



House of Commons  
Work and Pensions Committee

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

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**First Report of Session 2006–07**

*Report, together with formal minutes and  
memoranda*

*Ordered by The House of Commons  
to be printed 29 November 2006*

**HC 86**  
Published on 2 December 2006  
by authority of the House of Commons  
London: The Stationery Office Limited  
£6.00

## The Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

### Current membership

Terry Rooney MP (*Labour, Bradford North*) (Chairman)  
Anne Begg MP (*Labour, Aberdeen South*)  
Harry Cohen MP (*Labour, Leyton and Wanstead*)  
Natascha Engel MP (*Labour, North East Derbyshire*)  
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### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/parliamentary\\_committees/work\\_and\\_pensions\\_committee.cfm](http://www.parliament.uk/parliamentary_committees/work_and_pensions_committee.cfm). A list of Reports of the Committee in the present Parliament is at the back of this volume.

### Committee staff

The current staff of the Committee are Sarah Davies (Clerk), Rhiannon Hollis (Second Clerk), Djuna Thurley (Committee Specialist), Laura Humble (Committee Media Advisor), Louise Whitley (Committee Assistant), Karen Watling (Committee Secretary) and John Kittle (Senior Office Clerk).

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# 1 Introduction

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1. This Report is the second in a series of two concerning a request by the Department of Work and Pensions (DWP) for authorisation of expenditure under Section 82 of the Welfare Reform and Pensions Act 1999 in connection with a new IT system for the Employment and Support Allowance (ESA). The ESA will replace the current system of incapacity benefits; the Welfare Reform Bill, which includes these provisions, is currently making its way through Parliament.

2. Our first Report<sup>1</sup> set out in some detail the background to this procedure and the justification the Government is putting forward for using it on this occasion. We made a number of recommendations about the format of a draft Section 82 Report given to us by the DWP and concluded that we would make a further Report when the Government laid its final Section 82 Report before the House of Commons. The DWP did this on Tuesday 21 November. We were asked by DWP to consider the final Report as quickly as we could in order to ensure that the overall Section 82 timetable did not slip.

3. The final Section 82 Report has been published separately by the DWP.<sup>2</sup> An accompanying note from the Department setting out how that final Report incorporates our recommendations is published with this Report,<sup>3</sup> as is an independent report from the National Audit Office.<sup>4</sup>

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1 Work and Pensions Committee, Fifth Report of Session 2005-06, *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System*, HC (2005-06) 1648

2 *Welfare Reform: Report by the Secretary of State for Work and Pensions under Section 82 of the Welfare Reform and Pensions Act 1999*, HC (2006-07) 39

3 Appendix 1

4 Appendix 2

## 2 The Government's response to our recommendations

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4. The DWP states in its accompanying note that it has “taken on board all the Committee’s observations and recommendations in the final Report.”<sup>5</sup> More specifically, it has included in that Report:

- additional information on total project costs (Annex B, paragraph 9);
- details of the timing and sequence of events in 2008 (Annex D);
- more information on risks (Annex E);
- a redraft of the section on maximum liability (paragraphs 26–29); and
- additional information on the value for money analysis of the alternative courses of action (paragraphs 19–23).

5. The DWP has also undertaken to make a number of amendments to Departmental guidance on Section 82 Reports:

- To reflect the Committee’s recommendation 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;
- To ensure that additional contextual information is provided in future Section 82 Reports, as it was on this occasion;
- To reflect the Committee’s recommendation that a memorandum to the Committee and the Public Accounts Committee should be produced alongside the final out-turn Report; and
- To ensure that the National Audit Office is asked in future to examine the reasonableness of the cost estimates included in the Section 82 Report.

**6. We welcome the inclusion in the final Section 82 Report of the additional information we requested in our first Report and the undertakings the DWP has made to improve the Departmental guidance on the use of Section 82. We ask for copies of that guidance, as amended, to be made available to the Committee.**

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5 Appendix 1, para 10

## External validation

7. We recommended that the DWP should ask the NAO to examine the reasonableness of the cost estimates that form part of the Section 82 Report.<sup>6</sup> We were pleased to see in the DWP's accompanying note that this had been done, and we received a separate memorandum from the National Audit Office setting out its views, which we are publishing with this Report.<sup>7</sup>

8. The Comptroller and Auditor General has conducted a thorough study of the DWP's proposals given the time available, and we are very grateful for the speed with which this has been done. He noted:<sup>8</sup>

“Within the current timescale it has not been possible to undertake a full examination of the expenditure proposals. Instead my examination covered the process by which the various types of data were obtained and compiled to provide a high level cost model, and the risk analysis of its assumptions performed by the Department”.

