures to ensure that excess profits at the expense of the taxpayer were not enjoyed. There are all those issues around primes. What plans and thoughts have you about regulating?
Robert Devereux: Just on the last point you made, I agree that you will want to look at that. We are deliberately incentivising people to over-achieve, and the way they over-achieve is by making more profit. I am not going to renege from that. I positively want people to get into bonus territory—we have not even talked about bonus territory. If they get to 30% above the non-intervention rate, I will pay more money. That will be profitable, seriously profitable. That is the nature of a market. That is what we have deliberately put in place here. The level of profit is there to drive performance. If you think that, by capping that off at some number, I will still get constant upward pressure, including for some of the customers you have been talking about, we will have a different view of this from the way the Government have gone about it.
Going back to the primes, Alan, would you like to say something about the subcontractors?
Alan Cave: Yes. The way in which we manage the relationships within the supply chains are, first, things that we have already done. We have put a requirement on all bidders to be explicit about the delivery mechanism they have in the supply chain, so bringing that to bear, and the appropriateness of those supply-chain arrangements. We required a signed letter from each subcontractor to confirm they had agreed the terms on which the bid was being put forward to us. The supply chains can flex, and indeed they will flex in line with performance, as some do better and some do worse, so some subcontractors will get more business and some will get less, but that flexing will take place at our approval and on a performance basis. When we have the Merlin standard—all primes are being accredited between now and June—that will be the check that the promises they have made in their bids and contracts with the subcontractors are being maintained. That accreditation will involve detailed discussions and interviews with a wide range of the subcontractors, and, indeed, subcontractors who did not get slots with those particular client contractors.

Q275 Chair: But one of the reasons for having the primes—*[Interruption.]*
Mr Bacon: Well, that ring tone is better than "The Stars and Stripes Forever".
Chair: One of the reasons for having the primes was that you felt it was better to have large organisations bearing the risk and that they should not pass on that risk to smaller organisations. As I remember, that was the justification for big organisations. Am I wrong about that?
Robert Devereux: It was certainly the case that we were interested in having that. Some subcontractors positively want the incentivisation. I have met some of the subcontractors—some of the A4e ones—who

actually want to have the payment. They do not want it discounted. I don't know what it is that makes us think that all of the subcontract chain do not want to be in incentivised work. Some may, but we have given the primes the chance to do that.
Chair: No, I understand.

Q276 Fiona Mactaggart: Are they frustrated about the Merlin standards not being fixed for a bit? Isn't that one of the issues? That is probably a product of starting it fast.
Alan Cave: The timetable was always that we were going to get the Work Programme up and running, and then take a detailed look after it had been going for nine months to a year, so that we had a proper review of how the subcontracting arrangements worked. There was no point in doing it in the first few months because we would not have had a proper picture of it.

Q277 Chair: I am trying to clean up. We were told by people who gave evidence before you that ESA claimant referrals are down by 60% again. I do not know if that is the correct figure. Is that a deliberate policy? Why is that happening? Clearly, there is more money if you put an ESA claimant into work.
Alan Cave: The projection we made in December showed a 30% smaller number for ESA referrals to the Work Programme compared with the projections we put out in June—30% over the life of the whole programme[9]. The big driver for that is the evidence emerging from the way in which the work capability assessment is dividing people between the three categories: people who are fit for work; people who are going to a support group and people in the work related activity group, as well as the length of prognosis given to people before they are fit to go back to work. It seems that there is a different structure to the ESA group compared with the JSA group than was initially projected. That is just on the basis of experience.

Q278 Fiona Mactaggart: Isn't part of this delaying appeals?
Alan Cave: There is an issue that we are working through at the moment to speed up the impact of the Professor Harrington changes, which have led to some delays in the way in which the assessment process has taken place. We have some issues internally, as ever, to make sure our processes work more slickly and get people moving through more speedily to the right point.

Q279 Chair: Having got to one Work Programme, we are now seeing the emergence of other programmes. I just wondered how the relationship was being developed. How does the Youth Contract sit with the Work Programme? That, and the troubled families programme unit—I don't know what it is called—are, sadly, outside the Work Programme. I just wondered how on earth that was working.
Robert Devereux: The Work Programme is for a defined class of people, and we have not changed that class.

