Thank you for your letter of 21 September asking a number of questions on the exit from Government control of Remploy Employment Services.

Firstly I would like to highlight that the exit had the full support of the Remploy Board and Remploy’s trade unions. Remploy considered that its future investment and growth were restricted by the rules around operating as a public body. Their ambition was to become a global centre of excellence for disability services and for Remploy to continue to build on its successes with an aspiration to support many more thousands of disabled people into work.

The exit in spring 2015, resulting in a partnership between Maximus (70%) and its employees (30% through shares held in an Employee Benefit Trust) including delivery of a national Work Choice contract, has provided the company with the freedom and flexibility it needed to continue to grow and improve its services for disabled people. Through the Employee Benefit Trust, employees positively influence the operation of the company including representation on the Board, an Employee Council, enabling employees to have more direct control and influence on the operation of the company, and for the first time, gave employees a significant ownership stake in the business, designed to increase the quality of the services and protect and expand the delivery of Remploy’s social mission.

Background

Remploy Employment Services (ES) was exited from Government control as part of implementing the recommendations of the independent Sayce report, 'Disability employment support: fulfilling potential' commissioned by the then Minister for Disabled People in December 2010 and published in June 2011. The Government confirmed in March 2012, in its response to the Sayce report, that it supported and would implement the Sayce Review recommendations on Remploy including that Remploy Employment Services “should be an organisation independent of Government, focused on supporting disabled people to find and sustain work” and that it “should be exited so that it could compete for contracts like any other provider”. The full recommendations on Remploy ES are provided at Annex A.

A key priority during the commercial and subsequent transition process was to ensure that disabled people who are helped by Remploy Employment Services continued to receive the same high level of support.
The Department followed all appropriate communication during the commercial process and communicated to Parliament on progress at all key stages of the commercial process including confirmation of the outcome in March 2015.

The decision to exit Remploy ES was widely supported by external stakeholders. Unite confirmed it "supports the Remploy Board's exit strategy as it provides the best means for retaining the Remploy mission statement and safeguarding our members' employment and employment conditions. Crucially Remploy will continue to provide excellent service and support to their vulnerable clients" and "The GMB continue to support the exit of Remploy Employment Services from government ownership to the private sector. We are determined to work with the new partner to build on the open, transparent and respectful relationship we currently have in place". Kate Green, the then Labour Shadow Minister for Disabled People, was also reported in the Financial Times as saying: "Remploy has long experience in supporting disabled people back to work. We want the company to have a secure future and are pleased the Remploy staff will own a stake in the business which will have the chance to compete with other back to work providers."

Turning to the specific questions you asked.

1. Might you please confirm how much Maximus paid the Government for its 70% stake in Remploy?; and

The exit of Remploy Employment Services was not a simple sale. The £2 million figure mentioned was the consideration paid by Maximus as part of an overall deal which included them taking on Remploy’s contracts and liabilities including employment costs. Remploy's ongoing running costs were previously paid by the taxpayer through grant-in-aid and included the then network of around 60 Remploy Employment Services branch premises and around 870 staff. The overall value of the deal was positive for the taxpayer compared with retaining Remploy in Government, and was the maximum return available through the competitive commercial process undertaken.

The exit in 2015 provided the best opportunity to exit Remploy Employment Services. If we had not exited the company at that time, Remploy faced an uncertain future, with constraints on its ability to take on new business; no guarantee that the company could continue; and the risk that all 870 staff might have been made redundant.

2. How was that amount arrived at?

In line with the Sayce review recommendations, DWP looked for investors/partners to acquire a significant stake in Remploy's employment service business. The primary aims of this new business were to be:

- To build on Remploy Employment Services' existing business, assets and infrastructure so that this new venture is a viable commercial business, which is viewed as a strong bidder for future government contracts when existing contracts come to an end.

- To continue to deliver a national Work Choice contract (DWP will have a contractual arrangement with the new business to continue ES’s national delivery of Work Choice from April 2015 running for 3 years).
• Ensure the new business continues to deliver on Remploy’s existing mission statement “to transform the lives of disabled people by supporting and increasing the number of sustainable employment opportunities”.

The commercial exercise to exit Remploy Employment Services was subject to a full commercial external tender, with 12 initial bids received from a wide range of organisations, and the bid from Maximus was the winner based on the published criteria. A negotiated process was undertaken due to the complexity of awarding a Work Choice contract alongside transferring a Public Corporation to private sector ownership, the sale and transfer of assets and employees, and the need to obtain best value for money for all aspects of the transaction. This was competed openly in the market place with nearly 100 organisations registering an interest in the commercial process (including charities, joint ventures/consortiums and private sector), 38 attended supplier events ultimately resulting in the 12 formal tenders.

The evaluation of bids was against a range of quality and financial criteria, including due diligence undertaken by an independent third party. The preferred bidder had to demonstrate value for money against retaining Remploy ES within Government and in comparison to other bids, which the Maximus tender did.

The Department considered all financial aspects of the deal, including the Work Choice contract value, assets and liabilities of the business and consideration paid. These were compared to the expected costs associated with retaining Remploy ES in government and showed the sale provided value for money to the taxpayer. The Maximus tender was the most competitive and reflected best value for the Department and taxpayer. It went ahead because the bid provided better value for money than retaining Remploy ES in Government and against other bids as explained above.

3. Given that Remploy made profits of £7.1m in 2017, do you now consider the price paid in 2015 to have been appropriate?