9. The conclusion of the Comptroller and Auditor General was “that the cost estimate, prepared by the Department for the purposes of Section 82, falls towards the higher end of a range of possible outcomes but is not unreasonable given the degree of uncertainty inherent in the early stages of a major IT project.”<sup>9</sup>

**10. We are grateful for the work conducted by the NAO in response to our recommendation that it should have a role in examining the reasonableness of the cost estimates included in Section 82 Reports. We trust that in future the DWP will allow more time for the Comptroller and Auditor General to perform his examination.**

11. We were surprised to see that while an updated table of likely expenditure under Section 82 was provided by the Department to the NAO (dated 10 November 2006),<sup>10</sup> this was not included in the final Report laid before the House of Commons by the DWP eleven days later.<sup>11</sup> The information supplied to the NAO updates the likely maximum expenditure falling under Section 82 to £30.42 million, down from the £31.25 million figure which appears in both the draft and final DWP Section 82 Reports. While, as the NAO note points out, the maximum of £31.25 million still stands,<sup>12</sup> the line in paragraph 12 of the DWP's final Section 82 Report which states that “The above figures reflect the Department's best current estimate for the required expenditure” is evidently incorrect.

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6 Work and Pensions Committee, Fifth Report of Session 2005-06, *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System*, HC (2005-06) 1648, para 28

7 Appendix 2

8 Appendix 2, para 2

9 Appendix 2, para 16

10 Appendix 2, para 5

11 Welfare Reform: Report by the Secretary of State for Work and Pensions under Section 82 of the Welfare Reform and Pensions Act 1999, HC (2006-07) 39, para 11

12 Appendix 2, para 5

12. **We are disappointed that the DWP has not included its most recent cost estimates in the final version of the Section 82 Report laid before the House of Commons and urge Ministers to make the position clear when they present the Report. There must be no doubt as to the amount of expenditure the House of Commons is being asked to authorise under the Section 82 procedure.**

13. Furthermore, the expected total project cost listed in the final Report, £295 million,<sup>13</sup> is also out of date, according to the NAO memorandum, which states that “As at 10 November 2006, the Department’s current estimate is that the Employment and Support Allowance Phase 1 project will cost £318.6 million in total.”<sup>14</sup> Later in the report the NAO comments “Taking a cautious view, the Department has estimated that IT development costs could increase by as much as 40% (some £80 million, in total, of which around £11 million could possibly fall in the Section 82 period). This is in addition to the 8% increase in the total estimated project costs since the original Section 82 Report.”<sup>15</sup>

### Value for Money analysis

14. We expressed disappointment in our first Report on this Section 82 request that the Department had “not attempted to support this case with a value for money analysis of the alternative courses of action.”<sup>16</sup> The DWP has included an additional section in its final Report, which acknowledges the Committee’s concerns but concludes “The Department remains unable to provide precise value for money analysis for the same reason given to the Work and Pensions Select Committee and currently untested elements of the Employment and Support Allowance programme are extremely difficult to quantify at the present time.”<sup>17</sup> **We remain of the opinion that this part of the DWP’s final Section 82 Report, in particular paragraph 23, is weak and believe that more detailed information should be included in future Section 82 Reports.**

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13 *Welfare Reform: Report by the Secretary of State for Work and Pensions under Section 82 of the Welfare Reform and Pensions Act 1999*, HC (2006-07) 39, Annex B, para 9

14 Appendix 2, para 5

15 Appendix 2, para 14

16 Work and Pensions Committee, Fifth Report of Session 2005-06, *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System*, HC (2005-06) 1648, para 50

17 *Welfare Reform: Report by the Secretary of State for Work and Pensions under Section 82 of the Welfare Reform and Pensions Act 1999*, HC (2006-07) 39, para 23

### 3 Overall assessment

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15. We remain cautious about this request for Section 82 expenditure. When we took evidence from those DWP officials involved in the project they gave an account of their expertise in carrying through projects of this type.<sup>18</sup> However, as the Comptroller and Auditor General observes, there is considerable uncertainty inherent in the early stages of a major IT project, for example:

- “The actual extent to which existing [computer] code can be reused may be greater or lesser than [assumed] which may result in the actual costs incurred during development being more or less than estimated.”<sup>19</sup>
- “While Pension Credit is the most recent, relevant project to which Employment and Support Allowance can be compared, there can be no guarantee that the out-turn of the two projects will correspond in profile as assumed.”<sup>20</sup>
- “If development of the new IT system turns out to be more difficult than the Department currently expects, this could have a knock-on effect on the costs of the whole project and could also threaten delivery by the target date.”<sup>21</sup>

16. **We do not believe that there are grounds for the House to reject this request for Section 82 approval. The ESA is an important new benefit and we do not wish to stand in the way of measures that we are told by DWP will ensure its orderly and timely implementation. However our cautious approval has caveats. We asked in our previous Report for a detailed out-turn Report, and we will study this closely. We reserve the right to ask the officials concerned to come back before us if we are not satisfied and it is within our purview to seek a debate on the floor of the House as part of an Estimates Day if we are unhappy with the way the authorised expenditure has been used. We also intend to keep a watching brief on the ESA project as a whole as it proceeds, as we have considerable concerns about the 8% increase in total estimated project costs that has already taken place.**

17. **We stated in our last Report that we would at this stage recommend whether the debate on the final Report should take place in a Delegated Legislation Committee or on the floor of the House. We recommend that the debate on this final Section 82 Report takes place in a Delegated Legislation Committee. We hope that the membership will include at least two members of the Work and Pensions Committee.**

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18 Work and Pensions Committee, Fifth Report of Session 2005-06, *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System*, HC (2005-06) 1648, para 55

19 Appendix 2, para 7

20 Appendix 2, para 8

21 Appendix 2, para 10

## Conclusions and recommendations

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1. We welcome the inclusion in the final Section 82 Report of the additional information we requested in our first Report and the undertakings the DWP has made to improve the Departmental guidance on the use of Section 82. We ask for copies of that guidance, as amended, to be made available to the Committee. (Paragraph 6)
2. We are grateful for the work conducted by the NAO in response to our recommendation that it should have a role in examining the reasonableness of the cost estimates included in Section 82 Reports. We trust that in future the DWP will allow more time for the Comptroller and Auditor General to perform his examination. (Paragraph 10)
3. We are disappointed that the DWP has not included its most recent cost estimates in the final version of the Section 82 Report laid before the House of Commons and urge Ministers to make the position clear when they present the Report. There must be no doubt as to the amount of expenditure the House of Commons is being asked to authorise under the Section 82 procedure. (Paragraph 12)
4. We remain of the opinion that this part of the DWP's final Section 82 Report, in particular paragraph 23, is weak and believe that more detailed information should be included in future Section 82 Reports. (Paragraph 14)
5. We do not believe that there are grounds for the House to reject this request for Section 82 approval. The ESA is an important new benefit and we do not wish to stand in the way of measures that we are told by DWP will ensure its orderly and timely implementation. However our cautious approval has caveats. We asked in our previous Report for a detailed out-turn Report, and we will study this closely. We reserve the right to ask the officials concerned to come back before us if we are not satisfied and it is within our purview to seek a debate on the floor of the House as part of an Estimates Day if we are unhappy with the way the authorised expenditure has been used. We also intend to keep a watching brief on the ESA project as a whole as it proceeds, as we have considerable concerns about the 8% increase in total estimated project costs that has already taken place. (Paragraph 16)
6. We stated in our last Report that we would at this stage recommend whether the debate on the final Report should take place in a Delegated Legislation Committee or on the floor of the House. We recommend that the debate on this final Section 82 Report takes place in a Delegated Legislation Committee. We hope that the membership will include at least two members of the Work and Pensions Committee. (Paragraph 17)

# Formal minutes

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**Wednesday 29 November 2006**

Members present:

Mr Terry Rooney, in the Chair

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

- 1. Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System—Further Report: 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—Further Report: 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—Further Report*), 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 17 read and agreed to.

*Resolved*, That the Report be the First 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 several memoranda be reported to the House.

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[Adjourned till Monday 11 December at 4.00pm]

## List of memoranda

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|---|--|------|
| 1 | Appendix 1 – Memorandum submitted by Jim Murphy MP | Ev 1 |
| 2 | Appendix 2 – Memorandum submitted by the NAO       | Ev 2 |

## Reports from the Work and Pensions Committee 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
Fifth Report	Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System	HC 1648

# Memoranda

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## APPENDIX 1

### Memorandum submitted by Jim Murphy MP, Minister of State for Employment and Welfare Reform

I am writing to inform you that the Section 82 Report requesting “power to incur” expenditure for the Employment and Support Allowance IT System prior to Royal Assent was laid before the House today.

