House of Commons

Work and Pensions Committee

Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System

Fifth Report of Session 2005–06

HC 1648

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Report, together with formal minutes, oral and written evidence

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The Work and Pensions Committee

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1 Introduction

Background

1. On 21 July 2006 the Minister of State for Employment and Welfare Reform, Jim Murphy MP, wrote to the Committee.[1] The letter informed us that the Department for Work and Pensions (DWP) intended to use the procedure set out in Section 82 of the Welfare Reform and Pensions Act 1999, referred to in the rest of this Report as 'Section 82', to seek approval for preparatory expenditure[2] on the new IT system for the proposed Employment and Support Allowance (ESA). We were asked to scrutinise the Government's proposals. The Committee has an agreed role in the Section 82 procedure which we explain below.

2. We took evidence from Departmental officials on 18 October. This session was held in private, at the Department's request, as some of the issues under discussion were of a commercially confidential nature. A partial transcript is published with this Report.

Section 82 and the Committee's role in the process

3. The full text of Section 82 is appended to this Report.[3] Its purpose is to enable preparatory work on major new social security services to take place before the relevant legislation gets Royal Assent, as an alternative to postponement or a paving bill, in circumstances when:

> "(a) a Minister of the Crown is proposing that or considering whether an Act should change the law as from a specified date, or a date to be determined, and
>
> (b) the Secretary of State [for Work and Pensions] is of the opinion that the change is such that, unless expenditure for preparing for the change is incurred during the period before the passing of that Act, it will not be possible for a service for which he has or will have responsibility to be effectively provided as from that date".

4. The procedure has been used once before, in 2000, in connection with the development of a new IT system for the Child Support Agency. As part of that process our predecessor Committee, the Social Security Committee, issued two Reports: one on the Government's initial proposals in January 2000,[4] and a second, on the version of the proposals laid before the House of Commons, in March 2000.[5] The Procedure Committee reported on the use of Section 82 in its broader context the following year.[6]

[1] Appendix 2

[2] The distinction between 'preliminary' and 'preparatory' expenditure was explained by the then Chairman of the Public Accounts Committee when giving evidence to the Procedure Committee in 2000, Third Report, Session 2000-01, *Section 82 of the Welfare Reform and Pensions Act 1999*, HC 358, Q 62

[3] Appendix 1

[4] Social Security Committee, First Report of Session 1999-2000, *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: New IT system for the CSA*, HC (1999-2000) 180

[5] Social Security Committee, Second Report of Session 1999-2000, *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: New IT system for the CSA (further report)*, HC (1999-2000) 315

[6] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*

5. The three Reports set out the history and background of the Section 82 process. In essence, it works as follows:

- DWP sends a draft Section 82 Report to Work and Pensions Committee for comment (the Report is also sent to the Public Accounts Committee)
- Work and Pensions Committee takes oral evidence from DWP officials
- Work and Pensions Committee produces Report
- DWP considers Committee Report
- DWP lays final Section 82 Report before the House of Commons
- Debate on the floor of the House or in a Delegated Legislation Committee.[7]

6. The House in deciding, and the Committee in advising, have to take a view on whether in each case Section 82 authorisation is appropriate. This Committee has an additional role in assessing the quality of the content of the draft Section 82 Report.

7. Section 82 Reports must be considered carefully because they are an exception to the normal rules of Government accounting procedure, which state that "where legislation is being introduced to provide for a new service, departments should wait until the Bill has received Royal Assent before incurring expenditure on preparing for or implementing the new service."[8]

8. On the other hand they offer the potential for additional time in planning large-scale DWP IT projects. As our precedessor Committee observed in its Report on *DWP Management of IT projects: Making IT deliver for DWP customers*, the setting of realistic deadlines and discussions with suppliers at the early stages of procurement may mean that projects have a greater chance of success.[9]

9. Angela Eagle MP, then Parliamentary Under-Secretary of State, Department of Social Security, told the Procedure Committee in 2000:[10]

> "In the absence of having a special new way of dealing with it, we would have had two choices: either to rush implementation, which would put at risk the coherence of IT strategies, the testing mechanisms, and make the whole project much more risky; or an even longer period of time between when the bill becomes law and when it could coherently be implemented operationally with a reasonable amount of risk".

7 The Government has stated that it "will consider any recommendations from the Work and Pensions Committee or representations from the Opposition" in coming to a decision about whether the necessary debate should take place in a Standing Committee or on the floor of the House. (Government response to Procedure Committee Report, Cm 5172, July 2001, para 11)

8 *Government Accounting*, para 2.3.10

9 Work and Pensions Committee, Third Report of Session 2003-04, HC 311-I, paras 15-26

10 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, Q 1

The use of a Section 82 Report for the Child Support Agency in 2000

10. The then Social Security Committee reported on the first draft Section 82 Report in January 2000 and on the final Section 82 Report in March 2000. The Committee made a series of recommendations about the quality and type of information in the draft Report.

11. The final Report was laid before the House of Commons on 13 March 2000, seeking the approval of expenditure of up to £45 million. It was considered in the First Standing Committee on Delegated Legislation on 5 April 2000 and approved without debate by the House on 11 April. In November 2000 the Government announced that, of the £45 million expenditure authorised only £2.6 million had actually been spent. This was due to Royal Assent being earlier than expected.[11]

12. When giving evidence to the Procedure Committee in 2000 the Chairman of the Social Security Committee was critical about the use of Section 82 on that occasion:[12]

> "We summoned officials on the 12th January and we had a full hearing and the whole edifice of the proposal that they had originally sent to us before Christmas crumbled in their hands. They started asking for sums of money in the region of £60 million to be spent before Royal Assent [...] Eventually, after a lot of toing and froing and a lot of very heated and concerned discussion and cross-examination by my colleagues in the Select Committee [...] the Department admitted that they had done their sums wrong and they only needed £6 million. I repeat again; in fact they did not even need the £6 million because they did not sign a contract until after Royal Assent was given later that summer. So it was disappointing in that the House was not given any real chance to understand anything at all about the consequences and the precedents that this new procedure was introducing into our parliamentary rules and ways of doing things. [...] So you begin to wonder to what extent these orders are a sensible thing to be promoting in the first place."

13. The Procedure Committee concluded that "The deficiencies identified by the Social Security Committee, and the contrast between the large sums of money originally sought and the small sums actually spent, suggest that this was a proposal which should not have been cleared by the Treasury."[13]

The Section 82 Report on the Employment and Support Allowance

14. The draft Section 82 Report is included as an Appendix to this Report.[14] The Government is asking for the House's agreement for power to incur:[15]

- "Expenditure that the Secretary of State believes must be incurred if the Employment and Support Allowance (ESA) is to be implemented from 2008 [...]; and

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[11] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, paras 14-16

[12] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999,* Q 60

[13] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, para 43

[14] Appendix 3

[15] Appendix 3A, para 1

- The financial liability accruing under contracts to be signed, in advance of Royal Assent to the [Welfare Reform] Bill, by virtue of the power in section 82 of the 1999 Act."

15. The draft Report states that the "estimate of maximum possible spend on the new ESA IT system" before Royal Assent is £31.25 million. A breakdown showing spending month-by-month between January and June 2007 broken down into various categories is also included.[16] The DWP estimates that the project as a whole will take "at least 22 months",[17] and therefore Section 82 authorisation is necessary if the ESA is to be delivered from 2008, a commitment which has been "announced publicly by the Government."[18] The Welfare Reform Bill, which establishes the ESA, is intended to be subject to the carry-over procedure between the 2005-06 and 2006-07 Sessions, and therefore Royal Assent is expected some time in the first half of 2007.

16. The Employment and Support Allowance will replace the current system of incapacity benefits. In our Report on *Incapacity Benefits and Pathways to Work*, we concluded that "The Government has taken a bold step in its declared 'aspiration' to reduce the incapacity benefits caseload by one million within ten years. It will undoubtedly be a challenge to achieve this but the Committee welcomes the Government's declared intention and will continue to monitor future progress."[19]

The Committee's approach to this inquiry

Scope

17. There need to be clear boundaries to what is expected from the Committee in its scrutiny of Section 82 Reports. Given the short period of time we have to do this work, and the fact that the project itself is at an early stage, our Report cannot be a verdict on the likely success of the ESA IT system. Our two areas of focus in this Report and our further Report will be, firstly, advising the House whether this request for an exception to the normal rules for authorising expenditure on new services should be granted and, secondly, the quality and quantity of information in the draft Section 82 Report.

18. At the same time we have had to look at the draft Section 82 Report in the context of DWP's previous record with IT projects and the so-called 'legacy systems' which do the nuts-and-bolts of benefits system processing. In particular, during the course of our inquiry reports appeared in the media that a major DWP IT project, the Benefits Processing Replacement Programme (BPRP), had been cancelled at a cost of nearly £140 million. The BPRP had been described by DWP only as recently as February 2006 as "a key strategic initiative" in evidence during our inquiry into the *Efficiency Savings Programme in Jobcentre Plus*.[20] We sought additional written evidence from Jobcentre

[16] Appendix 3A, para 11

[17] Appendix 3A, para 9

[18] Appendix 3A, para 10

[19] Work and Pensions Committee, Third Report of Session 2005-06, *Incapacity Benefits and Pathways to Work*, HC 616, para 404

[20] Work and Pensions Committee, Second Report of Session 2005-06, *The Efficiency Savings Programme in Jobcentre Plus*, HC 834–II, Ev 66

Plus on the circumstances of the cancellation of the project which is set out in an Appendix to this Report.[21]

19. We were particularly interested to know whether there was any link between the cancellation of BPRP and the need for Section 82 authorisation. Annex B of the draft Section 82 Report describes "a new modernised system using Benefit Processing Replacement Programme (BPRP) architecture" as one of four options that was considered for developing the ESA IT system. Officials confirmed that the use of BPRP had been under consideration until the Programme was suspended and then closed in August 2006.[22] It appears that there may be a link between Section 82 authorisation and the suspension of the BPRP. This should be clarified in the final Report.

Logistics

20. Section 82 Reports necessarily have to be considered at speed. At the same time this is not an area which the Committee can approach cold. In order for scrutiny to be effective Members need to be familiar with the subject matter.

21. When the Procedure Committee reported in 2001 it recommended that "the Government should normally make allowance for a period of at least six sitting weeks between the submission of a draft report to the Social Security Committee and receipt of the Committee's comments."[23] The Government reply accepted "the essence of the Committee's recommendation" but added that "Where a substantial proportion of the six week period would fall over an adjournment or when it is necessary to incur expenditure urgently a set period of six sitting weeks could cause unnecessary difficulties." It concluded: "In such cases the Government will consult the Committee over an appropriate time scale."[24]

22. **In this case the Committee was only notified of the Government's intention to use Section 82 on Friday 21 July, after the Committee's final meeting before the summer recess. The draft Report reached us at the end of August. We recommend that in any future uses of the Section 82 procedure the Work and Pensions Committee is given at least four sitting weeks' notice of the Government's intention to prepare a Report, as well as, if possible, a period of six sitting weeks to conduct its scrutiny.**

23. Section 82 Reports are of interest to two Committees: the Work and Pensions Committee, from the policy side, and the Public Accounts Committee, from the financial side. In this case, as in 2000, the Chairman of the Public Accounts Committee agreed that this Committee should take the lead in scrutiny of the draft Report. We have sought, therefore, to look at issues of both expenditure and policy and have been assisted in this task by the resources of the National Audit Office.

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[21] Appendix 4

[22] Q 19

[23] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, para 31

[24] Government reply to Procedure Committee Report, paras 9 and 10

2 The draft Section 82 Report

Content of the Report: Procedure Committee recommendations

24. In its 2001 Report the Procedure Committee set out different kinds of information which should appear in future Section 82 Reports.[25] We have assessed the content of the ESA Section 82 Report under each of these headings.

A breakdown of the proposed expenditure

25. The Procedure Committee suggested that Section 82 Reports should contain "A detailed breakdown of the proposed expenditure together with the expected timing of this expenditure and the reasons why it is desirable to incur the expenditure."[26]

26. The draft Report includes a table in paragraph 11 setting out estimates of the expenditure month-by-month and under the following headings:

- Developing the benefit processing system on JSAPS [Jobseekers Allowance Payment System]
- Developing the environment that allows programmes to be tested
- Developing the call handling system (PTP)
- Developing the interface between the call handling and benefit system (PXP)
- IS/IT team
- Other systems
- Telephony.

27. We asked officials who had validated these figures, whether they were estimates or maximum spends, and to what extent the Department expected the costs to vary once work had begun. We were told that the estimates had been produced by the project team, based on their development plans, and that they had been "exposed", through the Department's financial systems, to others in DWP.[27] Officials stressed that a reasonably cautious approach had been taken to how much would be needed month-by-month (ie asking for more rather than less) and drew our attention to the comments in the Secretary of State's cover letter that "the estimates may be refined".[28] They undertook to give the Committee "regular" reports on out-turn expenditure.[29]

[25] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999,* paras 29 and 30

[26] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999,* para 29

[27] Q 76

[28] Q 77

[29] Q 83

28. While we welcome the detail in the table in the draft Section 82 Report, we are concerned that the figures have not been subject to a process of external scrutiny as this would provide us, the House and the Department with greater certainty. **We recommend that the National Audit Office be asked to examine the reasonableness of the cost estimates for this project and that this be done as a matter of course for all future Section 82 Reports. We welcome the Department's commitment to give us regular reviews of the out-turn expenditure on the project and would ask that these be prepared every two months.**

29. **In additional information provided for the Committee the DWP was able to put the proposed preparatory spend on ESA in the context of total project costs (which are estimated to be around £295 million). We recommend that this information be included in the final Section 82 Report for the information of the House.**

30. The Committee was also interested to explore the timing of the project as a whole. As we have previously indicated, the need arises because the project "requires a set period of at least 22 months"[30] and "Securing section 82 authorisation would allow the delivery of ESA from 2008 … [which is a commitment] announced publicly by the Government."[31] A time-line, which forms Annex A of the draft Section 82 Report, shows 'A-day' (the introduction of the new system) at the end of October 2008, which means starting work at the latest in January 2007.

31. On this occasion, therefore, Section 82 is being used solely to meet a Government timing commitment rather than as a measure to enable additional work to be done to maximise the chance of the project's success. Moreover, this follows delays of several months in issuing the Green Paper on Welfare Reform.[32] Officials defended the link to the timing commitment, relating it to the Government's policy aims in the welfare area.[33]

32. We have concerns: firstly, that there has been some confusion about the date of A-day, and the news that it is to be 1 November 2008, rather than 1 April 2008, may come as a surprise to some stakeholders; secondly, that there are additional risks which arise from working on the project as the Welfare Reform Bill passes through Parliament and; thirdly, about the nature of the 22-month timetable.

The date of A-Day

33. Annex A of the draft Section 82 Report clearly shows A-Day at the end of October 2008. Officials told us that ministers had committed to begin payment of the new benefit in 2008 but had not given any commitment to implementation in a particular month.[34] **We think that the timing and sequence of events in 2008 should be spelled out by the Government to ensure that there is no confusion among providers, advice agencies and**

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[30] Appendix 3A, para 9

[31] Appendix 3A, para 10

[32] Work and Pensions Committee, Third Report of Session 2005-06, *Incapacity Benefits and Pathways to Work*, HC 616, para 3

[33] Q 51

[34] Q 7. See also HC Deb, 4 July 2006, col 33WS.

claimants, particularly as the national roll-out of Pathways to Work, another key measure in the Welfare Reform Bill, is due to be completed in April 2008.

Changes in specification

34. One risk which arises from the timetable is that if the detail of the benefit changes during its passage through Parliament, this could alter the IT specification. The draft Section 82 Report considers this and concludes that "If the Commons committee stage indicates that there will be substantial changes to the design of ESA the staged contracting approach would ensure that nugatory spend would be limited."[35]

35. Officials assured us that they were aware of this as a potential problem and were acting to reduce the risk. An Integrated Design Team had been established which brought the people working on policy, business and technology together. The Team was prioritising the work where there was most certainty, and building time in to make changes.[36]

36. **We recommend that the actions being taken by DWP to mitigate the risk that the detail of ESA will change as the Welfare Reform Bill progresses through Parliament, leading to changes in the specification and wasted effort and expenditure, be set out in greater detail in the final Report. This should include a list of policy areas in which DWP assesses the risk of change to be particularly high, alongside an indication of where the areas of most certainty lie.**

Timing

37. We also discussed with officials the 22-month total timescale for the project, which we judge as ambitious in the context of other large-scale DWP IT projects. Phil Bartlett, Jobcentre Plus Employment and Support Allowance Programme Director, described it as "very challenging but realistic". He stressed that the project was building on technologies already in use within DWP, particularly in the Pension Service, and that this meant staff were working with systems they knew.[37] However, the Committee has concerns that such a tight time-scale, in conjunction with the risk of changes to the specifications and DWP's record in large-scale IT projects, could lead to problems. With just two or three months delay to the 22-month timetable the 2008 government timing target would still fail to be met even having had the Section 82 funding agreed. This would be an unacceptable outcome.