The then Remploy Board and the Department believed that the opportunity, based on a strong partnership that maintains a critical focus on commercial viability, provided the freedom and flexibility the business needed to continue to grow and expand. It allowed the business to develop to its full potential on an equal footing with all other providers of employment services, as was recommended by the Sayce Review, enabling the company to meet its aspiration of supporting many more disabled people into work.

The exit of Remploy ES, also avoided the continued and significant grant-in-aid payments; protected a substantial number of employees and led to them becoming part owners of the business and solution; and the unit cost of the winning bid from Maximus demonstrated value for money compared to the other bidders and comparable to other Work Choice providers.

The Remploy Board also confirmed that as part of their fiduciary duties under the Companies Act that this was a fair value for the business acquired.

With regard to Remploy’s profitability in 2017, my officials’ analysis is that 2017 is not representative of Remploy’s profitability more widely and reflects the timing of revenue growth and the benefit of prior year restructuring. As shown later in this letter as the revenue from the Department’s contracts falls then we expect profit to tighten accordingly. Maximus’s view is that. “When you look at the 2017 Financial Year
accounts, it is important to understand that Remploy had a couple of very mature contracts that were at the height of their profit levels which bolstered operating profits for the fiscal year. Those contracts have since ceased referrals and we have several new contracts in the start-up phase which will significantly temper operating profits for Remploy for the Company’s fiscal 2018. As a result of these programmes in start-up, for fiscal 2018 Remploy is expected to achieve at best break even, and the Company has disclosed the impact from its contracts in start up in its disclosures as a public company."

They add that: “The government divested Remploy from government ownership as part of a thorough, competitive bid process. Maximus was the successful bidder in this competitive process and we have worked hard to ensure an effective transition into the private sector. We have made financial investments in leadership, employees, business processes and innovation to ensure its long-term success in specialist employment and skills support for disabled people and those with health conditions. We have also taken significant steps to help broaden its business capabilities in the marketplace."

Maximus took on Remploy as a result of winning a commercial competition providing better value for money for the taxpayer than all alternatives. The Department continues to believe that the deal was a good one for both taxpayers and Remploy employees.

4. How much public money did Remploy receive for such contracts in 2015/16 and in 2016/17?

Remploy delivers a number of DWP contracted employment programmes providing employment support for disabled people including: Specialist Employability Support, providing employment support for disabled people with complex barriers to work for whom other employment support is not suitable; the Work Choice programme, where referrals have now ended; and the Work and Health Programme, our new contracted employment support for disabled people, early access priority groups and the long term unemployed. Remploy also delivers the Access to Work Mental Health Support Service. In addition, Remploy is a supply chain partner on the Work Programme.

Total funding to Remploy for delivery of DWP’s contracted employment support was £42.3 million in 2015/16 and £38.1 million in 2016/17. During 2017/18, spending with Remploy reduced to £33m and in 18/19 to date that figure is £7.7m (to the end of August 2018). This reduction reflects the cessation of referrals to Work Choice which Remploy deliver as a prime provider. Remploy also receive indirect funding from the Department through commercial relationships with prime providers, for example they sub-contract for the Work Programme again a programme for which referrals have ended, and that their Work and Health Programme contract only covers Wales.

5. In the light of the huge increase in Remploy’s profitability are you satisfied that the Government is achieving good value for money with these contracts?

We are satisfied that the Department is achieving value for money for Remploy contracts. Value for money in Remploy is driven by:
• All contracts are competitively tendered;
• All contracts other than the Access to Work Mental Health Support service include payments by results; and
• Prior to the exit of Remploy ES from Government control, their main contract, on Work Choice was paid in Grant in Aid rather than by payments by results. Following the transition period in 2015/16, Remploy received £35.3 million from DWP to deliver Work Choice in 2016/17 and £28.4m in 2017/18; 15,300 disabled people started support on the programme in 2016/17 and 12,890 in 2017/18; and 3,380 achieved a job outcome in 2016/17 and 3,950 in 2017/18. Note: the starts, job outcomes and funding are not directly comparable in a given year as job outcomes may be in a later year and payment by results for outcomes would follow these.

The exit of Remploy from Government has achieved the aims set out in the Sayce review and provided the company with the freedom and flexibility it needed to continue to grow. This means the company continues to play an important role in helping many thousands of disabled people to realise their aspirations through employment. The Government wants to see employment continue to increase among disabled people. There were nearly 600,000 more disabled people in work in 2017 compared with 2013, and the Government aims to see a further one million more disabled people in work by 2027.

Kind regards

[Signature]

The Rt Hon Esther McVey MP

SECRETARY OF STATE FOR WORK AND PENSIONS
Annex A  Sayce Report; 'Disability employment support: fulfilling potential'

The recommendations on Remploy in the Sayce Report include:

Remploy – recommendation 3

The Department should, by the end of the current Spending Review, have introduced a new model for Remploy, and Government funding should be invested in effective support for individuals, rather than subsidising factory businesses:

• Remploy Enterprise Businesses should be given the opportunity – with expert support – to become successful businesses free from Government control.

• Where this is not an option, and businesses cannot continue, individual employees should be offered guaranteed and active support to secure employment, training, or other community activity.

• Remploy Employment Services should in future secure Government funds only by competing for contracts like other providers.

Recommendation 3e

Remploy Employment Services should be freed to operate as a social enterprise, mutual, co-operative or other structure. Taken together with the recommendation for a new model for Remploy Enterprise Businesses, this recommendation envisages that Remploy's future should be as an organisation independent of Government, focused on supporting disabled people to find and sustain work across the range of roles in the economy.