Public Accounts Committee: Investigation into Changes to Community Rehabilitation Company Contracts, HC 676 – Supplementary information

During the oral evidence session on Wednesday 17 January I undertook to provide further information to the Committee on a number of issues.

Reoffending outcomes

The Committee asked (Q.32) about the success of the Transforming Rehabilitation reforms in bringing down the reoffending rate of those released from short-term prison sentences. I am also aware that the Committee, in its report of September 2016, has previously asked the Department to provide an update on reoffending outcomes once data became available.

On 25 January we published the latest quarterly proven reoffending results for both CRCs and the National Probation Service, including the performance of CRCs against their payment-by-results targets. This data, as the interim results did before, present a mixed picture on CRC performance. It is encouraging that, overall, CRCs have reduced the number of people reoffending by around 2%. For the first cohort of offenders (October to December 2015) for whom payment-by-results targets applied, 13 CRCs achieved statistically significant reductions in reoffending and received payments; for the second cohort (January to March 2016), nine CRCs achieved reductions. However, it is disappointing that the results on the frequency of reoffending show that those who do go on to reoffend are committing more offences than previously. This increasing trend in the frequency of reoffending began in 2009 and continued throughout the period in which services were contracted out to CRCs. The data for 2015/16 shows that 19 CRCs have not been able to arrest the trend of increasing frequency of reoffending and face potential deductions under the payment-by-results mechanism.

As I outlined in oral evidence, we will now be engaging in discussions with providers to understand the reasons for this performance and, where applicable, the implications of payment-by-results deductions. If necessary, we will consider whether any additional changes to contracts may be required to further stabilise CRC delivery and improve performance. I will update the Committee on the outcome of these discussions in the coming months.

Given that we have only two quarters of final reoffending data for CRCs and the NPS, it is still early to draw conclusions about the impact on reoffending of extending post-release supervision to offenders serving custodial sentences of less than 12 months, and of the Transforming Rehabilitation reforms more broadly. We will be closely monitoring future reoffending data as we work with providers to improve probation services.
IT systems
The Committee asked (Q.49) for further information on progress in CRCs introducing their own IT solutions and the systems for the routine sharing of data and information between the Department and providers. As the Committee will be aware, the Strategic Partner Gateway was originally planned to be delivered in the second quarter of 2015, but due to further necessary work the gateway was not delivered until September 2016. Although we developed an interim solution to ensure operational continuity for CRCs over this period, the delay in delivering the gateway hindered the development and implementation of providers’ IT systems. Since the contracts commenced we have continued to draw key operational performance data from nDelius (the national case management system used by probation). nDelius will remain the source for performance data once providers have adopted the gateway. The delays in implementing providers’ systems have not compromised data quality.

Currently three of the eight Parent Organisations (representing six of the 21 CRCs) are seeking to remain on Department-provided applications for the exchange of data. Plans are in place to vary contracts to reflect these arrangements.

The Department is working with the five remaining Parent Organisations (representing 15 of the 21 CRCs) who intend to introduce their own IT systems. We are supporting them to test their data exchange applications as they seek to connect to the gateway. Two Parent Organisations (representing eight CRCs) have successfully completed a significant proportion of collaborative testing and plan to deploy their applications to staff from April and May 2018. Two further Parent Organisations (representing six CRCs) have plans to deploy in similar timescales but are yet to achieve the same level of test success as their peers. We expect them to be able to deploy their applications by early summer 2018. We are confident, therefore, that 14 of the 15 CRCs intending to implement their own IT systems will be benefiting from new data exchange applications in the first half of 2018. The final Parent Organisation (representing one CRC) is currently reviewing their technical strategy and we expect them to confirm their intentions shortly.

CRCs’ fixed costs
At Q.80 the Committee asked for further detail on the breakdown of providers’ fixed costs. I cannot provide the Committee with individual cost breakdowns for each CRC as this information is commercially sensitive, but the table below shows the average profile of cost flexibility of all CRCs across the different areas of spend.

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Average Variable Costs</th>
<th>Average Semi-Variable Costs</th>
<th>Average Fixed Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Costs</td>
<td>3.1%</td>
<td>22.5%</td>
<td>74.4%</td>
</tr>
<tr>
<td>ICT Costs</td>
<td>0.7%</td>
<td>14.0%</td>
<td>85.3%</td>
</tr>
<tr>
<td>Other costs</td>
<td>0.4%</td>
<td>7.9%</td>
<td>91.7%</td>
</tr>
<tr>
<td>Property Costs</td>
<td>7.9%</td>
<td>22.5%</td>
<td>69.6%</td>
</tr>
<tr>
<td>Corporate Overhead</td>
<td>0.0%</td>
<td>2.1%</td>
<td>97.9%</td>
</tr>
<tr>
<td><strong>Total costs</strong></td>
<td><strong>3.4%</strong></td>
<td><strong>19.3%</strong></td>
<td><strong>77.3%</strong></td>
</tr>
</tbody>
</table>