Financial liabilities and unavoidable expenditure

38. The Procedure Committee suggested that there should be information in Section 82 Reports covering the "Amount, nature and timing of any financial liabilities to be accrued" and an "Estimate of the unavoidable expenditure that would arise in the event of the subsequent bill not being enacted or being substantively amended."[38]

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[35] Appendix 3A, para 21

[36] Q 60

[37] Q 46

[38] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999,* para 29

39. As we have already indicated, the draft Report seeks the House's agreement for power to incur "the financial liability accruing under contracts to be signed, in advance of Royal Assent to the Bill, by virtue of the power in section 82 of the 1999 Act."[39]

40. Further information is set out in a section on "Assurance of control". The DWP states that it "will be including termination provisions in all IS/IT related contracts so as to limit the exposure to nugatory expenditure",[40] continuing that "the termination provisions will mean that while the Department envisages £28.5 million of expenditure prior to Royal Assent it estimates that £9 million – at most – would be irrecoverable should Parliament exercise its prerogative to reject the Bill."

41. Officials told us that this part of the draft Report was not as clear as it could be and would be redrafted in the final Section 82 Report laid before the House of Commons. They advised us that the £9 million figure referred to the likely loss arising from cancelling contracts after the beginning of April 2007 (assuming they had a 30 day cancellation period).[41] It was unclear what proportion of the rest of the expenditure could be recycled in the event of cancellation.[42]

42. **We note that the DWP has undertaken to redraft the passage in the draft Section 82 Report concerning financial liabilities and unavoidable expenditure, and look forward to seeing clearer information in the final Section 82 Report. The final Report should clearly set out the maximum liability that would be incurred in the event of cancellation.**

Contractual relationships

43. The third category of information suggested by the Procedure Committee was "Details of any contractual relationships into which the Government proposes to enter in relation to the proposed spending."[43] The draft Report states that:[44]

> "The Department is planning a staged approach to the contracting for the IT development. The first stage would cover the pre-April development and the second would cover the Build. The letting of the second stage contracts would be dependent upon there continuing to be a clear expectation of the Bill receiving Royal Assent no later than July 2007."

44. The draft Report adds:[45]

> "The Private Finance Initiative is no longer the procurement route recommended by Treasury for IT projects. The Department will choose appropriate suppliers from its framework of IT contracts to deliver the full range of IT services required to

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39 Appendix 3A, para 1b

40 Appendix 3A, para 23

41 Q 91

42 Q 92

43 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999,* para 29

44 Appendix 3A , para 16

45 Appendix 3A, para 18

> implement the ESA system. The Department's best option for value for money and for delivering an effective ESA IS/IT system is to re-use existing system components where appropriate in the design and development of the new system and also to use standard operational services for live running of the new IS/IT system through the transformed arrangements with EDS and BT."

45. The details of the contracting arrangements are commercially confidential but clearly this is an important factor in the success of the project. When we spoke with officials they told us that lessons were being learned from previous experience.[46]

Risk analysis

46. The fourth category was a "thorough analysis of the risks, as well as the value for money benefits, of incurring preparatory expenditure."[47] The draft Report contains considerable material on risks. Paragraph 21 sets out the risks and benefits associated with Section 82 authorisation, under the headings of:

- Nugatory spend if there is no Royal Assent
- Nugatory spend if the Bill is substantially altered
- Contractual commitments if there is no Royal Assent
- Project delivery (a separate annex (C) breaks down project risks in further detail).

47. We welcome the amount of detail which has been included on risk management in the draft Section 82 Report. Officials gave us additional details of the Project Board and risk ownership and we were told that there were reporting lines up to DWP Executive Team level.[48]

Value for Money analysis of alternatives

48. The Chairman of the Public Accounts Committee recommended to the Procedure Committee in 2000 that Section 82 proposals "should be supported by a well reasoned case, which should set out the consequences, in terms of value for money likely to be foregone, of alternative courses of action (such as a paving bill; awaiting Royal Assent; delaying implementation)." The Procedure Committee agreed with this recommendation.[49]

49. When the Government responded to the Procedure Committee's report it sounded a note of caution, stating: "Where cases arise which clearly fall within the defined circumstances for utilising Section 82 the question of whether to apply the power may need to be decided at an early stage of the planning process, and this may mean that the

[46] Q 96

[47] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, para 30

[48] Qq 98-9

[49] Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, para 30

information about the alternatives is available only in broad terms," although there was an undertaking "to provide the maximum information possible."[50]

50. There is no value for money analysis of the kind suggested in the draft Section 82 Report and we asked DWP to provide it. We were given a supplementary note which explained that the use of Section 82 powers was to meet the 2008 end-date, something which none of the other three options could achieve; adding "Given that we only had one option we did not undertake a financial assessment of the others."[51] There has been no attempt to quantify the relative costs and benefits of different approaches. **We are disappointed that the DWP has not attempted to support this case with a value for money analysis of the alternative courses of action. We recommend that additional explanation about this is included in the final Section 82 Report. In addition, we are concerned that the DWP could not provide the Committee with specific value for money analysis of the benefits of achieving the 2008 deadline and the costs associated with not doing so, information important to judging the justification of using Section 82. Our concerns should be reflected in the final Report.**

Wider contextual information for the House

51. When the Government submitted evidence to the Procedure Committee's inquiry, it noted: "A distinction needs to be drawn between the information that is required by the terms of Section 82 to be provided in the report laid before the House, and information which would aid the House in its consideration of the Report."[52] However, it conceded that "the Department recognises that this information alone may not allow the House of Commons to appreciate the whole of the project"[53] and concluded that in future it would endeavour:[54]

> "To make available to the House, in any future reports, as much financial information on whole projects as is consistent with commercial confidentiality, so that the House will be able to make informed decisions on the request for the passage of the Section 82 Report."

52. This was a point emphasised by the then Parliamentary Under-Secretary of State, Department of Social Security when she gave evidence to the Procedure Committee in 2000: "I think more of that contextual information would be helpful to Parliament, and we have undertaken to provide that."[55] The Committee welcomed this assurance.[56]

53. **The Department has included useful contextual information in the draft Report, in particular in Annex B which sets out the background to the Employment and Support Allowance. We welcome this. We note that this draft Section 82 Report, with 28**

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50 Government reply to the Procedure Committee Report, para 8

51 Appendix 5

52 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, p 1, para 6.4

53 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, p 1, para 6.6

54 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, p 1, para 6.8

55 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, Q 40

56 Procedure Committee, *Section 82 of the Welfare Reform and Pensions Act 1999*, para 30

paragraphs and three Annexes, is considerably longer and more detailed than the draft presented to the Social Security Committee in 2000 (which was 13 paragraphs long and had one Annex).

54. The jury is still out on the use of the Section 82 procedure, especially after such a bad precedent as the 2000 CSA Section 82 Report (see paragraphs 10-13 of this Report). We have some reservations about this request, particularly about the challenging timetable of the project and the lack of external scrutiny of the costings. We have also made a series of recommendations to improve the content of the draft Report. We hope that the additional information we have sought from DWP will mitigate our concerns and that the Government will lay a final Report before the House of Commons which reflects our recommendations.

3 Next steps

The BPRP and DWP IT projects: best practice

55. During our discussions with officials we covered not only the details of the Section 82 Report but also how wider issues, and how lessons learned from other IT projects were being incorporated into the ESA project.[57]

56. The circumstances of the cancellation of the BPRP project, at a substantial cost to the taxpayer, remain of concern to us. We were told by officials that they did not yet have figures on what proportion of the £138 million spent could be 'recycled', although it was expected to be more than 50%.[58] We intend to hold a public evidence session on this in due course.

What will happen next

Final Report

57. We hope that the DWP will incorporate our recommendations into its final Section 82 Report. We will issue a further Report when the final Section 82 Report is laid before the House of Commons. At that stage we will recommend whether the debate on the final Report should take place in a Delegated Legislation Committee or on the floor of the House. As we have already noted, the Government reply to the Procedure Committee Report noted that it would "consider any recommendations from the Work and Pensions Committee or representations from the Opposition in coming to a decision."[59]

Delegated Legislation Committee

58. The Procedure Committee recommended that in future some members of the Committee which had considered the draft Section 82 Report should also serve on any Delegated Legislation Committee appointed to consider the Final Report. This did not happen in 2000. The Government noted the recommendation and stated that it "will try when possible to comply".[60]

59. **If the final Section 82 Report is considered by a Delegated Legislation Committee we expect the Government to ensure its membership includes at least two members of the Work and Pensions Committee.**

Out-turn report

60. The Government has given an undertaking "to provide the House with an out-turn report setting out the actual expenditure incurred under the terms of Section 82 for each

[57] See, for example Qq 33-4, Q 47 and Qq 65-9.

[58] Q 37

[59] Government reply to Procedure Committee Report, para 11

[60] Government reply to Procedure Committee Report, para 12

use of the power, either at the end of the specific period to which the power relates or following the termination of its application by the receipt of Royal Assent to the related Bill, whichever is earlier."[61]

61. **We welcome the Government's promise to produce an out-turn report for the House on all uses of the Section 82 procedure. We recommend that this be accompanied by a memorandum to this Committee and the Public Accounts Committee with additional background information on how the money was spent, the extent to which the early expenditure was effective, the lessons that have been learned and how the procedure and process will be refined to take account of them.**

[61] HC Deb, 30 November 2000, col 850W

Conclusions and recommendations

1. In this case the Committee was only notified of the Government's intention to use Section 82 on Friday 21 July, after the Committee's final meeting before the summer recess. The draft Report reached us at the end of August. We recommend that in any future uses of the Section 82 procedure the Work and Pensions Committee is given at least four sitting weeks' notice of the Government's intention to prepare a Report, as well as, if possible, a period of six sitting weeks to conduct its scrutiny. (Paragraph 22)

2. We recommend that the National Audit Office be asked to examine the reasonableness of the cost estimates for this project and that this be done as a matter of course for all future Section 82 Reports. We welcome the Department's commitment to give us regular reviews of the out-turn expenditure on the project and would ask that these be prepared every two months. (Paragraph 28)

3. In additional information provided for the Committee the DWP was able to put the proposed preparatory spend on ESA in the context of total project costs (which are estimated to be around £295 million). We recommend that this information be included in the final Section 82 Report for the information of the House. (Paragraph 29)

4. We think that the timing and sequence of events in 2008 should be spelled out by the Government to ensure that there is no confusion among providers, advice agencies and claimants, particularly as the national roll-out of Pathways to Work, another key measure in the Welfare Reform Bill, is due to be completed in April 2008 (Paragraph 33)

5. We recommend that the actions being taken by DWP to mitigate the risk that the detail of ESA will change as the Welfare Reform Bill progresses through Parliament, leading to changes in the specification and wasted effort and expenditure, be set out in greater detail in the final Report. This should include a list of policy areas in which DWP assesses the risk of change to be particularly high, alongside an indication of where the areas of most certainty lie. (Paragraph 36)

6. We note that the DWP has undertaken to redraft the passage in the draft Section 82 Report concerning financial liabilities and unavoidable expenditure, and look forward to seeing clearer information in the final Section 82 Report. The final Report should clearly set out the maximum liability that would be incurred in the event of cancellation. (Paragraph 42)

7. We are disappointed that the DWP has not attempted to support this case with a value for money analysis of the alternative courses of action. We recommend that additional explanation about this is included in the final Section 82 Report. In addition, we are concerned that the DWP could not provide the Committee with specific value for money analysis of the benefits of achieving the 2008 deadline and the costs associated with not doing so, information important to judging the

justification of using Section 82. Our concerns should be reflected in the final Report. (Paragraph 50)

8. The Department has included useful contextual information in the draft Report, in particular in Annex B which sets out the background to the Employment and Support Allowance. We welcome this. We note that this draft Section 82 Report, with 28 paragraphs and three Annexes, is considerably longer and more detailed than the draft presented to the Social Security Committee in 2000 (which was 13 paragraphs long and had one Annex). (Paragraph 53)

9. The jury is still out on the use of the Section 82 procedure, especially after such a bad precedent as the 2000 CSA Section 82 Report (see paragraphs 10-13 of this Report). We have some reservations about this request, particularly about the challenging timetable of the project and the lack of external scrutiny of the costings. We have also made a series of recommendations to improve the content of the draft Report. We hope that the additional information we have sought from DWP will mitigate our concerns and that the Government will lay a final Report before the House of Commons which reflects our recommendations. (Paragraph 54)

10. If the final Section 82 Report is considered by a Delegated Legislation Committee we expect the Government to ensure its membership includes at least two members of the Work and Pensions Committee. (Paragraph 59)

11. We welcome the Government's promise to produce an out-turn report for the House on all uses of the Section 82 procedure. We recommend that this be accompanied by a memorandum to this Committee and the Public Accounts Committee with additional background information on how the money was spent, the extent to which the early expenditure was effective, the lessons that have been learned and how the procedure and process will be refined to take account of them. (Paragraph 61)

Formal minutes

Wednesday 25 October 2006

Members present:

Mr Terry Rooney, in the Chair

Miss Anne Begg
Harry Cohen
Mrs Natascha Engel
Michael Jabez Foster
Justine Greening
Mrs Joan Humble
Greg Mulholland
John Penrose
Jenny Willott

1. Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System: report text

The Committee considered this matter.

2. Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System: formal consideration

Draft Report (*Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 61 read and agreed to.

Resolved, That the Report be the Fifth Report of the Committee to the House.

Ordered, That the Chairman do 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.

Ordered, That part of the Minutes of Evidence taken before the Committee, together with Appendices to the Minutes of Evidence, be reported to the House.

[Adjourned till Tuesday 31 October at 10.15am

Witnesses

Wednesday 18 October 2006

Mr Adam Sharples, Director General for Work, Welfare and Equality Group, **Mr Phil Bartlett**, Jobcentre Plus Employment and Support Allowance Programme Director and **Mr Malcolm Whitehouse**, Jobcentre Plus IS/IT Director

Written evidence

1 Section 82 of the Welfare Reform and Pensions Act 1999
2 Memorandum submitted by Jim Murphy MP, Minister of State, DWP
3 Letter to the Chairman and draft Section 82 Report
4 Memorandum from the Chief Executive of Jobcentre Plus
5 Memorandum from the Welfare Reform Programme and Bill Team, DWP

Reports from the Work and Pensions Committee 2005-06

Session 2005–06

First Joint Report	Home Affairs and Work and Pensions Committee: Draft Corporate Manslaughter Bill	HC 540
First Special Report	Pension Credit and Delivery of Services to Ethnic Minority Clients: Government Response to the Committee's 3rd and 4th Reports of Session 2004-05	HC 297
Second Report	The Efficiency Savings Programme in Jobcentre Plus	HC 834
Third Report	Incapacity Benefits and Pathways to Work	HC 616
Second Special Report	The Efficiency Savings Programme in Jobcentre Plus: Government Response to the Committee’s Second Report of Session 2005-06	HC 1187
Fourth Report	Pension Reform	HC 1068

Oral evidence

Taken before the Work and Pensions Committee

on Wednesday 18 October 2006

Members present:

Mr Terry Rooney, in the Chair

Miss Anne Begg
Harry Cohen
Natascha Engel
Michael Jabez Foster
Justine Greening
Mrs Joan Humble
Greg Mulholland
John Penrose
Jenny Willott

Witnesses: **Mr Adam Sharples,** Director General for Work, Welfare and Equality Group, **Mr Phil Bartlett,** Jobcentre Plus Employment and Support Allowance Programme Director and **Mr Malcolm Whitehouse,** Jobcentre Plus IS/IT Director, gave evidence.

Asterisks denote parts of the oral evidence taken in private which, for commercial reasons, have not been reported at the request of DWP and with the agreement of the Committee.

Q1 Chairman: Good morning, could you tell us what you all do?
Mr Sharples: Good morning; I am Adam Sharples, I am the Director General for Work, Welfare and Equality, I lead the policy group in the Department, and I am the SRO (Senior Responsible Officer) for the welfare reform programme as a whole. My colleague Phil Bartlett is the Programme Director for the Employment and Support Allowance programme in Jobcentre Plus, so Phil is the SRO for the Employment and Support Allowance, and my colleague Malcolm Whitehouse is the IT Director for Jobcentre Plus.

Q2 Chairman: He is the SRO for the IT?
Mr Sharples: Malcolm is responsible for the IT system in Jobcentre Plus, yes.