Q280 Chair: The troubled families are bound to be within the classes that could be in the Work programme.
Robert Devereux: The Work Programme is still there. Some of the things that we have been discussing—Alan is now leading a group across Whitehall to make sure that we make payment by results as widely available as possible—are questions about the best way to do the additional work that that family support stuff is going to be getting into. We are not going to be paying for employment outcomes through anything to do with the 120,000 families when actually they are already—as you have observed—likely to be candidates for the Work Programme. There are other things that we may well want them to do. We are hoping to get truancy rates down, for example. That would be something well worth doing. It would not score in this contract, but we are deliberately trying to spread our knowledge of running payment by results into other areas.

Q281 Chair: So the individual and the individual family will be accessing a number of programmes—they will be accessing you, DWP or a contractor through the Work Programme?
Robert Devereux: One of the reasons for constructing the work on the 120,000 is that there is an inordinate number of things impacting on their lives and trying to get a handle on exactly the best way in which these families can best be supported is deliberately why Louise Casey has gone off to do her work.

Q282 Chair: And the Youth Contract?
Alan Cave: The Youth Contract is within the Work Programme. For Work Programme purposes, the Youth Contract is a subsidy available to an employer that takes a Work Programme participant into work. It is for a young person. It is a way of giving an employment subsidy to a young person on the Work Programme.

Q283 Chair: How is it better value than the Future Jobs Fund?
Alan Cave: It is different.

Q284 Chair: I am genuinely interested, because Robert Devereux was pretty good at saying that the Future Jobs Fund was not value for money. How is this going to be different to make it value for money?
Robert Devereux: If you want to have a conversation about the Youth Contract, can we write you a note, because we have come to talk about the Work Programme? So we haven't mugged it up.

Q285 Chair: If I may say so, I think that is a way of evading an answer.
Robert Devereux: It happens to be true.

Q286 Chair: The Work Programme is about getting people into work. We thought it covered everybody, but we suddenly have this new Youth Contract, which feels to me—I am not a great expert—a little bit similar to what the Future Jobs Fund was.
Robert Devereux: It is not.

[9] DWP Correction: 38% in both cases.

Q287 Chair: So what is it?
Alan Cave: The Youth Contract has a number of components. Most of it is actually aimed at people below the age at which they can get on to the Work Programme, so a lot of it is actually designed for NEETs.

Q288 Chair: 16 to 19s?
Alan Cave: Indeed. 16 to 18s in many cases. It is a combination of additional work experience places and additional work inside Jobcentre Plus with young people coming on to JSA in the first six months.

Q289 Chair: But the same providers that have a contract—
Alan Cave: No. There are no additional contracts for the Youth Contract, other than some contracts that will be let for 16 to 18-year-olds—in other words, before JSA—by the DfE.

Q290 Chair: Will that be payment by results?
Alan Cave: It will be a payment-by-results contract, yes.

Q291 Mr Bacon: Mr Devereux, we have not really talked about Universal Credit at all. Indeed, paragraph 3.22 says that "the Department does not anticipate the need to make significant changes to the Programme"—*[Interruption.]*—"and will make any changes necessary over the next 12 to 18 months". The Chair says, sotto voce, "Rubbish," but I have no idea whether this is true or not. Should it prove necessary to make changes—based on the law of unintended consequences it is quite possible that there will be some changes—what are the changes that you think might be required? What might the impact be of the Universal Credit on all of this?
Robert Devereux: You started your question with the premise "should it prove necessary" and at the moment what the Report is accurately recording is that—
Mr Bacon: Indeed. I read it out, but I am just wondering—
Robert Devereux: We have worked up the Work Programme quickly, because we wanted to get it into place. It is much better than previous programmes. In parallel—it is a much more complicated thing—we are designing Universal Credit. It is now largely through the House of Commons, and we will then think about whether there is anything else.

Q292 Mr Bacon: I am just asking whether you have given some thought as to where it might bite.
Robert Devereux: I haven't, actually, because I already have contracts out there running this. Universal Credit will start to come along in the autumn of 2013. In the grand scheme of things, which you and others are asking me to look at, this is something that I can manage at a later date.

Q293 Mr Bacon: And the piloting for that—the computer testing—is still scheduled to start in April 2013?
Robert Devereux: It is.