We arrived at this calculation of 77.3% of CRCs’ costs being fixed following an analysis of financial returns from providers in early 2017. We commissioned EY to provide independent assurance of this analysis by assessing the reasonableness, accuracy and completeness of the information the CRCs submitted, including providers’ assumptions about the proportion of costs which were variable, semi-variable and fixed. CRCs assessed the proportion of their fixed costs as ranging from 43.7% to 99.8%. While this is a significant range, it must be noted CRCs have different operating models and, as a result, have different profiles of cost flexibility. Based on the cost information provided by CRCs and validated by EY, we concluded that on average 77.3% of CRC costs were categorised as fixed, meaning that they could not be adjusted within 12 months. As the original contracting assumption of 20% fixed costs was applied consistently across all CRC contracts, we equally applied the revised assumption of 77.3% across all contracts.
During discussion of fixed costs at the evidence session, the Committee asked in Q.83 and 84 whether any of the CRCs’ administrative costs are in fact attributable to the Parent Organisations. As Michael Spurr and I confirmed at the evidence session, it is not the case that we are paying for CRCs to carry out administrative functions on behalf of the Parent Organisation. The Department makes fixed fee-for-service payments to CRCs, rather than meeting the actual costs incurred by the CRCs. As such, it is for providers to decide how they spend this income, and if they choose to spend more on administration it will affect their profitability rather than incurring further costs to the Department. Some CRCs have business models that rely on their Parent Organisation to provide some of their corporate services (e.g. finance, human resources, ICT). In these circumstances the cost of these services is charged by the Parent Organisation to the CRC.

I also want to take the opportunity to clarify two points I made in giving oral evidence. Firstly, in answer to Q.62 I stated that the effect of the changes we made to CRC contracts was to increase the amount we pay for activities which have a low weighting in the contractual payment mechanism. The contract changes did not involve any amendments to the weighting of different activities, so in fact the effect was to increase payments for all activities, not simply those which attract lower payment. Secondly, in answer to Q.89 I stated that we have an open-book relationship with each of the CRCs. This involves the Department routinely receiving a range of information from providers, including financial data, as set out in schedule 20 to the contracts. In addition, the contracts provide for the Department to have access to all information held by providers, such as their accounts, and in assessing the need for the contract changes we made in summer 2017 we requested detailed financial information from all CRCs which was assured by EY.

**CRC Innovation**

The Committee asked (Q.101) for examples of innovation in rehabilitation attributable to CRCs. While we accept that the degree of innovation envisaged by the reforms has not yet materialised – in significant part due to the difficulties which we sought to address through the contract changes the Committee is investigating – there are nevertheless a number of innovations in the ways CRCs are working and in new modern infrastructure and tools for staff:

- The Transforming Rehabilitation reforms resulted in the formation of a new kind of delivery entity within the probation service in Durham and Tees Valley. ARCC (Achieving Real Change for Communities) is a new not-for-profit consortium comprising agencies from the public, private and third sectors in the North East. The ARCC consortium has nine members bringing together expertise in probation, housing, social care, public protection, mental health and employment and skills, enabling probation services to build on and learn from new ways of working locally. In addition, ARCC is working with a range of small and medium size enterprises to develop a cloud-based ICT solution which will support a more flexible and responsive workforce by enabling remote and mobile working;
- Purple Futures (a partnership with Interserve, 3SC, P3 and Shelter), who are responsible for five CRCs, is developing a personalized approach to offender rehabilitation working with Manchester Metropolitan University. This project is based on the concept of ‘desistance’ drawing on learning from personalization in the social care sector. In addition, the CRC has worked closely with the Greater Manchester Combined Authority, the Police and Crime Commissioner and other partners to develop a collaborative commissioning model for female offenders. Nine Women’s Centres are in place, providing holistic support for a range of needs which extend beyond criminal justice services and which are well integrated with other local services. The partners are working closely together to strengthen and support joint investment through local commissioning and the services are performing well and experiencing high demand;
- The Reducing Reoffending Partnership (RRP) which owns two CRCs (Derbyshire, Leicestershire, Nottingham and Rutland; Staffordshire and West Midlands) has developed a ‘Reoffender Analysis Tool’ to understand and track the offenders in their payment-by-results cohorts. The tool provides staff with insight into the engagement of offenders with probation and other services throughout the duration of their sentence, enabling them to increase support or target interventions at periods when the risk of reoffending increases. The tool also measures the effectiveness of interventions
with different groups of offenders, and allows information sharing with partners, such as local authorities and prisons, to track prolific offenders;

- Sodexo operates an Innovation Fund in each of its six CRCs which allows frontline staff to bid for funding to develop new approaches to tackling local challenges. The BeNCH (Bedfordshire, Northamptonshire, Cambridgeshire and Hertfordshire) CRC is currently developing a project with NACRO to tackle the problem of a small cohort of persistent female offenders frequently being returned to prison within 48 hours of release. The project will fund and run a hostel in Peterborough which will provide accommodation and support for 16-20 women at the point of release in an attempt to prevent reoffending and support effective resettlement in the community.

Pensions

Towards the end of the evidence session the Committee asked about the pensions situation should the Government need to take control of a CRC. Employees of CRCs who were previously employed by Probation Trusts or by the CRCs whilst they were in public ownership are entitled to join the Greater Manchester Pension Fund forming part of the Local Government Pension Scheme. The Secretary of State for Justice guarantees the contributions by each CRC to the Fund. If any of the CRCs became insolvent the department would have responsibility to make good any outstanding liabilities to that Fund (i.e. any outstanding employee or employer's pension contributions and other payments due). The Department reviewed its contingency plans last year, including the contingency plans regarding CRC employees belonging to the Local Government Pension Scheme, so that we are prepared for the eventuality of a CRC ceasing to trade.

I trust that these responses address the points raised by the Committee. I would be very happy to provide any further information that would assist the Committee in its investigation.

Yours sincerely,

RICHARD HEATON