Q3 Chairman: No doubt we will learn even more as we go along, so welcome. You will recall that the last time this power was used was 1999–2000 on the CSA and it is fair to say that there was a degree of criticism as to how it actually turned out because they asked for £45 million and only spent £2.6 million, and the project itself turned out to be unsuccessful anyway. What guarantees are there that it is going to be different this time round?
Mr Sharples: Briefly on the experience last time, we hope we have learned from that experience and, as you know, we have produced new guidance for the use of the section 82 procedure. We very much hope that the draft report that we have presented to you meets those requirements and is perhaps better than the reports we submitted last time, so we have tried to learn the lessons. What happened last time was that an estimate was presented as part of the section 82 report for the amount of money which was thought to be required up to Royal Assent. There is a difficulty which we have to recognise in using the section 82 process that we have to take a cautious view of when Royal Assent might be achieved. We have to be fairly pessimistic about when Royal Assent might be achieved because what we are doing is setting a maximum for the amount of money that can be spent before Royal Assent. In this case we have assumed that Royal Assent is achieved by July of next year, and we have estimated the amount of money that needs to be spent to keep the project going up to July of next year. That is a fairly pessimistic view and, as the Secretary of State said in his covering letter to the Committee, he hopes that Royal Assent will be achieved before that, in which case we will spend less under the section 82 authority than the maximum that we are seeking approval for.

Q4 Chairman: What is your understanding of A-day?
Mr Sharples: A-day is the tag for . . .

Q5 Chairman: I understand that, but when?
Mr Sharples: As you know, we are committed to delivering the new benefit, the Employment and Support Allowance, in 2008, so what we are working to in this project is a timetable that will allow us to deliver the new benefit by 2008.

Q6 Chairman: All through these reports it refers to 2008; in previous discussions, particularly on the Second Reading Debate et cetera, it has been said 1 April 2008, but you are just saying 2008. Is 1 April still the date?
Mr Sharples: The commitment is to deliver in 2008. As you will see from the timeline that is attached as an annex to the draft section 82 report it runs up to October 2008, so there is no commitment to deliver it in April, the commitment is to deliver in 2008, and the timetable that we are working to here, that this report is based on, provides for implementation by the autumn of 2008, in fact by October.

Q7 Chairman: A-day will not be before 1 October 2008.

18 October 2006 Mr Adam Sharples, Mr Phil Bartlett and Mr Malcolm Whitehouse

Mr Sharples: It is unlikely to be before that and we are not planning for an A-day before that, but obviously if swifter progress is made on the project than is expected, ministers may choose to implement the new benefit slightly earlier than we have planned for in this timeline. The commitment is for 2008; ministers have not given any commitment to implementation in any particular month within 2008.

Q8 Justine Greening: I just wanted to follow up because it says in the initial report we got that this would require a set period of at least 22 months, which I worked out as being October 2008. That is actually, from what I can see, is the earliest time you can expect A-day; is that correct?
Mr Sharples: That is the basis on which we have done this timeline and these calculations, that is right.

Q9 Chairman: In layman's terms what do you get for your money out of this?
Mr Sharples: What we are looking for here is approval from Parliament—

Q10 Chairman: We understand that, but in simple layman's terms what does it buy?
Mr Sharples: What does it buy? It buys the preparatory work that needs to be done to start the process, so from January of next year we are moving beyond the initial preparatory scoping and planning stage of the project into the design and build of the project, and what it buys is set out in the table in the draft section 82 report, it is the table embedded in paragraph 11 of the draft report, which the Committee has had available, which lists the different activities that need to be funded. What this table does is to set out month-by-month the amount of money that we think needs to be spent on each of those activities. If the Committee would like further detail on each of those elements I am sure my colleague Phil Bartlett would be happy to provide that.

Q11 Chairman: I do not want to tread on any colleagues' toes but, for instance, you have three lots of £2.6 million in April, May and June on developing the call-handling system. Can we have any confidence that that will be better than the CMS?
Mr Sharples: You can have confidence because this is based on the call-handling system that is in the pension service, which is part of the pensions transformation programme, and we are very fortunate in having Phil Bartlett, who was an integral part of delivering that programme, as the SRO for this project.

Q12 Chairman: Finally from me, do you expect section 82 procedures to be used on any other projects in the near future?
Mr Sharples: We have no plans to use it, but clearly we cannot say never on this because the power was introduced into the 1999 legislation because it was recognised that in this department big projects such as the introduction of a new benefit often involve major IT programmes, and those programmes have long lead times. In order to deliver the product, the working new benefit, it is often necessary to get started on the IT programmes somewhat before Royal Assent that is why the power was introduced. It has only been used once before, as you say, in relation to the Child Support Agency, so it is an exceptional procedure. It is not something that we plan to use on a regular basis and at the moment we have no plans to use it for other propositions. Clearly, it was put there by Parliament because Parliament recognised the nature of the projects run by the Department.

Q13 Chairman: Let me just test a for instance with you. There was an assurance that we would have pre-legislative scrutiny of NPSS and all that side of it; it has now been said that because of the need to get parliamentary approval so you can get on and spend, that will not be possible. Would that not be a candidate for section 82 treatment?
Mr Sharples: I am sorry, would what be a candidate?

Q14 Chairman: The expenditure required to bring in NPSS.
Mr Sharples: Obviously, each case needs to be considered on its merits. This is quite a complex field actually and I am happy to go into it in much more detail with the Committee, but the steps that we need to take with any new proposal, whether on the pensions side or on other aspects of the benefits system, are first to ask: in order to deliver do we need to get started before Royal Assent? We then need to ask if we need to get started before Royal Assent does that activity constitute preparation for a new service. If it does, we then need to ask what is the parliamentary authority we need for spending on that new service, and as we have explained in the supplementary note to the Committee there are a number of routes that can be followed there, including for example a paving bill, using the authority of the Appropriation Act and seeking a value for money claim—this is where we do the spending but as part of a wider programme. Each case needs to be considered on its merits. We need to work through those questions and if the answer is there is no other route it may be that ministers will want to come back and seek an application under the section 82 procedure. As I say, it is an exceptional procedure, it is not something that we use lightly, but when we do use it we want to make sure that we do it thoroughly and properly and we present all the information that Parliament needs to undertake proper scrutiny.

Q15 Justine Greening: Just coming back to your description of this as exceptional, it may be exceptional in the grand scheme of parliamentary bills, but it does seem to me that we may be developing a habit of using this for every single major welfare reform bill or DWP-related bill. Do you think that is fair to say?

Q16 Mr Sharples: I do not think it is fair, no. It is not a routine procedure for us by any means, it is an exceptional procedure, we have only used it once before and we are only using it in this case because we have worked through those steps that I described earlier and concluded that the only way to deliver the new benefit by 2008, which is the commitment ministers have made, is to get started quickly on the project. This does involve some early spending on the IT systems and that is why we are seeking approval. I should say here I hope nobody thinks that this is a procedure which somehow evades parliamentary scrutiny. The fact that we are here before you today means that we are probably presenting much more detailed information to you—which we are very happy to do—on the month by month expenditure on this project than we would be doing under any of the other procedures that Parliament might follow. There is absolutely no intent on our part to somehow evade proper parliamentary scrutiny; quite the reverse, we are very keen to share this with you.

Q17 Justine Greening: Why have ministers got themselves into a situation where they have made a promise of delivering legislation that actually under normal parliamentary procedures they cannot meet?
Mr Sharples: It was part of the manifesto that the new benefit would be delivered by 2008; it was part of the Green Paper that was published in January of this year, that the new benefit would be delivered by 2008, and obviously as the proposals have developed we have been working with ministers, advising ministers on the timetable for delivery. This is an iterative process because you cannot work out the detailed timetable until you know what the proposals are; you cannot work out the detailed proposals until you have been through consultation, which we did in the first half of this year. We go through the iteration with ministers, taking their commitment, advising on the timetable for delivering that commitment. What we are setting out here is the timetable that we believe is necessary to deliver the new benefit by 2008.

Q18 Justine Greening: Do you believe that the delay in the Green Paper and the changes of Secretary of State hindered the progress of this project?
Mr Sharples: I am not sure I can comment on the position of ministers, but the Green Paper was delivered in January of this year after a lot of hard work by the officials, following the commitment given in the manifesto. We have worked then very speedily to conduct full consultation, we published the response to that consultation in June and we are now moving ahead rapidly on implementation.

Q19 Miss Begg: I have to say that the fact that this procedure has only been used for the CSA previously does not fill us with a lot of confidence, let me just put that down as a marker. I want to look at the impact of the cancellation of the BPRP and WATCH projects and ask if you had not had to cancel the BPRP project would you be here today, would you be asking for this expenditure today or has that had an impact on the fact that you need to set up a new system?
Mr Sharples: It is a difficult question to answer because it is a hypothetical question, but we did explain in the draft section 82 report—in Annex B, paragraph 4—that while the Benefit Processing Replacement Programme was under way we did consider whether the initial work on the Employment and Support Allowance could have been taken as part of that wider programme and considered as a value for money case, which would not have needed section 82 authorisation. We explain in the draft report we have submitted that that was an option that was under consideration, but once the BPRP was suspended and then finally closed in August, clearly that option was no longer available and so the section 82 route became unavoidable. There was a connection between the two programmes in that sense.

Q20 Miss Begg: There is reference in the draft document that some of the work that was done on the BPRP would be of use to the work that needs to be done for the ESA; what is that and can you quantify it, explain what was in the original BPRP project that is transferable. Can you also explain what are the lessons you have learned because obviously it went wrong, that is why it was cancelled.
Mr Sharples: Perhaps I can ask my colleague Malcolm Whitehouse to come in on this issue, but in headline terms what BPRP was seeking to do was essentially two things; there were various other things around it, but the two main things were replacing the legacy back-end systems with new systems and, secondly, replacing the front end, the call-handling, customer-handling, with a new customer-handling system. The proposed solution for the Employment and Support Allowance will use elements of the front end but will look for a solution for the back end which builds on the existing legacy systems, particularly the JSA system. We will be drawing on certainly the experience and some of the investments in BPRP in the solution we are proposing for ESA, but Malcolm Whitehouse might like to come in there.
Mr Whitehouse: If you look at the capability of BPRP, as Adam says, it focused around a customer interface using a standard technology which is in place across the department, based on the Siebel product from the Oracle organisation. That is consistent with the technology that is being used for the pensions transformation programme, so there is some re-use of thinking around the design of that BPRP which is transferable into ESA, but if you look at the specific design of ESA what we did was to focus very much on de-risking the capability that we will put in place by re-using proven implementation for that technology rather than building it from scratch. This would take the customer-handling/customer account management piece from the pensions programme as a core element and use, as Adam says, the legacy systems

based on JSA to deliver on a platform that we know and understand well, and therefore we can manage the risk of implementation more effectively.

Q21 Miss Begg: We know from various IT projects that have gone awry that the more of a project that is bespoke as opposed to off-the-shelf the more likely that it will be a disaster. What part of the ESA project is going to be bespoke, that you will be building from scratch? Can you quantify that for me, as opposed to what is already there and what we know is working, whether it is in the pension service or elsewhere?
Mr Whitehouse: There are three main elements that we refer to and there are a number of pieces around it, but the amount of work that we need to do on the Jobseekers Allowance System is one area that would require an amount of development work through arrangements that we already have in place. That would change elements of the business rules for handling the new allowance to be able to translate from customer information into payment processing. The bespoke element around the front end would be different. If you look at the experience on PTP, the amount of actual bespoke activity around Siebel was only about 3% of the complete bill, the rest of it is configuration of the technology to deliver what we need. The third element, which is the interface, the integration layer between the front end and the legacy system, you will have seen in the diagram something called PXP, which is push and pull, which is pulling information out of the existing system to present to our users in their interface with the customer and then to push the information back into legacy to create the benefit.

Q22 Miss Begg: Is that not the bit that always causes trouble?
Mr Whitehouse: That is something that needs some significant development around because of the amount of additional information that would need to be handled between the front end and the back end legacy.

Q23 Miss Begg: How confident are you, given the experience with BPRP, the experience with the CSA and the things that have gone wrong, that that push-pull on this occasion can be made to work?
Mr Whitehouse: We have worked on this over the last three to six months as well as the experience that we have had previously, and we are working with our colleagues in EDS who are responsible for the development and maintenance of that piece already. We have done quite a lot of work to ensure that we are confident that it can provide the capability that we need to provide both for the extraction of information for the front end and also the delivery of the information back into JSA. We are confident about that.
Mr Sharples: You have mentioned a couple of examples, CSA and BPRP which have not gone according to plan, and we have to be open about that and learn the lessons from that. The department has also been responsible for a number of major IT projects which have been highly successful and which are recognised internationally as models of IT delivery, including a number of projects in the Pension Service which we are hoping to learn from. That is why we are putting a lot of weight on the experience on pension credit and pensions transformation which have worked well in the Pension Service, and using that experience to build the basis for the Employment and Support Allowance.

Q24 Miss Begg: I know some of my colleagues want to get in on that and we have other questions, but on that one thing my understanding of what you did right in terms of the Pension Service—and we have visited the Pensions Transformation Service in Glasgow—was that there were long timescales and in fact you did not do everything at once, there was no big bang, everything rolled out and in fact the legacy system is not due to come in for another couple of years yet. That was a long timescale but this one is a short timescale, that by October 2008 everything needs to be up and running. The people who will be relying on ESA are just as vulnerable as those who are relying on pensions, and the fact that was driving the Pension Service was that they knew that pensioners had to get their pension every week. Those who are dependent wholly on benefit, because they have no access to work or cannot work, are very vulnerable as well and the last thing we want is disabled people being unable to get their benefits as well. My question is about the long lead-in times and the long development times which you do not have here.
Mr Sharples: Would you like a comment from Phil Bartlett on that because Phil, obviously, was very closely involved in delivering the Pension Transformation Programme.
Mr Bartlett: It is something we are very conscious of and one of the things we are confident of. We are building on technologies and experience that we have used before so we are not looking for wholesale replacement of systems and processes. We recognise that it is different from pension transformation where there was an existing legacy capability and there was a commitment to continue to pay customers retirement pension and pension credit, and that allowed a phasing of certain elements of the technology. What we are doing is using the experience and capability of pensions and of working with the legacy systems we have and doing the minimum amount that we need in order to secure capability for the Employment and Support Allowance. We will, as the project goes on, be looking at the question of phasing to ensure that we absolutely get that risk management right.

Q25 Miss Begg: Although the 2008 deadline is that that is when the first ESA payments will be made, that is not to say that the whole system will be completely up and running and there may be developments beyond then that will make the system work more efficiently.
Mr Bartlett: That is right, and in the broader piece we are looking to introduce Employment and Support Allowance for new customers from 2008

and we will still have the ability to pay and maintain the current incapacity benefit and income support capability for customers.

Q26 John Penrose: I just want to follow up for a second if I can because on the one hand you are saying this is new and that is why we have to come back for section 82 approvals, because none of the other options are available for you to use, but on the other hand you seem to be saying that actually an awful lot of it is old because you are using a lot of legacy systems to avoid creating more risk. It sounds to me like those two things must be contradictory; could you please resolve said contradiction?
Mr Sharples: This takes us back to the rather technical discussion about the precise rules on seeking parliamentary authority for spending. There are technical definitions in government accounting which set out these rules and define what is a new service, and where something is a new service it needs to have two things, it needs to have statutory authority from Parliament to do that thing and then authority under the Appropriation Act to spend money on doing that thing, and if those two things are not in place something special needs to be done. This falls within the definition of a new service; it is a new benefit and through the Welfare Reform Bill the department is seeking authority from Parliament to provide that new benefit, the Employment and Support Allowance.

Q27 John Penrose: I understand the technical point but what I am trying to get at is what proportion of what you are building is going to be genuinely new as opposed to re-used and therefore we do not have to worry about the risk?
Mr Sharples: The two key elements of the IT system to support the new benefit, that is the back end—which is where we are going to use the legacy JSA system—and the front end where we are going to use the customers accounts management system being used by the Pension Service, both of those things are tried and tested so in that sense they are not completely new, but in each case there is substantial development work to be done to take that tried and tested system and apply it to this new benefit. It is that development work and the business systems that go with that that count as a new service within the technical definitions in government accounting. That is why we are going through this process of seeking authority to start that work.

Q28 John Penrose: If BPRP and WATCH had not been scrapped or cancelled would that have given you cover for some of the spending that you are looking to do for the next 12 months or so on this project?
Mr Sharples: I go back to the answer I gave earlier which is that in Annex B we explain that we did consider whether BPRP could have provided the wider programme within which we could have embedded spending on this new service as part of the value for money case, but once that programme was suspended that option was removed and so we did not pursue it.

Q29 John Penrose: I asked a slight different question which was it was suspended; if it had not been could you have carried on? Was the decision to suspend in retrospect an error? Would you not be sitting here if someone had not suspended it?
Mr Sharples: It is a hypothetical question which I cannot answer, I am afraid, because as soon as the decision to suspend was taken clearly that option no longer was available so we did not pursue it. That is why we are pursuing the section 82 case. If the programme had continued it may have been—and this would have depended on technical advice from the finance community—that we would have pursued that slightly different route for providing cover for the early spending on the programme.

Q30 John Penrose: Presumably that decision to suspend would have been a ministerial decision rather than yourself managing it.
Mr Sharples: Before the decision to suspend, obviously, advice would have been given to ministers, but the decision finally to close the project was taken by the Department's investment committee. That was the committee that met in August.

Q31 John Penrose: Which is politicians rather than officials?
Mr Sharples: No, that is officials.