Q294 Mr Bacon: Mr Cave, finally, you are the SRO; in relation to the Work Programme, what keeps you awake at night?
Alan Cave: I sleep pretty well as a general rule, to be honest. I think it would be the things that we have been talking about today. We are all thinking about what the impact of the economy is on people who are unemployed and whether we are giving them the best support we can. That is what we want to see, so I hope that I would not be thinking about much else.
Chair: I am glad that we are in the same territory at the end of the sitting, if not right at the beginning. Thank you very much indeed.

Written evidence from A4e

A4e CORRECTIONS AND CLARIFICATIONS TO ORAL EVIDENCE SESSION ON *INTRODUCTION OF THE WORK PROGRAMME,* 8 FEBRUARY 2012

Thank you for your email of 10 February, attaching the uncorrected transcript of our oral evidence given during this session on 8 February. I have appended a corrected version but would also like to take this opportunity to counter inaccuracies cited during the session and clarify key issues to the Committee.

Pathways to Work (PtW)

Two inaccuracies were reported during the hearing which we wish to clarify.

The Public Accounts Committee stated that A4e had delivered a success rate of 9% under the PtW contract. This is incorrect. That figure was given in evidence to the 2010 PAC hearing by the representative from Reed. It does not relate to A4e's performance under the PtW contract.

Furthermore, during discussions some members only stated early performance figures and did not report on performance during the life of the contract. A4e secured jobs for 24.2% of those it supported on Pathways to Work over its lifetime, exceeding the industry average of 23%. Furthermore, in the final period of the contract, this figure rose to 28.7%.

Across the entire industry, providers were unable to meet targets set for Pathways to Work. This is why we all welcome the Work Programme because of the value for money it will bring to the taxpayer through Payment by Results.

A4e and Voluntary Sector Subcontractors

A4e works with over 200 partners to deliver the Work Programme, of which 49.75% are from the third sector. By working together, A4e takes a management fee for every attachment which is referred to a partner—this is 12.5% for End to End partners, and 15% for Specialist Intervention partners. On both counts, these are some of the lowest in the industry.

During the hearing, the management fee A4e has in place with Lifeline was inaccurately cited. Lifeline is one of our voluntary sector subcontractors on the Work Programme, operating in Barking. It was stated that A4e received £400 for each attachment with Lifeline receiving £300—making it a management fee of 25%.

This is factually incorrect—as Andrew Dutton made clear during the session—but we wish to further clarify. A4e's management fee under the Work Programme for Lifeline is, and has always been, 12.5% (a total of £50 per attachment).

In response to this inaccuracy, Lisa Webb, Lifeline Deputy Chief Executive, has stated:

> "It is unfortunate that this misunderstanding has occurred. We have a very positive relationship with A4e. We are seeing well above the estimated level of referrals coming from them. We regard the management fee as entirely fair or we would not have signed up to the contract with A4e."

Employer Contracts

With reference to discussions regarding national employers and, in particular, inaccuracies concerning the value that our contracts with employers have for subcontractors such as Lifeline, Lisa Webb, Lifeline Deputy Chief Executive, has also confirmed that "In particular we are seeing real benefit from the relationship given the link between A4e's National Employer Service and large companies who are recruiting on a national scale."

A4e has been working with WHSmith for three years and within the last 18 months we have been delivering a Master Vendor arrangement. This is a contract whereby A4e acts as the single point of contact for the whole welfare to work market in terms of recruitment into entry level customer service positions in their UK stores. This includes managing the flow of vacancies into A4e local branches, our subcontract partners, and other welfare to work providers who deliver in areas where A4e does not have a presence. The arrangement also includes managing the flow of vacancies into JCP nationally. We anticipate approximately 7000 vacancies this year being opened up to A4e and our partners through this arrangement.

A4e's Overall Performance

A4e has helped tens of thousands of people into long term work over the course of the three most recent welfare to work programmes, prior to the introduction of the Government's Work Programme, and has outperformed the market average in meeting performance targets on New Deal for Disabled People and Pathways to Work, and Flexible New Deal in each of the geographical regions in which we operated with the exception of London.

A4e has been successfully running social impact programmes for over 20 years, and we are committed to improving people's lives in a way which demonstrates excellence and value for money for taxpayers.

I would be happy to discuss any of these points further with you and any other interested members of the Public Account Committee. You are welcome to contact me directly or via Samantha Windett at swindett@a4e.co.uk or 07872424524.

16 February 2012

Written evidence from the Chief Executive, Action for Blind People (part of RNIB group)

The Work Programme—Research Findings from Action for Blind People

I hope I can rely on our positive past encounters to ensure that you see this letter personally.