I was very grateful for the report of the Work and Pensions Committee and the careful consideration that was given to our Draft Report. The final Report as laid today reflected all the recommendations made by the Committee. I understand that you will be considering the final Report at a meeting shortly and I attach at Annex A a summary of how we will be taking forward all your recommendations.

I am, of course, happy to answer any further questions you may have.

### Annex A

#### WPSC CONCLUSIONS AND RECOMMENDATIONS

1. *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.*

We are grateful for the way the Committee scrutinised this Report within a shorter timescale. We have updated Departmental Guidance to reflect this recommendation.

2. *That the National Audit Office be asked to examine the reasonableness of the cost estimates for the project and that this be done as a matter of course for all future Section 82 Reports.*

We have already engaged with the NAO and provided them with further information on the cost estimates. They are currently examining the reasonableness of the estimates. We will ensure that Departmental Guidance on the use of Section 82 is updated to reflect this for future reports.

3. *That regular reviews of the out-turn expenditure on the project will be prepared every two months.*

We will provide the Committee Clerk with bi-monthly reports as requested.

4. *That information on the total project Costs is included in the final Section 82 Report.*

This has been included in the Report in paragraph 9 of Annex B.

5. *That the timing and sequence of events in 2008 should be spelled out by the Government.*

This has been included in Annex D, which provides an overview of the timeline for the development of Employment and Support Allowance, and Pathways roll-out, as well as the overall Welfare Reform programme.

6. *That the Report should set out more detail on risks, including a list of policy areas in which the risk of change is particularly high.*

The Report contains a new Annex E covering this area, including an assessment of debate in Commons Standing Committee on the Welfare Reform Bill.

7. *That the final Report should clearly set out the maximum liability that would be incurred in the event of cancellation.*

Paragraph 26 has been redrafted to reflect this recommendation.

8. *That the Report should provide an additional explanation of the value for money analysis of the alternative courses of action and of achieving the 2008 deadline.*

This recommendation is covered by the additional material included in paragraphs 19 to 23 of the final Report.

9. *The Committee welcomes the additional contextual information in the Draft Report.*

We welcome this conclusion and will ensure that Departmental Guidance is amended to reflect it.

10. *That the Government will lay a final Report which reflects the Committee's recommendations.*

We have taken on board all the Committee's observations and recommendations in the final Report.

11. *That if the final Section 82 Report is considered by a Delegated Legislation Committee, the Government should ensure that its membership should include at least two members of the Work and Pensions Select Committee.*

If this is how the final Report is considered, the Department will liaise with the Business Managers to discuss membership in line with the Committee's recommendation.

12. *That the final out-turn report should be accompanied by a memorandum to the Committee with additional background information on how the money was spent, the effectiveness of the early expenditure, the lessons learned and how procedures and process will be changed in light of the lessons learned.*

We will ensure that Departmental Guidance is amended to reflect this.

21 November 2006

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## APPENDIX 2

### Memorandum submitted by the NAO

#### **Independent report by the Comptroller and Auditor General on the cost estimates made by the Department for Work and Pensions in respect of the use of Section 82 of the Welfare Reform and Pensions Act 1999**

##### BACKGROUND AND TERMS OF REFERENCE

1. The Department for Work and Pensions (the Department) proposes to use provisions under Section 82 of the Welfare Reform and Pensions Act 1999 to incur expenditure of up to £31.25 million in order to undertake preparatory work for the new IT system for the proposed Employment and Support Allowance, in advance of Royal Assent to the Welfare Reform Bill currently before Parliament. The Work and Pensions Select Committee, in its 5th Report 2005–06, recommended<sup>1</sup> that the National Audit Office be asked to examine the reasonableness of the cost estimates provided by the Department in its Report under Section 82. This recommendation was accepted by the Department.

2. The Committee's recommendation has come near the end of the Section 82 authorisation process. Within the current timescale it has not been possible to undertake a full examination of the expenditure proposals. Instead my examination covered the process by which the various types of data were obtained and compiled to provide a high level cost model, and the risk analysis of its assumptions performed by the Department. My examination included assessment of the costing model and discussions with Departmental Officials. I have also taken account of information available at the time from two independent risk reviews of the Employment and Support Allowance project carried out on the Department's behalf.