Q32 Michael Foster: A simple one: you have lots of confidence in the Pension Service and how that would rate, but did EDS have anything to do with that, the Pension Service?
Mr Bartlett: Yes, they did, EDS are the main supplier of the benefit processing capability to the Pension Service.

Q33 Michael Foster: And it works. There is a lot of scepticism about computers—most of our citizens do not understand how to work a PC never mind what you are talking about—some of them do—but you said that there were examples where big systems had worked. We know about the Pension Service and we know about the ones that did not work; can you just give us one other example where it did work?
Mr Sharples: Where systems have worked: there is the Internet job bank run by Jobcentre Plus, there is the payments modernisation programme which was a major project with IT elements which has moved us to a much more efficient and cheaper way of paying benefits to people. The Jobcentre Plus project—

Q34 Michael Foster: But in terms of scale these are small fry compared with the ones that did not work like the CSA, like the CMS and so on. They are rather small in scale.
Mr Whitehouse: If you look at the Internet job bank that we have rolled out across the country, just as an example the number of hits on a given vacancy by citizens is about 18 billion per month. If you look at the scale of the operation to support the ability for individuals to search for jobs, to pull that

information into their web browser on their PC and then to use that to apply for jobs, it is a significant undertaking in terms of scale. We now have those in a number of offices and also airports, supermarkets and so on.

Q35 Justine Greening: Just going back to the £138 million spent on BPRP, how much of that can be recycled?
Mr Whitehouse: We are looking at that as part of our strategy going forward. There are a number of elements that will be capable of being recycled, absolutely. The Siebel licences, for example, we will re-use as part of the ESA development. There is a development and testing infrastructure that has been replaced that can be re-used for a number of other developments as we go forward. We are looking at the continued options around the underlying Cùram software which provided the business rules capability for the disability and carers pilot service and which can also be re-used. There are different elements that will be part of our plans going forward.

Q36 Justine Greening: Roughly what proportion does that amount to?
Mr Whitehouse: We have not reached a conclusion as to how much of it will definitely be capable of being re-used but we would be happy to bring that information back to the Committee once we have concluded that, which will be December.

Q37 Justine Greening: Is it going to be over 50%, 20% or any kind of rough idea of yours?
Mr Whitehouse: I would not want to be absolutely tied down, but the expectation based on what we have done so far is that it would be over 50%.

Q38 Miss Begg: Is it true that a senior civil servant left the DWP following the decision to cancel the BPRP and WATCH project?
Mr Sharples: It is true that Malcolm's predecessor at Jobcentre Plus did leave the Department earlier this year but obviously I cannot comment on the discussions that took place prior to his departure.

Q39 Miss Begg: Was that a sacking, was it a resignation or was it a Doug Smith type resignation, was it not a resignation but everybody thought it was a resignation?
Mr Sharples: I understand that he decided to leave the Department but obviously that discussion was a matter between him and the permanent secretary and I was not party to that discussion.

Q40 Miss Begg: His reasons for leaving are obviously quite important, I would have thought to the success or otherwise of this. Did he leave because he thought the BPRP project should have continued; did he leave because he took it upon himself that its failure was his failure? There may be quite different reasons, or did he leave in a fit of pique that decisions were taken that he was not party to?
Mr Sharples: I hope the Committee will appreciate it is slightly difficult for me to respond in detail to questions about his departure because I was not party to those discussions.

Q41 Miss Begg: Who should we ask to get that information?
Mr Sharples: What I was going to say was that if the Committee would find it helpful, perhaps the Permanent Secretary, Leigh Lewis, could provide the Committee with a private note covering those issues. Would that be helpful?
Chairman: That might be helpful.

Q42 Miss Begg: In paragraph 9 of the draft report it says "The Jobcentre Plus and the Department's Director General of Information Technology are clear that it requires 22 months between the start of spending and A-day." Is that the chap who left or is that someone else?
Mr Sharples: No, the reference to the Department's Director General for Information Technology is to Joe Harley who is the Director General for Information Technology for DWP as a whole. Obviously, Malcolm, who has taken over as the IT director for Jobcentre Plus, is responsible for the systems being run by the agency.

Q43 Miss Begg: So the chap referred to as the Director General is Malcolm's boss, is that right?
Mr Whitehouse: The person referred to in the briefing is Joe Harley, Director General for IT for DWP. We have worked with Joe and others around the Department on the feasibility and the high level solution for the IT in support of the Employment and Support Allowance. It refers specifically to Joe Harley, the Department's Director General for IT, providing his whole-hearted support for the content of the brief.
Mr Sharples: To answer your specific question, the answer is yes.

Q44 Miss Begg: Is Malcolm happy with what is in the paper here?
Mr Whitehouse: I am, yes. We have worked on that in terms of the content of the brief.

Q45 Jenny Willott: I want to ask some questions about value for money and the cost-benefit analysis and so on. The first one is going back slightly over what Anne was just looking into, which is that the report says that it is going to require at least 22 months to A-day. The NAO has given us some information that clearly the ESA is planned to be one of the quickest major IT DWP project deliveries, and our predecessor committee, the DWP, raised concerns about decisions about IT in the DWP being made unrealistically quickly. Have there been any doubts raised that in fact 22 months might not be long enough?
Mr Sharples: Perhaps I could start answering and then Phil might like to fill in the detail. The 22 months is a demanding timescale, there is no getting away from that. It is not a completely unrealistic timescale by any means; pension credit was delivered

in 16 months and that is one bit of the experience that we drew upon in drawing up this timetable. The 22 months is something which is certainly challenging and we have set out a timeline which shows the steps we will need to take in order to deliver that timescale, but it is certainly not unrealistic in view of the experience in the Pension Service and elsewhere.

Q46 Jenny Willott: The draft report itself says that the ESA system is more complex than the pension credit system due to the integration of the claims-making system with the method of administration, so it is clearly a more complicated project. Are you absolutely confident that 22 months is going to be long enough, and I appreciate that pension credit took 16 months, but the experience of the majority of IT projects is that they seem to take significantly longer than they are first expected to. Given that it is significantly more complicated than the pension credit system how confident are you that it is actually possible to achieve it in 22 months?
Mr Sharples: Phil is in a very good position to compare the two projects.
Mr Bartlett: I am confident that 22 months is a very challenging but realistic timescale. The key thing that gives me confidence in that is the fact that we are working with systems and processes that are known to us within the Department, so we are not introducing technologies for the first time. What we are able to do, therefore, is build on that experience, and the experience tells us, as we see in the pension transformation, that the more the pensions have worked with the system that they introduced, their phased approach, the timescales for delivery of those components reduces. The fact that we are working with legacy systems that we know and understand, that we are building on rather than replacing, the fact that we are working with the technologies that we are currently proving within the Department through pension transformation gives me confidence that whilst it is a challenging timeline, it is achievable.

Q47 Jenny Willott: What are the main similarities and the main differences between pension credit and the ESA systems?
Mr Bartlett: There are a lot of similarities, if I start with those, in that the pensions system currently is able to offer new customers access to both contributory and non-contributory benefits through its customer contact handling. As of just now they are rolling out their first development and that is including providing customers with access to housing benefit and council tax benefit. There is a range of customer contact handling there and it is also, as Malcolm was describing, operating successfully that data exchange between the customer-handling system and legacy systems within the departmental network. Principally that is the pensions strategy computer system, but it also has interfaces through the departmental network with things like our central index, the departmental central index and our new customer information system and the Jobseekers Allowance payment system. There are, therefore, already experiences of how that data exchange works with the legacy system. Of course, the whole business process for Employment and Support Allowance is different so there will be degrees of configuration, both in the customer account management area and in the business processes and systems, and there will be differences there. In the backbone of the technology space, however, there are quite a lot of similarities.

Q48 Jenny Willott: Picking up on a point that Justine made at the beginning and as you have said this morning, it is a very challenging timescale and this is an unusual method of agreeing funding. It is a political end-date, 2008, it is not a requirement of the system or anything like that, it is a political decision to achieve introduction in 2008, and is it not fair to say that there have been significant delays built in, for example the delay to the Green Paper? Have there been any doubts expressed about the fact that it might be to some extent the Department's fault that it is having to apply for the money at this point through an unusual process rather than actually going through the regular process? If there had not been a delay, for example, with the Green Paper, then Royal Assent might have been achieved earlier enabling the expenditure to begin?
Mr Sharples: I go back to the answer I gave earlier which is that, following the commitment given in the manifesto at the time of the election last year, the Department moved very quickly on policy development. We published a Green Paper in the early part of—

Q49 Jenny Willott: The Green Paper was significantly delayed was it not?
Mr Sharples: I am not sure that one can say that because there was never any fixed timetable for publishing the Green Paper.
Jenny Willott: We were given a timetable for the publication which was significantly different from when it was actually published.

Q50 Chairman: 8 November was the first date indicated that this would be published and it was about 10 weeks later.
Mr Sharples: I have very clear memories—it was almost exactly a year ago—that I was due to appear in front of you at the beginning of November with David Blunkett and I remember the disruption to your timetable and our timetable that occurred at that time. Obviously, there were ministerial changes and it was natural for new ministers to want to look at the policy before committing to publication. Inevitably, the political process did introduce some delays into the timetable but I do not think that is significant in this process because even if the Green Paper had hypothetically been published in November of last year rather than January of this year, we would have still needed a section 82 process.

Q51 Jenny Willott: Then is there something wrong with the political decision-making in deciding dates. If it was always going to be section 82 then surely the date for introduction of the system should be delayed until it was more appropriate.
Mr Sharples: You refer to this as a political decision and obviously the 2008 timetable is a timetable which ministers have set, it is a policy decision, but we have to see that in context. What is the Government trying to do here? The answer is they are trying to do something to help reduce the nearly three million numbers of people who are on incapacity benefit. Ministers have set the ambition of reducing those numbers by a million within 10 years and that is part of a wider social and economic programme to reduce welfare dependency, to reduce the cost to the taxpayer and to help disabled people to move from welfare into employment. That is the broad programme that the Government has embarked on and the move to the new benefit is part of that wider programme. It seems to me perfectly reasonable that ministers and Government should want to move ahead with that programme as quickly as possible, and our job is to try and help them deliver. I do not think it would be fair to present 2008 as some entirely arbitrary deadline plucked from the air, it is part of the wider process.

Q52 Jenny Willott: Is there not a risk that with the expenditure being put in place now as the Bill is amended through Parliament the specification could change? One of our predecessor reports into Jobcentre Plus and the efficiency savings said that the biggest problems with the computer systems, as I understand it, were caused by continually changing the specification throughout the design process. Is there not a risk that that could cause the same problem here?
Mr Sharples: You are quite right to say that if there are significant changes to the design of the new benefit as the legislation passes through the House, that could cause us to re-examine the timetable, that is quite clear. Why should we have confidence that this new benefit can be delivered? One factor is the real political consensus that there is around this change. As you know, at Second Reading on the Welfare Reform Bill the Opposition parties did not press for divisions on this; there is a degree of political support and political consensus that has emerged from the consultation that we have undertaken which makes us feel confident that the broad shape of the benefit will be endorsed, as it has been in outline designed and presented to Parliament.

Q53 Jenny Willott: In Jobcentre Plus I understand that a lot of the changes are not to do with the overall framework of the system, it is actually how it works and the practicalities of it that have been changed and the specification changed throughout, so whether or not there is broad political support for the concept of the allowance does not necessarily mean that the changes through the parliamentary process will not change the specification substantially, even if the overall framework remains the same.
Mr Sharples: What you point to is a very important point, that to make this work effectively we have to get this specification right at the start, and that is why so much work is going into that initial high level design and specification, leading through into more detailed design. You will see from the timeline that we have set out in the draft report the timescales that we have allowed for those processes. That is what Phil and his colleagues are responsible for and I can assure you that we are just as concerned as the Committee to ensure that this works. It really matters to us that this works and we want to make sure that we get it right, so I can assure you that we are looking hard at the lessons from past experience and we are making sure that proper preparatory work is done on the business design in order to lay a firm foundation for the commissioning of the IT systems. That is the job of Phil and his colleagues.

Q54 Jenny Willott: One of the things that concerned me the most when I read the draft report was that the cost-benefit analysis of delay is, to put it politely, vague. The only thing it talks about in terms of the risk of delaying and not using this power is it says "subsequent knock-on effects would be to individual benefit recipients and the economy as a whole." It is not exactly quantified very clearly, and if we are supposed to be looking at whether or not the House of Commons should approve this, the information that we have in terms of what the impact would be if it was not approved—frankly I do not think that the information is there for us to make that decision. Is there any more information you could provide now that would actually help us make a decision on this?
Mr Sharples: What we say in the report is that the section 82 procedure is essential if we are to deliver the benefit by 2008.

Q55 Jenny Willott: There is actually a section on the implications of failing and the financial implications, but there is not actually any detail in there at all.
Mr Sharples: Delivering the benefit by 2008 is clearly an integral part, an important part, of the Government's wider programme of welfare reforms. It has been an explicit commitment through the election and through the Green Paper and that is the timetable which the Government is working to, and that is part of its wider programme to reduce the numbers who are dependent on benefit. That is something which the Government believes is of enormous benefit to the economy and, if we can help disabled people to move off benefit and into work, that is of enormous benefit to disabled people themselves.

Q56 Jenny Willott: Nobody would disagree with that but I am sure the Government must have done some research into the financial implications if the decision is taken to change the system and bring in a new allowance as part of the whole welfare reform

process. There must have been some work done as to what the expected savings would be to Government expenditure.
Mr Sharples: Being as open as we can about this, the difficulty in doing a precise calculation is that there are some things for which we have very firm evidence and we can quantify them with some precision; for example, the pathways programme which has been piloted and which has shown tremendously good results gives us the ability to make detailed, quantified estimates of what the savings would be from rolling out that programme nationally. That is what we are now doing. Other elements of the programme are rather more difficult to quantify precisely. A key part of the Employment and Support Allowance is the additional element of conditionality, raising the expectation of what the majority of people on benefit would be expected to do in return for receiving that benefit. But that additional element of conditionality is something which needs to be tested and that is why the Green Paper envisaged that once the new benefit is introduced we would test and pilot the impact of extending conditionality in that way. Until we go through that process we cannot offer a precise quantification of the results of doing that and that is why it is rather difficult to give the precise numerical answer that you are perhaps looking for.

Q57 Jenny Willott: If, for example, the benefit of having a section 82 agreement is going ahead six months earlier than would otherwise be possible, if the overall benefit is, say, £2 million to the economy and the risk is an absolute minimum of £9 million, then that is a very different decision than if you are actually looking at a benefit to the economy of six months additional work of potentially £100 million compared to a risk of £9 million, and the decision for this Committee and for the House of Commons in general is actually a very different one. By having completely no idea of what the figures could be— and I completely understand that you are never going to be able to have precise figures and if you did they would be completely wrong in the future because you cannot predict—just a vague thing about benefit to individuals and the economy as a whole does not actually put it in any context upon which we can make a decision.
Mr Sharples: Perhaps I can try to help on that. At the moment we are spending roughly £12 billion a year on incapacity benefit for roughly 2.7 million people and there are additional costs for associated benefits such as housing benefits paid to those people. If we succeed in reducing the numbers on benefit by a million over the next 10 years, we would expect to see those costs coming down by more than a third because we would be reducing the numbers on benefit by more than a third, which would give us savings in excess of £4 billion a year. The potential savings for the taxpayer and associated benefits to the economy are enormous, and the Government's position is that the sooner we get started on a programme which will help deliver those savings, the better.

Jenny Willott: That does not actually link to whether or not the delay of implementation would significantly impact that. I am just not convinced we have enough information.
Chairman: Could I just bring Justine in and then come back to you, Jenny?

Q58 Justine Greening: Just following on from what you have just said, the ESA is essentially for new claimants so my understanding is that it is not going to relate to people who are already claiming incapacity benefit.
Mr Sharples: Initially it is for new claimants and by 2008 we will have a system that is operating for new claims. Over time the intention is to transition existing claimants onto the new system, but the point is that the new benefit is part of the wider programme which the Government is introducing to reduce the numbers who are dependent on incapacity benefit. Part of that wider programme is obviously what we are doing on pathways to work, what we are doing through the redesign of the capability assessments, so there are a number of elements to the programme and the introduction of the new benefit is an integral part of that wider programme.

Q59 Justine Greening: But in and of itself it is not going to change anybody; it is not going to get anybody back to work per se, it is merely a change in the way the benefits are being structured.
Mr Sharples: I am not sure that we would agree with you on that because introducing the new benefit is an integral part of the new process through which benefit claimants will go, which includes an increase in the number of work-focused interviews, the progressive introduction of greater conditionality to encourage work-related activity, the wider support that will be available and the changes in the personal capability assessments that will help to give personal advisers better information on the needs of people on benefit, what support they need in order to move back into work. All of that is part of an integrated programme and the new benefit is the cement that binds all that together.