I am writing after reading the *Guardian* report on the Public Accounts Committee's questions on the Work Programme on Wednesday 8 February.

As you know, Action for Blind People has been engaged in many UK and EU employment programmes during the past two decades. I hope our credentials for supporting visually impaired people in and into work, both through contracted activity and with charitable resources, are well established. As a charity we take no profit from these endeavours. We worked hard to get sub-contacts with all prime contractors for the Work Programme in England, securing 11 separate prime contracts. In light of the questions of your committee last week, I want to share some of our experiences so far:

1. Referrals from prime contractors of job seekers with sight loss to Action for Blind People have been negligible even though prime contractors gained credibility for their bids by naming us a sub-contractor. We believe that this increases suspicion of "creaming and parking" and even of

exploitation of charities like ours that are desperate to ensure their vulnerable group gets access to government programmes.

2. Action for Blind People estimates that the staffing hours spent completing Expression of Interest documents and other activity involved in the contracting process for the Work Programme was equivalent to £73,000. This could fund three front-line posts to support our direct services for people with sight loss. If all other bidders committed similar amounts of time and money to the bidding process this represents a massive overall cost before a single hour of support has been delivered to jobseekers.
3. During post-contract negotiations hidden and additional costs have been incurred to meet previously unstated requirements of some prime contractors. For example, insurance provision has been doubled and additional, costly security measures imposed. Action for Blind People has incurred an additional £6,000 in unforeseen costs across England solely to meet additional requirements imposed post-contract. This makes the Programme even less viable for us.

You may wonder why we do not simply withdraw from the Work Programme as soon as our contracts permit. We are considering this an option. However, we continue to feel that it is better to be "in the tent" and try to improve the system from the inside rather than excluding ourselves and risking further marginalising the chances of our client group. No other organisation in England provides job seekers with sight loss anything approaching our offer. We do not believe that the prime contractors are enabling blind and partially sighted people to get into work. Our clients are simply seen as 'too difficult' and left at the margins to be considered, if they are lucky, another day.

In summary:

— We believe that we have a right to expect referrals from those prime contractors who gained credibility by naming us as a specialist contractor in their bids. We cannot make the Work Programme viable for us without referrals.

— Blind and partially sighted people need specialist support that is far beyond the capacity and capability of prime contractors whose understandable aim is to maximise income by getting as many people as possible into work without delay.

— Pre-contract "process" costs are wasteful and disproportionate.

— Post contract additional costs further undermine viability.

I hope that these points are relevant to the work of the Public Accounts Committee in considering the Work Programme or, at least, of interest to you.

I have not included the background details in this letter. There is plenty of it if you would like to read more.

February 2012

Written evidence from the Permanent Secretary, Department of Work and Pensions

FOLLOW UP NOTE ON THE INTRODUCTION OF THE WORK PROGRAMME

1. At the PAC hearing on the introduction of the Work Programme on 8 February, I agreed to provide notes on:

— Flexible New Deal exit costs (Q124);

— the role of past performance in the procurement of the Work Programme (Q156);

— requirements for financial reporting by Work Programme prime providers (Q266); and

— the Youth Contract (Q285).

2. These are attached (Annexes 1–4).

3. Further to these notes, I would like to clarify four other points made at the hearing:

— first, we discussed how many hours needed to be worked each week to secure a job outcome payment (Q84). The criteria for a job outcome payment are that a participant is off benefit and in employment (continuously or cumulatively) for either 3 or 6 months, depending on their participant group. Since any participant working more than 16 hours is no longer entitled to benefit, it is true that 16 hours work will underpin many job outcomes. However, it is also possible to lose entitlement to benefit by exceeding the maximum allowable earnings in a week; these vary with a participant's circumstances and hence low entitlement to benefit—this maximum might be exceeded on 12 hours work at the relevant minimum wage. Of course, at the point the participant is better off in work. But, to be clear, there is not a minimum hours requirement in the Work Programme contracts. This allows job outcomes to be paid for employment with irregular hours each week. There is, though, no obligation on a participant to take work with hours/earnings that are allowed while on benefit. In the sense, low earnings/hours jobs will not lead to a job outcome payment;

— second, in answer to Stephen Barclay (Q120), Alan Cave stated that termination clauses in contracts are published online. While this is true of the Work Programme contracts, in line with the Government's transparency agenda, the Flexible New Deal contracts are not published online. However the confidentiality clause in the Flexible New Deal contracts is virtually identical to the confidentiality clause in the Work Programme terms and conditions (although the latter adds some terms and conditions with respect of Freedom of Information requests);

— third, in response to Q158, Alan Cave quoted a figure of 20% regarding in-flow. Unfortunately he was quoting an adjacent figure in his briefing notes. The correct figure is 33%; and

— fourth, in regard to troubled families and the Work Programme (Q281), there is a job outcome element to the Department's European Social Fund, but this is limited to 30% of the total contract value,. However, the family provision is designed to address broader family issues than the Work Programme, for example, it supports family members regardless of their benefit status, as long as one family member is claiming a DWP out of work benefit. The family support also rewards providers for achieving Progress Measure outcomes; these are outcomes that address wide-ranging issues that are preventing a family member from finding work, and might include family issues such as truancy. When family members complete Progress Measures, they will be in a better position to find work, or to take advantage of mainstream employment support such as the Work Programme.

4. I don't believe any of these clarifications materially change the sense of our evidence, but I wanted to make sure the Committee had the precise facts.

Annex 1

FLEXIBLE NEW DEAL EXIT COSTS

There is a confidentiality clause in our settlement agreements with providers which prevents the Department from disclosing the cost of settlement with individual providers. When all 14 providers have reached agreement with the Department we will be able to update the committee on the total cost of terminating all the Flexible New Deal contracts.

Annex 2

THE ROLE OF PAST PERFORMANCE IN THE PROCUREMENT OF THE WORK PROGRAMME, AND THE LEGAL BASIS FOR PROCUREMENT RULES

There were two stages to the procurement process for the Work Programme:

1. A competition to award the Employment Related Support Services Framework (UERSS Framework"); and
2. A mini-competition between interested ERSS Framework Providers in each framework lot to let the Work Programme contract(s).

The Department had to use different criteria at these two different stages, "selection" criteria for the first, and "award" criteria for the second.

In the first stage, we were deciding which providers would gain a place on the Framework. This focussed on the bidder and their ability to deliver a broad range of employment services. By law, selection criteria may include bidders' experience and past performance so ERSS bidders were evaluated on the past performance of their major contracts, but this was not restricted to welfare to work contracts, and so did not disadvantage new entrants into the market.

Work Programme contracts were the first contracts to be let under the ERSS Framework. In accordance with procurement rules, this second stage had to use award criteria, and these could not include experience/ performance. Further, the same evaluation criteria must be used for all bidders, and so specifically evaluating one bidder against Pathways, or any other programme, would have been unlawful. So the award criteria focused on how providers propose to deliver the particular provision that is the subject of the mini-competition -in this case the Work Programme.

THE LEGAL BASIS FOR THE RULES DESCRIBED ABOVE ARE AS FOLLOWS

The EU public procurement directives set out the legal framework for public procurement. The EU Directives have been implemented into UK law by regulations, namely: the Public Contracts Regulations 2006 (as amended) ("Regulations") and the Utilities Contracts Regulations 2006 (as amended).

Both the ERSS Framework competition and the Work Programme mini-competition were Part B procurements, in respect of which only limited sections of the Regulations apply.

The Department maintained the distinction between selection criteria (as applied in the ERSS Framework competition) and award criteria (as applied in the subsequent Work Programme mini-competition) and applied the same award criteria to all Framework Providers bidding in the Work Programme mini-competition in order to: comply with the Regulations (as applicable), case law and the principles deriving from the principles of the

Treaty on the Functioning of the European Union (such as the principles of equal treatment and non-discrimination); and to mitigate the risk of legal challenge.

Annex 3

Requirements for Financial Reporting by Work Programme Prime Providers

The contracts for the Work Programme prime providers do not contain any requirement for providers to publish any Work Programme specific financial information.

Providers do, of course, have a legal requirement to file accounts with Companies House. The extent to which the Work Programme contributes to the providers' overall financial position varies considerably, reflecting different ownership structures from a charity to the UK subsidiary of an international entity. It is not, therefore, obvious how generic financial information on each provider would enable a comparison of the revenues and associated expenditure ·in terms of the Work Programme. In line with most other Government contracts, we do not require the publication of either margins/profits on specific contracts; but we have agreed "open book" arrangements which require providers to be completely transparent with the Department about the revenues, expenditure and profits derived from the Work Programme contract. In addition, published financial accounts are submitted to the Department annually.