Q60 Harry Cohen: Could I come back to Jenny's first point because I think it is likely that change will happen subsequent to your specification commissioning the IT. You talked about conditionality and the changes that might come from that. It has to go through Parliament. The amounts might change. The categories of ESAs might be adjusted. There are two ways of doing it. When you set out the contract, you set out the perspective you want now. As the changes come, you negotiate with the EDS and you could get stuck along that route; or there could be some procedure whereby you say the changes are going to come and you set out an allowance in there and maybe have an arbitration arrangement. Are you thinking along that route? Which of those two are you thinking of?
Mr Sharples: Phil may well want to come in on this. This is a very good point. Obviously our concern is to set up a contractual structure and to stage the

contracts in such a way that we minimise those risks. That is why we are taking this in stages. Over the first few months of the project, January, February and March of this year, we will be undertaking very low levels of spending. Round about March we will be entering into commitments for the next stage for a period up to the summer and obviously in designing those contracts we will be looking to minimise our exposure so that, in the extreme case of Parliament deciding not to pursue the legislation, we would be minimising the extra costs that we would be committed to. The point you raise is a very good one and one that is very much live in our considerations.
Mr Bartlett: One of the things we are doing within the project as well is to create an integrated design team, so the policy elements, the business elements and the technology elements all work together in one design team. What we are doing as well with that is having regard for where we have more certainty and where things have a more material impact on the build. What we are trying to do is make sure that we do the things that we are most certain about and need the most time around early and that we build in time for changes. That reflects not just the way that we work the project internally but also the relationship with our supply partners. It is a very integrated approach. It is working particularly with policy colleagues to understand those things that are going to have a big impact on change and those things that are not and when it is safe to schedule the build components of those.

Q61 Greg Mulholland: Looking at the human side of things, the previous Work and Pensions Committee identified things such as the involvement of stakeholders and managing cultural change as being particularly important for the IT contracts to be successful. How are you going to achieve this as part of the process?
Mr Sharples: Obviously as part of the wider consultation on welfare reform we have had extensive consultation with stakeholders. In June we published our response to that consultation. Phil is responsible for making sure that in the design of the ESA and the delivery of the ESA appropriate stakeholders are involved.
Mr Bartlett: To reassure you, we are intending to involve stakeholders and customers through that design and build process. My experience within pensions here was that concentrating on how that relationship works between business and the customer is as important a part of the overall delivery experience and customer experience as the systems and processes. We can look at the introduction of the new payment modernisation programme as an example of that particularly in the pensions phase.

Q62 Greg Mulholland: In terms of consultation with staff, we have heard all too often about problems, particularly with the roll out of CMS. How are you going to ensure that we do not have a situation again where there are lots of problems because the staff are not happy with the new system?
Mr Bartlett: We are already engaging our people in that design conversation, so we are already taking account of their experiences with incapacity benefit, but also what they would like to see in the way that they will operate the systems for employment and support allowance. Mel Groves, our chief operating officer, has dedicated an operational region to supporting employment support allowance in this way, so we have very good connections into the operational environment.

Q63 John Penrose: Phil, is it you who is the senior responsible officer for the project or is it one of the other gentlemen?
Mr Sharples: Phil is the SRO for the ESA programme. I am the SRO for the Welfare Reform Programme as a whole. The ESA is part of that wider Welfare Reform Programme.

Q64 John Penrose: For the purposes of this section 82 funding that we are talking about, you are the man?
Mr Sharples: Exactly.

Q65 John Penrose: We have been told the important thing is that you guys are intelligent clients for an IT project. I am sure you are all very intelligent. Can you give us some examples of some of the projects you have managed in your backgrounds thus far of similar size which have been successful, so that we can get a sense of your credentials on this?
Mr Bartlett: I have been working in large scale business change for 10 years and for the last six years at board level within some of the biggest agencies in government. For the last four years I have been with the pension service as a design director and, in that time, we have launched the pension service, moved it from an organisation of 400 local offices to 30 originally modern contact centres within the local service outreach component. We design and deliver pension credit successfully, practically eliminating pensioner poverty through supporting 4.1 million pensioners through that particular programme. We have also designed and begun the delivery of the pension transformation programme. One element of that is to shift the processing of retirement pension from an elapsed time of 60 days and a processing time of over two hours to delivery within a 20 minute telephone call. I have direct personal experience of some fairly major change delivery programmes.

Q66 John Penrose: That is very reassuring. Just to have yourself leading this team, you have to have a team which has similar experience as well, particularly because you have a lot of legacy systems that you are trying to link together. How many of your team have that sort of experience, either of the legacy systems or of similar sorts of project?
Mr Bartlett: We are building the team currently. There is currently a team of about 80 in terms of the direct public sector employees, but there is also an extended team into EDS, currently Accenture, who are the main delivery partner for pensions. We are

drawing on the experience of people who have done this before. A good number of my team are experienced project and programme experts.

Q67 John Penrose: That is reassuring again but what I am particularly asking is, because you have a fair number of legacy systems in there which you are stitching together, it is not enough just to have generalised project management experience. It really helps to have people who have worked on those systems.
Mr Bartlett: Absolutely.

Q68 John Penrose: How many of your consultants or directly employed staff will have that sort of experience?
Mr Bartlett: We are working with people who do the job. What we have not done with the project is essentially put project team members in who mirror and act as go betweens. I am working with the people who have done the builds. For example, I am working with the lead partner in Accenture who is responsible today for delivering the pension transformation programme. I am working with colleagues in EDS who are responsible for the maintenance and development of the legacy systems so we have direct engagement with those people.

Q69 John Penrose: Further down the tree, places like Accenture have a high turnover of staff rotating around projects and all those things. Similarly, you will have people moving around within DWP among your own project management and project delivery staff. How many of them are going to be people who know where the bodies are buried?
Mr Bartlett: Again, as we build the team, we ensure that we build that consistency and stability into the programme. My experience within the pensions area is that we were very specific about the capabilities of people that we engage in the programme and the consistency of contribution that they make over the lifetime. You are absolutely right. It is vitally important that we build and sustain a team that is capable of delivering this as we go forward.

Q70 John Penrose: Moving on to the processes that you are trying to deliver, the Bill has just gone into Standing Committee as of yesterday. How much of the detail of the processes has so far been fleshed out?
Mr Bartlett: We are at the early stages of the programme. The programme was formally launched in August of this year and the first stage of it is to get that high level business requirement right. That will conclude on 21 November of this year and we will have that high level solution, high level design and high level view of the business processes in place. The next stage is to go into the detailed design, where we really bottom out the detail of those processes.

Q71 John Penrose: How much are the conversations that you are having impacting onto the policy and shape of the ESA? It is all very well for politicians to say, "We want it to do this." You may well be able to say, "If we change the design it is going to be an awful lot simpler, cheaper, faster and less risky to deliver." Is your voice being heard at all on that?
Mr Bartlett: Yes, it is. What we have is an integrated design team that includes policy, business operations and our IS/IT requirements. That is very much an open conversation where we are exploring what we can do, what would help the delivery, what would help the IT build into policy. The context for that though obviously is the outcome that we are looking for from the policy specification.

Q72 John Penrose: When would you expect the next level? You mention that you have the high level spec view in the next month or so. Then you go down into the detailed spec, presumably?
Mr Bartlett: Yes.

Q73 John Penrose: Matching that on the legislative side, presumably you are then going to need the detailed regulations, the SIs and all those things to go through and you need those to match up with your detailed spec. Are you aiming to have those being developed in parallel with the detailed spec or are they going to be published first so that you can then match the spec to them?
Mr Bartlett: It is an integrated team so we are working that overall design in tandem with the work on legislation and regulation, having regard for what is important in relation to the business and technology build component.

Q74 John Penrose: You are saying it would be unreasonable for us to expect SIs and detailed regulations to come out, to be published and to go through Parliament until you guys have done some of the detailed specification work. Otherwise we run the risk of it being divergent and potentially contradictory?
Mr Bartlett: We are doing the work in parallel. We are doing the work together to ensure that we can have confidence in the regulations from a delivery perspective.

Q75 John Penrose: The detailed spec is due to be finished by when?
Mr Bartlett: The design phase of this, on the current plan, is scheduled to go through until late summer next year. There is a critical interim design point that we are planning at the end of March. That is the next check point in design terms for us.

Q76 Justine Greening: Moving on to the estimates that you have provided for the costs, who pulled those figures together and who checked over them?
Mr Sharples: These estimates were prepared by Phil's team.
Mr Bartlett: We have pulled the estimates together. They are based on the development time line, so we have drawn heavily on the experience that we talked about before, from our IS/IT colleagues and our business change experience. We have exposed those through our financial systems within the department

to give us some assurance that they are consistent with what we are trying to do and our previous experience.

Q77 Justine Greening: When I was looking through the report prepared around the proposed expenditure, it said that the table you set out was an estimate of the maximum possible spend which I personally felt was somewhat of an oxymoron in that you would think you would have a minimum, a maximum and an estimate would be somewhere in the middle of those. Later on it did talk in paragraph 12 about the figures reflecting the department's best current estimate. That may well be fine but that is not the same as an estimate of the maximum. Are the figures that we have here maxima or most likely?
Mr Sharples: What we are seeking here is authority to spend up to a limit. The maximum that we are seeking authority to spend before Royal Assent is £31.25 million. We have pitched that maximum on the basis of a number of assumptions. One is Royal Assent not until July. Obviously if it is earlier we will spend less under this authorisation. We have also taken, naturally, a reasonably cautious view on how much we will need to spend month-by-month because we do not want to be in a position where we have asked for authorisation at too low a level and then find we have to suspend the project because we have gone above that. That is the basis on which these estimates have been done. As the Secretary of State made clear in his letter to the Committee, inevitably these numbers will be refined as the work develops, but the key thing is that, once this process has gone through, we cannot spend more than £31.25 million until after Royal Assent. That is the absolute maximum.

Q78 Justine Greening: It sounds like, if you are expecting a variation, it is one that would be downwards?
Mr Sharples: We hope that we will spend less than £31.25 million under this authorisation.

Q79 Justine Greening: One of the issues you highlighted as being a possible cause of significant variation was the implementation of the personal details computer system and that possibly being pushed back. Could you just give the Committee a little more background on that risk?
Mr Whitehouse: There is a number of activities going on. Part of it is the ongoing development of the customer information system and ultimately that is intended to replace the personal details computer system as the main repository for customer information. That is going through a number of stages of roll out over the coming months. What we are planning to do is to utilise the customer information system as part of the development based on our experience around pensions, but it does need to go through a number of stages of testing, usability and performance testing before we commit to that as a platform, as opposed to the PDCS going forward. There is a potential for change around that particular development.

Q80 Justine Greening: Is it likely that the implementation of the PDCS is going to be pushed back? Is that a significant risk?
Mr Whitehouse: We do not expect it. It is a risk that is in any IT development that some things will change. That is one of the risks that we need to take into account, which we will then monitor on a regular basis through the risk management processes which Mr Bartlett is putting in place as part of the programme development.

Q81 Justine Greening: It would be very good if we could get some more detailed breakdown behind these figures. One thing that jumped out at me was that a lot of them are very smooth spends. The impression I got was that a quarterly amount had been predicted and that had been pro rata-ed across the three months. Are you happy with that as a level of month by month accounting? Obviously there are large amounts of money potentially at stake here and being able to pick up early overspends is really important. I would question whether, if you had just done a three month pro rata of expenditure, you would be in a position to do that.
Mr Bartlett: The way we build these figures up is from the basis of the work we need to do and the effort we need to put into them, rather than by profiling a cash sum. They are built up based on our current activity plans.

Q82 Justine Greening: There are so many of them that have the same figure in every single month that, as an accountant, I would expect maybe one or two categories to be like that but I am surprised that so many of them are like that. I obviously accept your explanation. In terms of monitoring this, will you be prepared to give us month by month expenditure figures as the section 82 money is then spent?
Mr Sharples: We would be very happy to provide regular reports to the Committee on spending. Obviously there is a formal process whereby, once Royal Assent is granted, we provide a formal report to Parliament on spending under this authorisation.

Q83 Justine Greening: Will that provide us with month by month updates though?
Mr Sharples: We would be happy to provide regular reports on spending. I am not sure that a monthly report would make sense either for us or for the Committee.

Q84 Justine Greening: The only reason I ask is that technically this advance spend will only be over a six month period so if we only have it on a quarterly basis we would only have one before we would be at the end of the six months and then our scrutiny role would largely become redundant. I would suggest that we do need a report more frequently than quarterly perhaps for us to have any form of ability to scrutinise the agreed spend that we are being asked to sign off today.
Mr Sharples: Our commitment is to provide a full report on the outturn on spending after Royal Assent.

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Q85 Justine Greening: Can I confirm that you will be monitoring spend on a monthly basis?
Mr Sharples: Indeed.
Mr Bartlett: Yes, I can confirm that.

Q86 Justine Greening: We should be able to reach some agreement where we could get some sort of monthly snapshot to this Committee?
Mr Sharples: Yes. This is simply a question of what is an appropriate level of scrutiny. In the context of the department's £8 billion a year spending, this is a relatively small amount. There are well established processes for parliamentary scrutiny of departmental spending through the estimates process, through the departmental report and other processes. It is just a question of what is appropriate and proportionate in relation to this particular line of spending.

Q87 Justine Greening: I think £31 million is a lot. I realise that in the grand scheme of DWP it is not but it would certainly buy a lot of extra policemen in my constituency, which is why we have to be careful about the fact that this is taxpayers' money. Moving on to some of the project risks, one that you assessed as having a high likelihood was that the timetable could be delayed because you would have problems filling key roles. First of all, do you still think there is a high likelihood that that would happen? How much do you think it would delay the project for and do you think it would have a financial cost on the project?
Mr Bartlett: At this stage in the project, securing the resources to maintain the plan is always a high risk as we are building the capability going forward to deliver on the project timetable. It is still a high risk. It is being managed within the project to ensure that we are bringing people on board in time to do work and it is part of our commercial strategy as well to ensure that we have the capability to employ partners on the programme at the appropriate time. We are within the bounds of normal operation at this point in time.

Q88 Justine Greening: The last question is to Malcolm Whitehouse. It says in this report that the IT design team, which presumably you are heading up, has been made aware of amendments and planning concessions that might be offered to secure passage of the Bill as early as possible. What have you been alerted to?
Mr Whitehouse: I have been working very closely with Phil. We have an integrated design team to make sure that we understand any potential large impacts on things that we need to consider. When you look at the overall design which has the three building blocks, we have a large degree of confidence in terms of its being able to meet the capability. The two areas that are of the most concern will be around the eligibility rules and the conditionality rules which will have an impact on the detail of the IT. As those things arise, they are fed into the assumptions that have been made at outset around the estimates, so we can then assess the impact and revise those accordingly.

Q89 Justine Greening: Can you be any more specific about how you have been advised eligibility and conditionality rules could change?
Mr Whitehouse: I personally have not been through the detailed process. We have an IT team which I put in place dealing with that detail, which is working closely with the business and policy people as part of the overall project. If there is anything that is a significant risk in terms of what we need to do for the IT, that will be escalated to me to identify what we need to do to deal with that. That has not happened to date.

Q90 Chairman: Have you had the Gateway report yet from OGC?
Mr Sharples: No. The first gate zero OGC process is being undertaken this week. I go on from this session to be interviewed by the OGC as part of that process. We expect to get the report shortly.

Q91 Michael Foster: We note from your report that you say that, if it all goes wrong and if Parliament does not approve it, it is only £9 million that is going to be lost. Why do you want £31.25 million if you can so define the loss, or are you saying that some of it will be used in another way? You will spend more than £9 million but you will get it back? Can you explain that, please?
Mr Sharples: I should apologise on this because I do not think that particular part of the report is as clear as it should be. I suggest that we offer some amendments to that. The £9 million that is referred to in that part of the report is the potential loss if we cancel the project at any point after the beginning of April next near. If we assume that our contracts are let with a 30 day cancellation period, we will be spending at a rate of roughly £9 million every 30 days after the beginning of April. That is the potential loss from the point of cancellation. Obviously the full amount that we are seeking authorisation for is the £31.25 million. In theory, if the whole project was cancelled at the end of June, the £31.25 million is the amount that we would have spent on the project up to that point. I think we should clarify that point in a redraft of the report.

Q92 Michael Foster: That does make it much clearer because I could not quite understand why you needed the authority for the larger sum. If that unlikely event did occur—I know the report does say it is pretty unlikely for reasons you have already given this morning—is there any salvage value in the work that is to be done against any subsequent plan or is it not possible to say? Do your contracts allow for the use of what is to be done now in any alternative because clearly something else would happen if this did not.
Mr Sharples: It is a little bit early to make that assessment because it would depend what the Government decided to do instead. Presumably, if for some reason the Welfare Reform Bill fell, the Government would then consider what its options were. One option would be to reintroduce the plans in a further Bill, in which case the money that had been spent on the initial design stages for the

employment and support allowance would certainly be of value in the preparations for the next stage of work. It is a little early to give a firm answer to that question but, given the Government's firm commitment to move ahead with the employment and support allowance, given the broad range of support for that direction, I think we are into the realms of the highly unlikely here. Obviously, if the highly unlikely occurred, we would need to consider what the options were.