Annex 4

The Youth Contract

On 25 November, the Government announced plans to introduce a new Youth Contract, worth almost £1 billion, in 2012 which includes a range of additional help for unemployed young people.

The Youth Contract will be delivered by a number of Government departments and builds extensively on existing support that is already available, including the support currently being provided by Jobcentre Plus and through the Work Programme.

Most elements of the Youth Contract will be launched in April 2012 and will be available over the next three years.

What the Youth Contract will Offer

The elements of the Youth Contract that *DWP* are responsible for delivering include:

- 160,000 Wage Incentives worth up to £2,275 each, for employers who recruit an 18–24 year-old from the Work Programme;
- an extra 250,000 Work Experience or sector-based work academy places, ensuring that there is an offer of a Work Experience place for every 18 to 24 year-old who wants one, before they enter the Work Programme; and
- extra support through Jobcentre Plus for all 18–24 year olds, providing a referral to a careers interview delivered by the National Careers Service within the first three months, extra advisor time from three months and weekly, rather than fortnightly signing, after five months.

Through the Youth Contract, the *Department for Business, Innovation and Skills* are also making 20,000 extra incentive payments available, worth £1,500 each, to employers who take on young people as apprentices, taking the total number of Apprenticeship Incentive payments to 40,000. These incentive payments will be available in England from April 2012 and will be administered by the National Apprenticeship Service.

Extra funding has also been made available to the *Department for Education* through the Youth Contract to support the most vulnerable NEET 16 and 17 year olds into learning, an apprenticeship or job with training. Further information on this new service is expected to be announced later this month.

Fit with the Work Programme

Much of the support provided by the Youth Contract builds on existing support that is already available to young people now. The Wage Incentive is one of the new elements of the Youth Contract which will be specifically aimed at young people who are on the Work Programme.

Work Programme providers will, from April 2012, be responsible for identifying suitable young people who will attract the Wage Incentive and they will also have responsibility for engaging employers and marketing the incentive payment. Jobcentre Plus will retain responsibility for the payment of the Wage Incentive.

Delivering the Wage Incentive within the Work Programme will ensure that the most disadvantaged young people are able to benefit from the initiative. Work Programme providers are paid substantially on the delivery of sustained jobs; introducing the Wage Incentive within this programme will therefore ensure that, as far as possible, jobs which attract the Incentive will be sustained and lasting.

HOW IS THE WAGE INCENTIVE DIFFERENT TO THE FUTURE JOBS FUND?

The Future Jobs Fund (FJF) provided £6,500 to organisations to create fulltime jobs, predominately for young people and predominately in the public and voluntary sector, that lasted for at least six months.

Evidence from the delivery of the FJF demonstrates that the initiative did not provide enough lasting sustained jobs. The most recent cohort data analysis indicates that almost 50% of FJF participants were claiming benefits again within eight months of starting an FJF job.

The Wage Incentive is being designed to be a much more highly targeted initiative, marketed with employers on a case by case basis and clearly targeted at providing sustained, real jobs in all sectors.

For the majority of organisations, the Wage Incentive will be paid once a young person has been in employment for six months and because Work Programme providers receive the bulk of their payments for keeping participants in sustained employment, they will have a strong incentive to work with both the employer and the young person to ensure that the job is long-term and sustainable.

24 February 2012

Further written evidence from the Permanent Secretary, Department for Work and Pensions

COMPLAINTS ABOUT A4E

At Monday's PAC hearing you asked me about the status of the investigation which we have required to be commissioned by A4e. I understand that this independent review of A4e's corporate control systems and processes is being undertaken by White and Case, a leading international law firm. DWP will agree the scope and terms of reference of the Review.

You also mentioned that you had received a number of email complaints and allegations about A4e and asked how best to refer them.

In normal circumstances I would always advise participants on employment programmes to raise any concerns with their provider in the first instance. This normally works well; in fact the Independent Case Examiner has commented favourably on providers' willingness to resolve problems and speed in doing so. However in the current circumstances I suggest it would be useful to send the emails to the independent review appointed to examine A4e's current corporate control systems and processes.