Q93 Michael Foster: I appreciate that the reason this procedure is being used is that you simply need the up front authority. It is the speed of implementation that has made it necessary, but is there any extra cost being incurred because you are doing it this way over and above what you would need to have incurred if you had waited for parliamentary approval?
Mr Sharples: The broad answer to that is no. Colleagues will correct me if they take a different view. This is the estimated cost of delivering the new benefit and that cost would not change significantly if it was done over a longer timetable. Is that fair?
Mr Bartlett: Yes. The only modification to that might be if we delayed or if we stopped and then restarted. In broad terms, I agree.

Q94 Michael Foster: Is it good value for money to come up front? It is cheaper if you do it now than if you want two or three years for parliamentary authority?
Mr Sharples: No, I do not think that is what we were saying. What I was saying is that the price for delivering the benefit is broadly the same whether you do it in 22 or 26 months. What Phil is saying is that the price for delivering the benefit is higher if you start, stop, start, stop.

Q95 Michael Foster: These sorts of costs are not subject to inflation very much these days. Do they even fall in value if you wait? Is there an understanding as to whether or not it is more expensive to do a job today? Most of us, when we buy computers, find it is cheaper to wait because we get more for our money in a year's time than we get today. I know that is going to change some time but is that the case when you are talking about these sorts of projects or can you not even comment?
Mr Whitehouse: I smile because it is a complicated area. You would look at a number of factors within it. One is the cost of the organisation, the suppliers, providing the people to undertake the work. Their rates would tend to go up over a period of time. That notwithstanding, a number of organisations that we work with do employ offshore capability which has the capability to drive down costs, but a lot of that is still unproven in terms of delivery for the Government at this point in time. The people element would change, tending to go up over a period of time, but once we get more proven capability offshore that could drive the costs down. The second element is around the technology itself. Hardware costs are tending to come down in terms of capacity to deliver the computing power you need to do certain things. We already have in place a five year contact with EDS and BT for the provision of hardware infrastructure where we have driven prices down to a much lower level than we were paying prior to that contract. Not only that, but we have benchmarking facilities in place which allow us to drive those costs down further. You would see elements of costs around hardware, networks and PCs start to come down over a period of time. The human element tends to go up. The computing element comes down. The third layer is the software piece specifically and you expect to see the price of software, in terms of initial licence procurement, going up together with the supporting maintenance agreement which tends to be between 15 and 17.5% per year. As you wait around licences, those costs would tend to go up. It is a mixture.

Q96 Mrs Engel: I wanted very briefly to talk about the contracting procedure and the role of EDS. In your memorandum you have identified a two staged approach. There are three stages. The first stage is the design and the spec overall that you were talking about, the second stage being the preparatory work and the third stage being the build. In terms of contracting out and the work that EDS and Accenture are doing, I am assuming that they are involved in the design and spec work. They are already helping you with the preparatory work and the build presumably. I am not entirely clear what the build is, whether that is the creation of the entire infrastructure of the computer system or whether that is going back a bit more to the outline specification, the design part of it. The reason I am asking this is if we have the pre-spend of April you then have probably three months before Royal Assent. What happens then in terms of contracting out? At what point does the contract go out to open tender and what happens if somebody other than EDS wins that contract?
Mr Bartlett: At the moment, while we are doing the preparatory work, we are working with both in-house and our external partners in the way that you describe, so that we can learn from the experiences from pension transformation and EDS for the legacy systems. We are working with Accenture, EDS and BT, our main IT partners today. As that goes forward, the Department has framework contracts in place which enable some of that work to be taken forward through those framework contracts. There are well established processes for how those work orders are developed, the extent to which they are benchmarked for value for money purposes or opened to broader competition. ***
Mr Whitehouse: There are elements of this which are commercially sensitive as we are going through effectively how we put in place the commercial strategies to support ESA. We have matters in place around EDS and BT, BT in support of the telephony capability that we will need to support ESA and EDS in two main areas. One is in the provision of the hardware and the operating environment, both for development and test, and also for live operation thereafter. That is in place. We have a clear service arrangement for application development with EDS to undertake work around both the legacy

development, the interfaces from the legacy system and also for this piece in the middle which we refer to as PXP, the integration component. ***

Q97 Mrs Engel: ***
Mr Whitehouse: ***

Q98 Mrs Humble: May I begin by thanking you for the very detailed answers that you have given us? Can I give you an opportunity to offer us some final reassurances because our main concern is to do with the risks in allowing you to draw down this money and whether or not it is in the best interests of the taxpayer and indeed of Parliament. Looking at your appendix A, this high level indicative, end to end ISIT plan, it looks very impressive even though it is barely legible in the form that has been given to us. I think Natascha's precis of it is a lot more intelligible. First of all, in answer to questions by Justine Greening you talked about a monthly report on the project. That report will go to the project board meetings. Who exactly is on the project board and are individuals being given specific responsibility for specific risk areas?
Mr Sharples: Phil chairs the programme board for the ESA.
Mr Bartlett: We have a good representation of partners and stakeholders. Adam's policy team are represented there. Our own Jobcentre Plus business delivery chief operating officer and one of the main field directors are there. The director responsible for transformation products and Jobcentre Plus is on that board and his people are an integral part of the design team as well. Over time we will review the membership of that group to ensure that it continues to be fit for purpose in driving the delivery of employment support allowance forward. We also have key assurance people in there so we have representatives from the Department's internal assurance programme on that board as well. Essentially that meets every month in order to ensure that the progress that the project is making is consistent with our plan and the individuals who are represented around that table, within the terms of reference, have a very clear articulation of what their responsibilities and accountabilities are to the programme. It is very much there to support actively the delivery of the programme rather than simply to comment on the progress that the programme is making. The key representatives are there to enable us to access the resources and capability that we need in order to keep the programme driving forward.

Q99 Mrs Humble: Mr Sharples, earlier when we were talking about the level of scrutiny, you said that the level of scrutiny would be about what is appropriate and proportionate. Do you think it might be more appropriate for there to be regular reports to the DWP executive team, which I understand meets weekly, since this is a very special arrangement for funding? How would the executive level people be informed of what is going on?
Mr Sharples: Through two channels. Phil is a member of my programme board for the Welfare Reform Programme as a whole. We have been meeting fortnightly and part of that process is me asking Phil for regular reports on the progress of the project. That is one form of check and obviously I report to ministers. I am a member of the executive team and so I report to the executive team on how the Welfare Reform Programme is going. In terms of line management, Phil reports to Lesley Strathie, who is the chief executive of Jobcentre Plus and, as the accounting officer, Lesley is responsible for ensuring that the money being spent on this and on the rest of Jobcentre Plus activity is spent properly. She has to account to Parliament for that. There are these two lines of accountability and I can assure you that both these lines of accountability are regularly and actively pursued.

Q100 Mrs Humble: At the very beginning the Chair asked you why you were suggesting this and what was in it for the department. In your answers you have talked about an integrated design team, whether or not the timescale is realistic, lessons learned from other projects and the possibility of slippage. Can you reassure us that you really do have a clear project plan that is looking at the full period of delivery, is looking at the business changes that are necessary as well as the IT changes, is taking into account that what you are doing is precarious in the sense that there are lots of interlinking elements? If one fails it could destabilise the whole of this pretty diagram that you have given us. Can you reassure us that your detailed project plan takes all of that into account so you can, as near as possible, guarantee that that October 2008 end date will see the finalisation of your project?
Mr Sharples: Can we guarantee that there is a thorough, detailed project plan which has a proper assessment of the risks? Yes. Can we guarantee that this project is without risk? No. There are obvious risks involved and some of those risks could end up with delays in the project. If there was a massive change in the design of the benefit, for example, as the Bill goes through Parliament, clearly we would have to reassess the timetable in the light of that. Our job is to make sure that the risks are identified, that they are properly assessed, that they are properly managed and that we keep ministers in touch with the way we are managing those risks. You said this was an opportunity for any final reassurance on our approach on this. Members of the Committee may have listened to the radio this morning and heard Edward Leigh as chairman of the Public Accounts Committee talking about the failures in the Rural Payments Agency. I can assure you that none of us wants to be sitting in front of you or the PAC in two years' time accounting for any failures on this project. We are absolutely determined that this project should learn the lessons from other experience, should build those lessons into a thorough project plan. We should manage the risks and we should see this through. We do not want to be a part of anything which is not going to work. This has to work and that is why we have done so much preparation and so much hard work has gone into preparing for this project.

Q101 Miss Begg: Was the reason that you pulled the plug on the BPRP anything to do with the Gateway review?
Mr Sharples: The reasons for that decision go back to the reviews that were initiated internally on the project which led first of all to an assessment of whether the benefits could be delivered within the budget which had been allocated. In the light of that first assessment, a more detailed external assessment was commissioned from Cap Gemini. That was a process that we initiated internally that led to those decisions being taken.

Q102 Chairman: Thank you for today. There will need to be further liaison with the clerk so that we can get our timescale in order, so I presume you would be cooperative on that?
Mr Sharples: Absolutely.

Written evidence

APPENDIX 1

SECTION 82 OF THE WELFARE REFORM & PENSIONS ACT 1999

82.—(1) Where—

(a) a Minister of the Crown is proposing that or considering whether an Act should change the law as from a specified date, or a date to be determined, and

(b) the Secretary of State is of the opinion that the change is such that, unless expenditure for preparing for the change is incurred during the period before the passing of that Act, it will not be possible for a service for which he has or will have responsibility to be effectively provided as from that date,

the Secretary of State may, subject to subsections (2) and (3), incur such expenditure during that period.

(2) Expenditure is not authorised by virtue of subsection (1) unless—

(a) the Secretary of State has with the consent of the Treasury laid before the House of Commons a report which states—

(i) the change in the law which the Minister of the Crown is proposing or considering, and

(ii) the amount of the expenditure which the Secretary of State proposes to incur and the purposes for which he proposes to incur it; and

(b) the report has been approved by a resolution of the House of Commons.

(3) Expenditure is not authorised by virtue of subsection (1) at any time after the end of the period of two years beginning with the day on which the resolution under subsection (2)(b) is passed.

(4) Subsection (1) is without prejudice to any power of the Secretary of State to incur expenditure otherwise than by virtue of that subsection.

(5) There shall be made out of the National Insurance Fund into the Consolidated Fund such payments as the Secretary of State determines (in accordance with any directions of the Treasury) to be appropriate in consequence of the operation of this section.

(6) Any payments falling to be made by virtue of subsection (5) shall be made at such times and in such manner as may be determined by the Treasury.

(7) In this section "the Secretary of State" means the Secretary of State having responsibility for social security.

APPENDIX 2

Memorandum submitted by Jim Murphy MP, Minister of State for Employment & Welfare Reform, Department for Work and Pensions

As you know, the Government has brought forward its Welfare Reform Bill.

My Ministerial colleague Anne McGuire and I will be leading on the Bill in the Commons. I thought I should write to you now, before second reading on Monday, about our intention to seek the Commons' authority to incur expenditure prior to Royal Assent in respect of one aspect.

Part 1 of the Bill provides for a new benefit scheme, the Employment and Support Allowance, which would replace incapacity benefits from 2008. We believe that ESA would help support claimants back to work, remove many of the perverse incentives within the system and provide a much improved service to benefit claimants. Therefore, subject to parliament's approval of the legislation, we are keen to ensure that we can implement it as quickly as possible. To ensure that an early implementation is possible we have begun early planning work, especially around the necessary IT changes to support the new benefit. As you pointed out in your recent report into Incapacity Benefits and Pathways to Work, IT changes of this scale have long lead in times and require careful planning to make sure that they are successful.

We have identified that, to keep to our proposed timescale set out in the Manifesto, and repeated in the Green Paper and response document, we need to undertake spending on IT development later in this calendar year. This would be before we expect Royal Assent because we intend to seek approval for a "carry-over" motion for the Bill at second reading.

Consequently we are hoping to receive Royal Assent in the spring of next year.

We therefore have a critical period of some months where we need to undertake essential IT development to ensure a smooth implementation in time for 2008 but do not currently have the statutory authority for the necessary expenditure to do so. I think it would be appropriate to use the procedure set out in section 82 of the Welfare Reform and Pensions Act 1999, which was designed with exactly this sort of situation in mind.

I would very much like the chance to meet to discuss this with you very soon and for my officials to discuss with your Committee Clerk ahead of this meeting, so that we can consider the best way forward and how we can ensure appropriate Commons' scrutiny of the Bill as well as the application to consider prior authority to spend.

I have written in similar terms to Edward Leigh at the Public Accounts Committee.

Jim Murphy MP

21 July 2006

APPENDIX 3

Letter to the Chairman from the Rt Hon John Hutton MP, Secretary of State for Work and Pensions

USE OF THE POWER GRANTED TO THE SECRETARY OF STATE BY SECTION 82 OF THE WELFARE REFORM AND PENSIONS ACT 1999

In July you discussed with Jim Murphy the question of seeking authorisation to incur expenditure before Royal Assent using the power given by section 82 of the Welfare Reform and Pensions Act (1999).

This power allows me to place a Report before the House of Commons, seeking approval for expenditure on new services in advance of Royal Assent to the particular piece of legislation creating the service. The rationale for the measure, as explained to Parliament, was that use of the power enabled swifter implementation of changes than would otherwise be the case. My Department's dependence on large-scale information technology systems is well known. Changing those systems is a substantial task; use of the power to incur expenditure would allow earlier implementation of the changes than would otherwise be possible.

I recognise that the last (and only) time this power was used the Committee raised some concerns. While these concerns were addressed by having strengthened procedures around the use of the power, I also think it might be useful to set out why I am pursuing this route on this occasion. There seemed to be a number of other options, but each of these has now fallen.

I considered simply waiting until Royal Assent was achieved on the Welfare Reform Bill (2006) until any spend start on the new service to deliver the Employment and Support Allowance (ESA). However, the development timetable meant that I would be unable to deliver implementation from 2008, to which the Government is committed. In the early stages it was supposed that the ESA system would be developed as part of a wider modernisation programme of the Department's benefit systems, and the development would then be a "value for money" bid not requiring Parliamentary approval. However, the wider programme required new and innovative IT solutions to be successful and a review suggested that it was therefore too risky to proceed.

I also considered the possibility of bringing forward a Paving Bill to get power to incur expenditure before Royal Assent. However, the current heavy legislative programme meant that there was no certainty of the Paving Bill going through before Royal Assent was achieved on the Welfare Reform Bill itself. I do also wonder whether it would really be necessary to use so much of Parliament's time in this manner, especially since the use of section 82 means that your Committee's expertise is brought to bear in examining the details.

In any event, a Paving Bill was not a viable option, so a section 82 approach was the only option that would allow Government commitments to be met. I have therefore asked my officials to produce the necessary Report, a draft of which is attached. I understand that you are prepared to look at this draft Report now, before holding a hearing on it with officials when Parliament returns. I am grateful for your consideration in agreeing to this, and I have asked my officials to stand ready to answer any questions you might have on this.

The draft Report goes into some detail around the IT development required, and provides a breakdown of costs. As I am sure you appreciate, these are the best estimates that we have at this stage, and as time goes on the details will become firmer, meaning that the estimates may be refined. Similarly, the Report sets out the case for the maximum possible expenditure (around £31 million). The amount of expenditure depends on when Royal Assent is achieved. If, as I hope, Royal Assent is achieved before early July 2007, then the amount of expenditure covered by section 82 will be less than the £31 million.

Jim Murphy also contacted the Public Accounts Committee about this proposed use of the section 82 power. As you know, the Public Accounts Committee decided that they would not need to consider this report given that your Committee would be doing so. I am sending a copy of this letter and of the draft Report to Edward Leigh for information.

John Hutton

30 August 2006

APPENDIX 3A

DRAFT REPORT ON PROPOSAL FOR SECTION 82 AUTHORISATION FOR SPENDING ON EMPLOYMENT AND SUPPORT ALLOWANCE SYSTEM BEFORE ROYAL ASSENT TO THE WELFARE REFORM BILL

Introduction

1. This report is made by the Secretary of State for Work and Pensions (the Secretary of State) and laid before the House of Commons under section 82 of the Welfare Reform and Pensions Act (1999) (the 1999 Act). It seeks the House's agreement for power to incur:

(a) expenditure that the Secretary of State believes must be incurred if the Employment and Support Allowance (ESA) is to be implemented from 2008. The ESA was proposed in the Welfare Reform Bill (2006) (the Bill); and

(b) the financial liability accruing under contracts to be signed, in advance of Royal Assent to the Bill, by virtue of the power in section 82 of the 1999 Act.

2. The Bill was introduced to the House of Commons on 4 July 2006 and is using the carry-over procedure. This expenditure will fall in the financial years 2006–07 and 2007–08.

3. This report covers the details of the implementation, a breakdown of the spend, an assessment of what will happen if section 82 authorisation is not granted and details of the controls in place to ensure exposure to the risk of nugatory expenditure is minimised.

4. HM Treasury has given its approval to this proposal for section 82 authorisation. The Government considers this proposal to use section 82 to be exceptional.

Implementation of the Provisions of the Related Primary Legislation

5. Part 1 of the Bill sets out the Government's proposals for the ESA, comprising contributory and non-contributory benefits, which will simplify the existing benefit system for those whose health affects their ability to work. This will help to create a more inclusive society where there is an opportunity for all and will help to enable the Government to realise its long-term aspiration of an employment rate equivalent to 80% of the working age population.

6. The new ESA, which will be administered by Jobcentre Plus, could not be delivered by a clerical system without wholly disproportionate cost and lengthy processing times. It therefore requires an IT system to deliver it.

7. Jobcentre Plus, in consultation with the Department's Director General for Information Technology, has considered options for developing the IT system to support ESA. As a result, and subject to a more detailed design review, Jobcentre Plus recommends basing the system on The Pension Service's Customer Account Management System (CAM) (which is based on Siebel, the Department's preferred product for handling customer contact) and linking this to a modified Jobseeker's Allowance Payment System (JSAPS). This would mean that the development will be similar to the one used to deliver Pension Credit successfully in 16 months from Royal Assent to A-Day (the day from which the Department will start to deliver ESA to new customers).

8. However, the ESA development timetable will be longer than the Pension Credit timetable as it requires bringing together the system that handles customer calls and benefit processing so that they work together seamlessly. This will require careful testing, as failure to ensure that these processes work together properly would mean that customers did not receive their benefits correctly.

9. The development timetable is not elastic. Actions have to follow each other in series, and the requirements of testing mean that the timetable could not be foreshortened without risking system functionality. Unless the programmes are rigorously tested to see if they work together, the IT system as a whole may not work correctly, thus putting at risk correct payment of benefit to the customer. Jobcentre Plus and the Department's Director General for Information Technology are clear that this requires a set period of at least 22 months between the start of spending on the new service and A-Day.

10. Securing section 82 authorisation would allow the delivery of ESA from 2008. The commitment to deliver ESA as soon as possible (from 2008) has been announced publicly by the Government. It is an integral part of the Government's aspiration of an 80% employment rate, bringing to more people the opportunities that work can bring.

Proposed Expenditure

11. An estimate of maximum possible spend on the new ESA IT system is set out below. The estimate is based upon the latest version of the development timetable (see Annex A) and assumes that Royal Assent is achieved in July 2007. If Royal Assent is in fact received on an earlier date than this, expenditure prior to Royal Assent would be considerably reduced.

Section	*January £ million*	*February £ million*	*March £ million*	*Spend to earliest proposed date for Royal Assent*	*April £ million*	*May £ million*	*June £ million*	*Spend to last date for Royal Assent*
Developing the benefit processing system on JSAPS	0.00	0.00	0.06	0.06	0.11	0.19	0.39	0.75
Developing the environment that allows programmes to be tested	0.00	0.00	0.00	0.00	3.60	3.60	3.60	10.80
Developing the call handling system (PTP)	0.00	0.00	0.00	0.00	2.60	2.60	2.60	7.80
Developing the interface between the call handling and benefit system (PXP)	0.01	0.01	0.02	0.04	0.04	0.09	0.12	0.29
IS/IT Team	0.00	0.00	0.59	0.59	0.59	0.59	0.59	2.37
Other systems	0.00	0.00	2.09	2.09	2.09	2.09	2.09	8.35
Telephony	0.00	0.00	0.00	0.00	0.30	0.30	0.30	0.90
Total	0.01	0.01	2.76	2.78	9.33	9.46	9.69	31.25

12. The above figures reflect the Department's best current estimate for the required expenditure. The figures are, however, likely to be refined with the passage of time. There are three possible causes of significant variation:

- *Variation from expectation of completion times*—were activities to take longer to complete than expected, this would have the impact of pushing back the date of follow on activity, and could mean that there is less expenditure in the period up to Royal Assent.
- *Variation from expectation of costs*—were activities to require higher levels of funding than expected.
- *Impact of external events*—were activities to be delayed due to the need to respond to external events, such as if implementation of the Personal Details Computer System was put back for any reason.

13. All IT developments of the scale of the ESA system are inevitably large and complex, and some variation from initial expectations are likely to occur. That said, the risks of these have been minimised in the ESA development proposals:

- *Development solution*—where the development involves an innovative IT solution the risk of variation from expectation is increased, as developing the IT bears with it further risk. However, the ESA solution is based on tried and tested systems that are already in use in DWP.
- *Development timetable*—where the development involves an entirely new system the development project would have less confidence in estimating the timescales required. The ESA development is, however, similar to the one already successfully delivered for Pension Credit.

- *Contractual position*—In line with Treasury guidelines, ESA is not being developed under the Private Finance Initiative (PFI). The Department plans a staged contracting approach involving the most appropriate suppliers for each service and including termination provisions, which should minimise the risk around contractual liabilities.

14. The overall timetable and expenditure will be regularly reviewed at the monthly Jobcentre Plus Project Board, and all changes will be subject to an approvals process. It is almost certain that as plans are developed the estimate of expenditure will change as the individual elements of the development timetable become firmer and more detailed. However, the total level of expenditure will not exceed the figures above.

15. The development timetable shows the expenditure being considerably higher in April, May and June 2007 than in the preceding months. This reflects the fact that spending on the new service development would begin with the Functional Design stage for the integration components (defining the functional behaviour of the system) which entails relatively minor expenditure. Technical Design (defining the detailed technical specifications) of these components would commence in March, alongside Functional Design of the benefit administration components. By April, development would be underway on the claims-taking system as well, and in May some of the Build work would begin.

16. The Department is planning a staged approach to the contracting for the IT development. The first stage would cover the pre-April development and the second would cover the Build. The letting of the second stage contracts would be dependent upon there continuing to be a clear expectation of the Bill receiving Royal Assent no later than July 2007.

17. There are other project costs related to this work, but these are not related to development of the new service, and therefore, under Government Accounting rules, do not require authorisation under Section 82. For instance this includes the accommodation costs for the project team, as they are housed on existing estate, for which the Department is contractually committed to pay regardless of whether there is an ESA development. It also includes normal scoping and planning work that has already taken place and will be continuing during this calendar year.

18. The Private Finance Initiative is no longer the procurement route recommended by Treasury for IT projects. The Department will choose appropriate suppliers from its framework of IT contracts to deliver the full range of IT services required to implement the ESA system. The Department's best option for value for money and for delivering an effective ESA IS/IT system is to re-use existing system components where appropriate in the design and development of the new system and also to use standard operational services for live running of the new IS/IT system through the transformed arrangements with EDS and BT.

Implications of Failing to Use the Power to Incur

19. Failure to get permission to incur expenditure before Royal Assent is received would mean that all new service development would be delayed until Royal Assent. While the Department is still hoping for Royal Assent in early April this cannot, of course, be guaranteed. 3 July 2007 is the last date on which Royal Assent could be received, under the rules for carry-over of Bills. Contracting from either of these dates would mean ESA could not be implemented from 2008, with subsequent knock on effects for the benefits to both individual benefit recipients and the economy as a whole.

Maintaining Parliamentary Oversight and Control

20. The Bill is a key element of the Government's reform programme as a whole and if it does not receive Royal Assent it would remove a central strand of welfare reform, as well as delaying outcomes in terms of employment and social inclusion. We will ensure that use of section 82 does not compromise Parliament's proper scrutiny of the Bill:

- Progress to date gives confidence that the Bill will receive Royal Assent. There was widespread support for the principles of the reforms in the Bill when it was introduced and the main Opposition parties did not divide the House of Commons at the Second Reading debate.
- The Bill is very unlikely to run out of time and Parliament will have a full opportunity to consider the Bill in detail. The Bill will make use of the carry-over procedure, with the necessary motion unopposed at Second Reading. Ministers are hopeful of Royal Assent by Easter 2007.
- The staged approach to IT development should ensure that if Parliament amends key features of the Bill at later stages of the Bill's passage, the IT development can be amended to reflect this without incurring substantial nugatory spend.

Risk and Benefits of Power to Incur

21. The following risks and benefits associated with Section 82 authorisation have been identified:

Risks

— *Risk—Nugatory spend if there is no Royal Assent*—it is unlikely that there will be no Royal Assent of some kind, and so long as the fundamental principles of ESA are not re-written as the Bill passes, the spend on IT development would not be nugatory. The staged approach to contracting is also designed to ensure that this risk is minimised. If Parliament chooses to reject the Bill it seems more likely that it would do so before Christmas 2006 as this would be likely to involve an issue of principle, in which case no contracts would be let. If Parliament rejected the Bill after Christmas, then the £2.8 million expenditure forecast between January and March would be likely to be lost. If the Bill is still in place in March, then it is likely to have been through the House of Commons and at least part way through the Lords. At this point it would seem less likely that Parliament would choose to reject the Bill, thus allowing the major spend of some £28.5 million to be contracted for. Clearly, if the Bill had fallen before March no contracts would be let at that point, limiting nugatory expenditure to the £2.8 million already committed.

— *Risk—Nugatory spend if the Bill is substantially altered.* The risk is judged to be small that the Bill would be amended to the extent that the ESA would not be introduced in some form, negating the need for a supporting IT system. Evidence for this comes from the Second Reading debate and the consultation report—there was strong support for reforming IB and extending Pathways to Work. The Bill is substantively complete; the Government is not currently intending to bring forward substantial amendments during its later stages. If the Commons committee stage indicates that there will be substantial changes to the design of ESA the staged contracting approach would ensure that nugatory spend would be limited by delaying or amending the major spend scheduled for April onwards.

— *Risk—Contractual commitments if there is no Royal Assent*—the staged contracting approach would also limit the commitments entered into at any stage. It would not be until April that the majority of spend (the £28.5 million) would be committed. By this time, there would be a clearer view of the likelihood of Royal Assent.

— *Project delivery*—even section 82 authorisation cannot guarantee implementation from 2008, since there are known risks inherent in all large scale IT developments. However, the Department has learned from past experience and, in particular, is using the same technical platform and development lifecycle that underpinned the successful development of the administration system for Pension Credit to underpin the ESA development. The ESA system is, however, more complex due to the integration of the claim-taking system with the benefit administration system, which is reflected in a longer development timetable than Pension Credit.

— The amount of project risk also varies with the type of development. Risk rises where the solution requires IT innovation or is part of a wider development. ESA is clearly a component of the Welfare Reform agenda and, in order to avoid the risks stated above, the ESA is to be a standalone programme that is based on existing systems that have already been successfully delivered by the Department.

Benefits

— *Benefit—Financial*—ESA will simplify the current system and replace the old incapacity benefits for all new claimants, working in tandem with the national rollout of the successful Pathways to Work approach.

— Whilst the Department cannot separately estimate the impact of Pathways to Work rollout and ESA, its initial estimates suggest that in steady state, a similarly successful national Pathways working in tandem with the new ESA could deliver fiscal savings by 2012.

— Clearly these reforms will have the greatest impact on those new customers making a claim for ESA from 2008 onwards. The costs will be borne by the Government whilst the benefits will accrue to both customers and the Government.

— *Benefit—Delivery*—The power to incur would allow the Department to start delivering the benefits of ESA from the earliest possible date. It would keep a focus on the continuing delivery of reform, while delivering a new service to the benefit of customers.

Assurance of Control

22. Much of the control will relate to the timing of the Bill. The staged approach to contracting would mean a staged approach to entering into liabilities. The Department would have to enter into contracts in January 2007, but would only be contractually committed to expenditure up to the end of March—estimated at some £2.8 million. At the end of March, if the Bill is in place, the Department would contractually commit to the remaining estimated £28.5 million spend to early July. This means that the commitment to major expenditure on new service development would take place only when risk was at its lowest.

23. The Department will be including termination provisions in all IS/IT related contracts so as to limit the exposure to nugatory expenditure. Although the Department would be able to terminate contracts at any stage, this would not stop some of the liability being incurred. However, the termination provisions will mean that while the Department envisages £28.5 million of expenditure prior to Royal Assent it estimates that £9 million—at most—would be irrecoverable should Parliament exercise its prerogative to reject the Bill.

24. The expenditure would be limited to the new service development set out in the development timetable, and this would be reflected in the contracts.

Delivery Timetable

25. Jobcentre Plus has set out a clear delivery timetable. This is attached at Annex A.

Employment and Support Allowance

26. Greater detail of the Employment and Support Allowance is provided at Annex B.

Project Risks

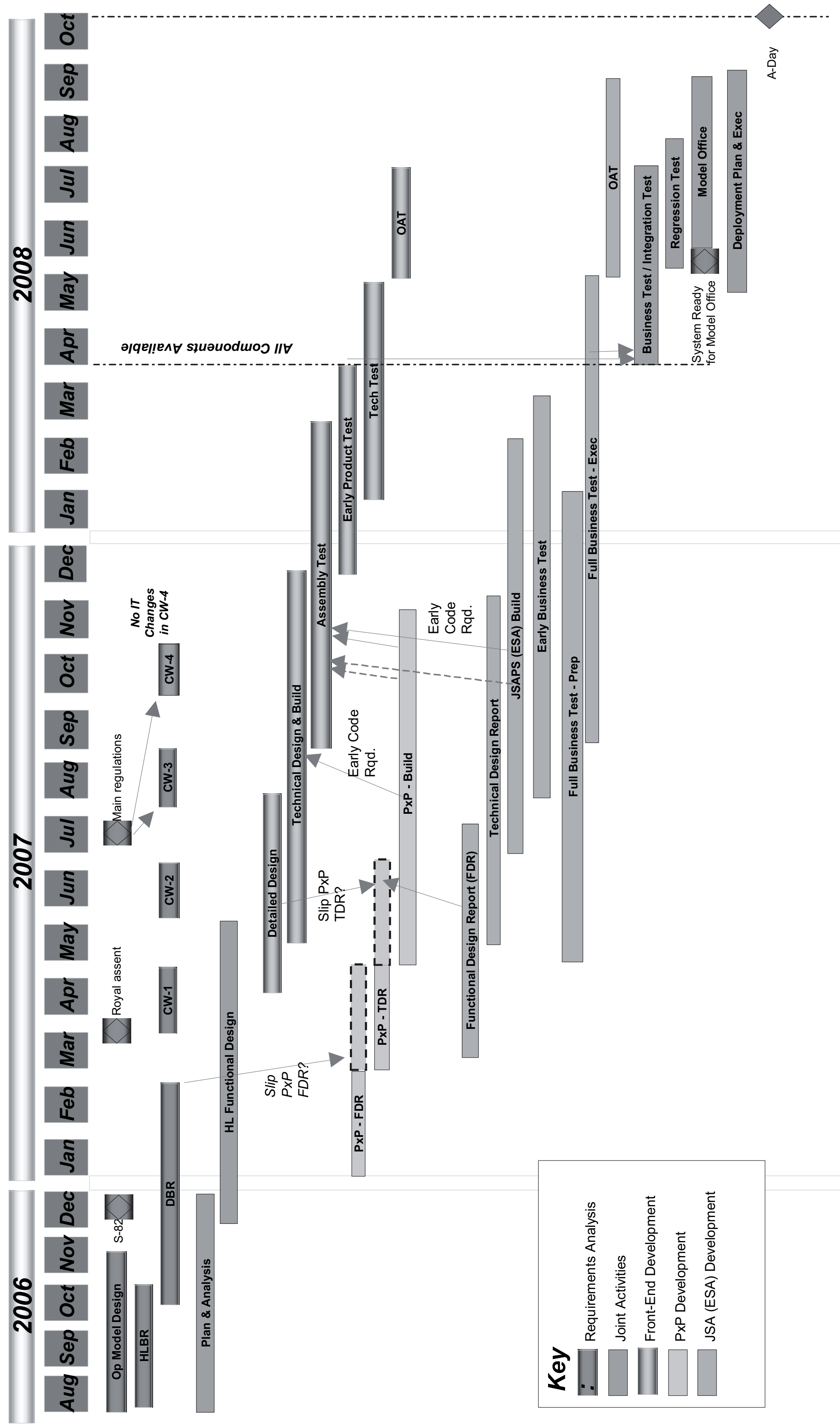
27. There are also a number of factors that could result in changes to the planned expenditure profile: changes to timetable, scope or estimates. Jobcentre Plus has undertaken an analysis of these, which is attached at Annex C.

Sample Contract

28. The staged contracting approach is intended to reduce the exposure to the risk of nugatory expenditure. A sample contract will be issued separately to the committees, on a commerical in confidence basis.

Annex A

High Level Indicative End to End IS/IT Plan



Annex B

EMPLOYMENT AND SUPPORT ALLOWANCE

1. The Government published its Welfare Reform Bill on 4 July 2006, which built on the Welfare Reform Green Paper "*A new deal for welfare: Empowering people to work*" and the subsequent consultation report. The measures in the Bill, together with the other welfare reform measures, are intended to enable the Government to realise its long-term aspiration of an employment rate equivalent to 80% of the working age population and an inclusive society where there is opportunity for all. These proposals continue to build on those outlined in the DWP Five Year Strategy published in February 2005.