Similarly, all contracted employment programme providers are required to operate "whistleblower" hotlines to enable their own staff to report fraud or other irregularities and I would normally encourage employees to use that route which, if allegations are found to have substance, will be referred to the Department's own investigators. In case some of the emails you have received have by-passed that route, I should be grateful if you would also copy any emails making specific allegations of fraud or other irregularities to the Internal Audit and Investigation team at RAOCENTRALREFERRALTEAMMAYFIELOCOURT@OWP.GSI.GOV.UK

In addition you asked me whether any other Work Programme providers are currently the subject of investigation for fraud or irregularity. No allegations of fraud relating to the Work Programme have been reported or investigated.

On a final point, you mentioned the timing of events surrounding the recently publicised fraud investigation of four ex-employees of A4e. I thought it would be helpful if I appended the recent reply from Ian Duncan Smith to Liam Byrne on the same topic.

7 March 2012

Annex A

I am responding to your letter of 26 February. I am sure you realise I cannot and will not give detailed comment on the current Investigation which is a police matter.

It is perhaps helpful if I set out some general facts, however:

- The investigation does not relate to a Work Programme contract. It relates to a contract on the ESF scheme—a scheme set up by the previous Labour Government;
- The reporting procedures for these type of allegations are exactly those as inherited from the previous Labour Government;
- In November 2010 a junior DWP official was told that there was a whlstleblower report about an ESF contract at an A4e location, and that A4e would report back—in line with requirements to notify DWP immediately if it has reason to suspect that any serious irregularity or fraud has occurred or is occurring;
- On 10 December 2010 Emma Harrison was appointed as a Downing Street advisor on troubled families—an unpaid role conducted on a personal basis, not with A4e;

— A4e made a formal referral on this case to the DWP investigations team in February 2011—DWP began an internal investigation and sent investigators intoA4e;
— As a result of this, in May 2011 DWP referred the case to Thames Valley Police;
— Ministers were advised in the Autumn, once it was confirmed that arrests were planned, as would be the case in any similar investigation under the current arrangements inherited by this Government; and
— It should be clear therefore that Emma Harrison's personal role was confirmed long before Ministers had been made aware of the investigation.

It obviously would not be proportionate to inform Ministers every time an allegation of impropriety Is made in any organisation connected to the Government. There are many every month and to Inform Ministers straight away, before full facts are established, would be pointless. But it may be that the current protocols, inherited from the last Government, need to be looked into. As the Prime Minister announced in the House on Wednesday, he has asked the Cabinet Secretary to review the process, including the timeliness, by which all departments make Ministers aware of allegations such as these. DWP is a department which has an ongoing drive to root out fraud and error. In October 2010 The Department for Work and Pensions (DWP) and HM Revenue and Customs (HMRC) jointly published *Tackling fraud and error in the benefit and tax credits systems.* This set out the Government's plans for reducing fraud and error overpayments in the welfare system by one quarter (£1.4 billion) by March 2015. By the end of this financial year we will already have saved £250 million from future overpayments: As you will appreciate therefore this means there are a large number of different types of fraud investigation underway at any one time. You will also be aware that A4e have announced their intention to commission an independent audit into their business. I welcome this decision. Anything that brings confidence and added transparency to Government contracts is to be welcomed.

Work Programme contracts were awarded through fair and open competition. Ministers played no part in the evaluation or award of these contracts. It would neither have been right nor appropriate for officials to exclude A4e or indeed any other bidder on the basis that a single incident was under investigation. The provisions in the Work Programme contracts allow for termination should that become necessary.

The publication of performance data on the Work Programme is a separate matter. Appropriate arrangements have been made to publish National Statistics on job outcomes later in the year, as you well know.

Further written evidence from the Permanent Secretary, Department for Work and Pensions

At the hearing on the Work Programme on 8 February, we discussed the likelihood of that a planned further release of the underpinning IT would be implemented on schedule.

You will recall that the NAO report highlighted the significance of the timing of this implementation in terms of being able to assure the validity of payments for Job Outcomes and the production of Official Statistics on the Work Programme.

We gave a firm assurance during the hearing that the IT support would be delivered on time, and promised to write to you when it was, so that your Committee could be assured that this area of potential risk had been closed down.

I am pleased to be able to write now with that assurance. The further release (PRaP2.1) went live on 26 March, a few days ahead of schedule. All new claims for payment are now being checked automatically against DWP records, and we are already making very good progress in processing all claims that have been previously handled through the interim manual payment process. All the indications are that we will have closed this process of reconciliation ahead of schedule in May.

18 April 2012

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