2. Key elements of the Government's reform proposals include:

— A new Employment and Support Allowance (comprising of contributory and non-contributory benefits), which will simplify the existing benefits system for those whose health affects their capacity for work.

— A focus on early intervention, with increased support to employers and employees in managing health in the workplace; improved absence and return to work management; and increased support to health professionals to enable them to provide holistic treatment plans which recognise the benefits of work with respect to rehabilitation and long-term health.

— More customer contact and more employment-related advice and support for individuals with health conditions to enable them to realise their ambition to return to work, building upon evidence from the successful Pathways to Work pilots.

— The ongoing development of disability rights to provide a level playing field for those with disabilities.

— Housing benefit reform, which includes the national roll out of the Local Housing Allowance and a housing benefit sanction for anti-social behaviour as part of the Government's RESPECT agenda.

EMPLOYMENT AND SUPPORT ALLOWANCE SYSTEM

3. Jobcentre Plus identified four possible options for developing the ESA IT system. These were:

— A new modernised system using Benefit Processing Replacement Programme (BPRP) architecture.

— A Jobseeker's Allowance Payment System (JSAPS) based legacy solution.

— A modified Customer Management System (CMS) used in contact centres to take claims over the telephone and linked to a JSAPS based legacy solution.

— An extended Pension Transformation Programme (PTP) Customer Account Management (CAM) used in contact centres to take claims over the telephone and linked to a JSAPS based legacy solution.

4. A BPRP based development may not have required authorisation under Section 8, as spending on this could have been classed as part of a value for money bid—ie that the ESA system was part of a wider development to modernise the benefit processing systems. However, for the reasons set out in paragraph 21 of the main report, ESA is to be delivered as a stand-alone programme.

5. The JSAPS based solution would, clearly, be based on an existing and working system, but the JSAPS system did not support claim taking over the telephone, so that this option promised only limited business efficiencies.

6. Of the remaining two options the choice was between customer handling systems. The Pension Service's CAM system based on the Siebel product is preferred to the Jobcentre Plus CMS for a number of reasons:

— Siebel is now the Department's preferred product for handling customer contact.

— CMS is based upon an earlier technology platform and is not as good an option as PTP CAM.

— The integration of the PTP CAM and legacy systems is operating considerably more successfully in The Pension Service than the equivalent integration of CMS and legacy systems in Jobcentre Plus. The Work and Pensions Select Committee has already considered some of the issues around CMS.

7. The fourth option was, therefore, the recommended option. It would see the Department using two systems with which it was familiar, and working on a development timetable similar to the one that successfully delievered Pension Credit. Although it is more complex than the Pension Credit system as it requires front-end integration, it does not require an innovative IT solution. Similarly it would not rely on a single supplier, but would include those suppliers best suited to deliver for each part of the development. The solution identified is a stand-alone devlopment, and is therefore not dependent on the successful implementations of other projects.

8. This presents the recommended solution as the lowest risk option available to the Department in terms of the solution sought.

Annex C

PROJECT RISKS

1. Although a number of factors can cause change to both a project's delivery plan and costs, these changes impact the project at various stages throughout the lifecycle.

2. In the case of section 82 timescales the majority of the work mainly concerns functional design and early build work. And therefore the scope for substantial change should be reasonably reduced. This is illustrated by the fact that only a small part of the total ESA expenditure will be made under the authority of the section 82 submission. Under current plans this would be less than 1% of the expected ESA IS/IT cost and under the worst case considered of Royal Assent being delayed to July 2007, this would rise to about 10%. It is therefore vital that attempts to control the expenditure under section 82 do not result in an increase to the overall delivery timetable or costs of ESA.

3. The major causes of project change that will impact costs and plans can be segmented into three key groups:

- Timetable changes
- Scope changes
- Estimation changes

4. For each of these groups the risk, impact and likelihood of the key potential changes occurring have been highlighted below.

Timetable Changes

- *Risk:* Advance of A-day resulting in earlier IS/IT spend to cater for reduced time window.
- *Effect on expenditure—section 82/total project:* Increase/Decrease.
- *Effect on delivery risk:* Major increase.
- *Likelihood:* Very unlikely. Due to the risk of unsuccessful delivery, the Department would argue strongly against a more aggressive timetable.
- *Risk:* Problems filling key roles when required resulting in potential slippage and therefore reduced section 82 expenditure.
- *Effect on expenditure—section 82/total project:* Decrease/Neutral for slight delays, but an increase if requirements completion delayed more than eight weeks.
- *Effect on delivery risk:* Neutral for slight delays, but an increase if progress is delayed more than eight weeks.
- *Likelihood:* High. Most Departmental IT project profiles are re-planned towards the end of the requirements stage. It is common for the design activity to be re-profiled to deliver several weeks later than the original plan, with subsequent stages of the project maintaining the original schedule end date through increased parallel working and overtime.
- *Risk:* Royal Assent delayed up to three months.
- *Effect on expenditure—section 82/total project:* Major increase (but already reflected in the section 82 estimates)/Neutral.
- *Effect on delivery risk:* Neutral, provided the delay is not due to contention over clauses affecting the fundamental elements of the ESA IT system design (Part 1 and Schedules 1, 2, 3 and 4), or due to amendments introducing new benefit components. The IT system will be designed to be configurable for many areas, while the operation of much of the conditionality will be governed by procedural guidance.
- *Likelihood:* Unlikely.

Scope Changes:

- *Risk:* New requirements emerge for a substantial IT release several months before A-Day. At the moment only relatively small-scale IT changes are envisaged before A-Day.
- *Likelihood:* Unlikely. There are good policy and operational reasons why early migration of existing cases to the new IT systems (the sort of change which would have an effect) are not sensible. Other types of change, eg to the Personal Capability Assessment, or the IT Support for the Pathways conditionality could be undertaken outside section 82 as they would be changes to the existing system of support.
- *Risk:* Late changes to key areas of legislation affecting IT. Whilst this is a key risk to overall project success, it would not have much effect on the section 82 expenditure, as it is the main set of ESA regulations that will contain the detail on which the IT system specifications will be based, and the timetable for regulations extends beyond Royal Assent.

— *Effect on expenditure—section 82/total project:* Neutral/Increase.
— *Effect on delivery risk:* Increase.
— *Likelihood:* Unlikely.
— *Risk:* We take a different approach to the IT solution design due to currently unforeseeable problem with one of the current systems.
— Effect on expenditure—section 82/total project: Increase/Increase. The current design approach is based heavily on re-use of existing systems and designs; an alternative approach would be either more expensive or to offer a smaller scope.
— *Effect on delivery risk:* Increase (unless effect was to reduce scope).
— *Likelihood:* Unlikely.

Estimation Changes

— *Risk:* Effort estimates, man-day and environment cost estimates for the proposed solution are too low.
— *Effect on expenditure—section 82/total project:* Neutral or Increase/Increase. Although this would impact the overall project costs (and potential plans), its impact on section 82 expenditure would depend on the profile of the additional work. It is likely that this change would not adversely affect section 82 expenditure under current Royal Assent forecasts.
— *Effect on delivery risk:* Neutral/Increase (depending on whether any additional effort can be absorbed).
— *Likelihood:* Potential. Next stage planning and commercial negotiations will bottom this out further, however, the project has attempted to minimise this risk through basing estimates off previous projects to avoid this common pitfall.

Formal Reviewing Process

5. At each Project Board (usually of monthly frequency) an update on project progress to date both from a financial and planning perspective will be provided. This will allow us to report any slippage or other plan changes.

6. In addition to this, cost forecasts will be produced (usually on a quarterly basis) impacting the effect of any changes that have been reported through the preceding Project Boards.

7. The regularity of these meetings is not unalterable, however, and extraordinary meetings or forecasts can be called/produced if a significant change has been identified that will result in a suitably large impact.

8. Finally, the gated review process provides another Governance structure layer to communicate and review any changes to timetables and spend. The next gate (after Gate 0) is currently planned for October 2006.

What is Being Done to Minimise Risk of Changes to the Timetable

9. The project is establishing collaborative working practices with policy and other areas of the project to help ensure that:

— the sequence in which regulations are developed takes account of IT development needs. This will help to minimise re-work and the costs/time impacts that this can have.
— the IT design team are aware of amendments and planned concessions that may be offered to secure passage of the Bill as early as possible.
— all strands are working closely together to ensure a common understanding of scope and assumptions to ensure future changes are minimised.

10. The project will aim to maintain rigorous control of project scope whilst enabling the throughput of changes using the change windows built into the plan.

11. The project has based both cost and time estimates off similar "real-life" examples to attempt to minimise the optimism effect regularly associated with very early estimating.

12. The Project should report progress on an "earned value" basis as well as financially so that the Project Board can be assured that the required progress is being made.

13. Frequent reviews of project-wide assumptions will be undertaken to ensure that the project is proceeding in the right direction and that the need for key decisions affecting the ESA to be made by particular times is highlighted.

APPENDIX 4

Memorandum submitted by Lesley Strathie, Chief Executive, Jobcentre Plus

BENEFITS PROCESSING REPLACEMENT PROGRAMME (BPRP)

You will have seen recent coverage in the Press about our decision to terminate the Benefits Processing Replacement Programme (BPRP). I thought I should provide you with more background to the Programme and explain why we acted (through normal DWP governance arrangements) to bring this Programme to an end.

Background and History

BPRP was formally launched in November 2004 after a period of exploratory work to consider a replacement for our existing IT legacy systems to calculate benefit payments in Jobcentre Plus and the Disability and Carers Service (DCS). At that time, it was expected that our existing systems would become obsolete and there was no confirmed support for the platform on which they operate beyond 2012.

Within our IS/IT strategy other IT projects were established alongside BPRP to provide our staff with up-to-date, on screen customer relationship management tools. These included systems to modernise our services to employers and fraud investigation. A further project was established to develop a new e-channel in support of the benefit claiming process. These projects have started to deliver benefits in their own right. Indeed, to date, our e-channel and modernised employer system have been successfully delivered and our fraud investigation system will be implemented in 2007.

When we launched BPRP, we knew that this was likely to be a complex and challenging programme. It was also a long-term programme, which involved a new approach to major IT development, where commercially available software packages were configured for specific business purposes- in this case our highly complex benefit system. The initial investment was planned to be around £300 million.

As the Programme progressed, and developed the detailed requirement, it became clear that the original estimates of costs and benefits were unlikely to be realised. By September 2005, we judged that the benefits would not be deliverable within the planned timescales and that the Programme was not affordable within the budget available. A Task Force was established within the programme to explore alternative options for delivery of the core requirements within the planned budget. The Task Force reported in February 2006 that this could not be achieved.

We decided at that time to seek an external view of the deliverability of BPRP from cost, timescale and technical perspectives, including the scope for accelerating the Programme and whether any alternative approaches would be viable. The outcome of this work confirmed our judgement that the programme in its current form would not succeed.

By then a number of other factors had also changed. The requirements necessary to support the Government's welfare reform agenda had also become clearer—in particular, the need to deliver the new Employment Support Allowance (ESA). We also had confirmation that ongoing support for the existing benefit systems would be extended to at least 2020. This, together with clarity around the arrangements for supporting existing applications, has helped resolve uncertainties with regard to future support and provided flexibility and options that were not available when BPRP was established. The Department was also gaining valuable experience in the use of commercially available packages as a result of the Pensions Transformation Project, where The Pensions Service has successfully integrated the use of these new packages with our existing IT systems to deliver modernised services to customers.

Accordingly, we decided, at the end of May, to suspend all work on BPRP and to re-focus it on a smaller number of key business priorities especially the delivery of ESA. At that point, virtually all suppliers and external consultants were stood down- the only ones retained being those necessary to capture intellectual capital to enable assessment of future re-use. The formal closure of the programme came later in August, at which time we commissioned a major re-planning exercise to support delivery of ESA. This exercise, which is planned to complete by December 2006, focuses on the reuse of components of BPRP, existing legacy IT systems and proven technology from across the Department.

Value of the Investment on BPRP

Press estimates of the amount spent on BPRP have been highly misleading. In broad terms, expenditure to date and forward commitments total some £138 million. This overstates considerably the loss to public funds, because significant proportion of its output to date is capable of being recycled.

In particular, the investment to date has enabled the Department to create a development and test infrastructure, which has been and will continue to be used by other projects. The Programme had adopted the Siebel technology as its customer relationship management system, which is now the basis for most systems used by the Department. Siebel licences acquired by the Programme will continue to be utilised within the Department. Ongoing benefits from work undertaken on Customer Case Management have been realised within DCS. We are currently establishing the scope for re-use of components and the value of the other assets acquired.

Conclusion and Future Plans

BPRP was an ambitious undertaking to replace the longstanding legacy systems on which we depend for processing huge volumes of benefit claims. With the benefit of hindsight, we did not fully appreciate the risks of this highly complex programme at the outset. A number of significant new factors emerged during the lifetime of the Programme, which affected some of our base assumptions. The availability of continued support for legacy systems and the new priority to deliver ESA were both new and highly significant emerging factors. We have also developed reliable technological solutions through other programmes which use legacy systems more effectively to generate on-screen information to enable our staff to process claims more quickly and efficiently for our customers. I can reassure the Committee that as soon as it became clear that the programme was running into difficulties, we acted promptly to implement an external review and to terminate development work.

Nevertheless, the outcome is disappointing and some hard lessons have been learned about our capability, working with our suppliers, to deliver major IT systems through maximising the re-use of existing technology and building new developments on a much more incremental basis.

I hope you find this briefing helpful. I will be happy to provide you with further information should you require it, and to keep you updated as we progress with the design and development of systems to support the delivery of ESA.

Lesley Strathie

3 October 2006

APPENDIX 5

Memorandum submitted by Welfare Reform Programme and Bill Team, DWP

What is the full cost of the new ESA system likely to be?

The estimated costs of the current preferred option for Employment and Support Allowance are set out below. These estimated costs do not include the costs of migrating existing cases, or the costs of any further enhancements to the system.

	2006–07 £ million	*2007–08 £ million*	*2008–09 £ million*	*2009–10 £ million*	*Total £ million*
Project Implementation					
Project Management, Governance, Commercial Supply Chain and Integration/Strategic Direction	5.42	5.27	3.68		14.37
Business Process and Legislation Design	3.57	3.72	2.21		9.50
Business Deployment—People, Communications and Transformation	1.60	1.99	1.81	0.43	5.83
Publicity, Marketing and Operational Rollout, Staff Training, Re-Deployment and Consequential Costs		11.76	47.33	10.68	69.77
	10.60	**22.74**	**55.03**	**11.11**	**99.48**
IT Costs					
Strategic Option Analysis, business integration and high level design	18.15	9.38	7.18		34.71
Solution development and implementation/roll-out					
To June 2007	2.78	28.47			31.25
Post July 2007		90.71	39.22		129.93
	20.93	**128.57**	**46.40**		**195.89**
Total ESA Programme Development Costs	**31.52**	**151.30**	**101.44**	**11.11**	**295.37**

Can the Committee be given sight of the Gateway review which your memorandum states is due in October 2006?

OGC policy is that they have refused to disclose information contained within Gateway reports to anyone but the Senior Responsible Officer. Since inception, OGC has closely guarded the confidentiality of Gateway Reports. They have always maintained that reports are written solely for the SRO, providing a confidential assessment of the likelihood of the project meeting its aims and objectives.

The Procedure Committee's report on the use of section 82 stated that a note of the consequences of using alternative routes in terms of value for money should be provided in future (paragraph 30). Can this information be provided?

The Government has made a clear commitment to introduce the new Employment and Support Allowance from 2008.

The development timetable means that if we are to implement from 2008 then we need to start to develop the new service from January 2007, and it seems very unlikely that we would have received Royal Assent to the Welfare Reform Bill at that point. That being the case, we needed to find a mechanism for getting Parliamentary authorisation for spending on new service development prior to Royal Assent.

Theoretically there are four ways in which this can be done:

— Pursuing a value for money bid—in which the Employment and Support Allowance development would have taken place as part of a much wider programme and as such the development as part of the programme was better value for money than separate funding. There was, however, no such programme in existence.

— Pursuing a Paving Bill—the Welfare Reform Green Paper was not published until January this year, with the response to the consultation not being published until June. We could hardly have pursued a Paving Bill before this point, and by June it was clear that a Paving Bill would not receive Royal Assent before the Welfare Reform Bill itself—which would again mean we would have been unable to implement from 2008.

— Using the authority under the Appropriation Act to access the Contingency Fund via a supplementary estimate—while there are instances where this can be done (particularly for small scale and temporary expenditure) HM Treasury officials have confirmed that this would not be appropriate in this instance, as guidance suggested.

— Using section 82 powers—which, the absence of any alternative, we were forced to use.

Given that we only had one option we did not undertake a financial assessment of the others. Similarly we have not made a value for money assessment of waiting until Royal Assent is received, since this would fail to deliver the Government commitment.

16 October 2006

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