3. My report has been prepared solely to provide the House of Commons with a conclusion on the reasonableness of the Department's cost estimates for the purposes of Section 82 authorisation. It does not constitute an endorsement of the project or a conclusion on the likelihood of it delivering the anticipated outcome and associated benefits. The National Audit Office cannot accept responsibility to any other party for any reliance placed on this report for any purpose.

##### THE DEPARTMENT'S ESTIMATES OF THE EXPENDITURE REQUIRED UNDER SECTION 82

4. The estimated total expenditure for the Employment and Support Allowance project is given as £295.37 million in the Department's Section 82 report<sup>2</sup> at Annex B. This total does not depend on the use of Section 82. All expenditure will be authorised by either Section 82 or the Welfare Reform Bill (assuming it receives Royal Assent). However, as it is not known when Royal Assent will be given, it is not possible to

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<sup>1</sup> *Power to incur expenditure under Section 82 of the Welfare Reform and Pensions Act 1999: new Employment and Support Allowance IT System*, 5th Report of the Work and Pensions Committee, HC 1648, 2005–06.

<sup>2</sup> *Report on proposal for Section 82 authorisation for spending on Employment and Support Allowance system before Royal Assent to the Welfare Reform Bill*, Department for Work and Pensions, HC 39, 2006–07.

state with certainty what proportion of the total project spent will be authorised by Section 82, and what will be authorised by the Welfare Reform Bill. The Department has requested authorisation for £31.25 million to be spent under Section 82. This amount is a maximum, assuming the latest possible date for Royal Assent.

5. Since the draft Section 82 report was presented to the Work and Pensions Committee in August 2006, the project has moved on. As a result, the Department has now revised its cost estimates. As at 10 November 2006, the Department's current estimate is that the Employment and Support Allowance Phase 1 project will cost £318.6 million in total, of which £30.42 million falls under Section 82. The amount required under Section 82 is therefore predicted to remain within the £31.25 million requested in the Department's Report.

#### ORIGINAL COST SUBMISSION

<i>ESA s82 IT Costs—Original Submission</i>							
<i>Section</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Total</i>
	<i>£ millions</i>						
Back-end (JSAPS)			0.06	0.11	0.19	0.39	0.75
Dev Test Environment				3.60	3.60	3.60	10.80
Front-End (PTP)				2.60	2.60	2.60	7.80
Interface (PXP)	0.01	0.01	0.02	0.04	0.09	0.12	0.29
IS/IT Team			0.59	0.59	0.59	0.59	2.37
Other systems cost			2.09	2.09	2.09	2.09	8.35
Telephony				0.30	0.30	0.30	0.90
<b>Total</b>	<b>0.01</b>	<b>0.01</b>	<b>2.76</b>	<b>9.33</b>	<b>9.46</b>	<b>9.69</b>	<b>31.25</b>

Source: Jobcentre Plus

#### UPDATED COST PROFILE (10 NOVEMBER 06)

<i>ESA s82 IT Costs—Updated Forecast for PDR Nov' 06</i>							
<i>Section</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Total</i>
	<i>£ millions</i>						
Back-end (JSAPS)			0.18	0.18	0.32	0.64	1.32
Dev Test Environment				3.25	3.25	3.25	9.75
Front-End (PTP)				3.37	4.15	5.19	16.08
Interface (PXP)	0.04	0.11	0.23	0.15	0.15	0.21	0.91
IS/IT Team			0.59	0.59	0.59	0.59	2.36
Other systems cost							
Telephony							
<b>Total</b>	<b>0.04</b>	<b>0.11</b>	<b>4.37</b>	<b>7.55</b>	<b>8.47</b>	<b>9.89</b>	<b>30.42</b>

Source: Jobcentre Plus

#### CRITERIA FOR ASSESSING REASONABLENESS OF THE SECTION 82 ESTIMATES

6. In arriving at my assessment of the reasonableness of the cost estimates produced by the Department I have considered:

- the reasonableness of the assumptions and the robustness of the model;
- the reasonableness of the estimated data underlying the model; and
- the sensitivity of the cost estimates to variability in the data and assumptions, and the Department's approach to managing the risks of variability.

#### ASSESSMENT OF REASONABLENESS OF SECTION 82 ESTIMATES

##### *Reasonableness of the assumptions and the robustness of the model*

7. The project estimates have been prepared on the assumption that much of the front and back end of the new system can be based on the existing, successful, Pension Transformation System and Jobseeker's Allowance Payment System. Up to 80% of the Employment and Support Allowance system is expected to use design principles and code from the other two systems. The actual extent to which existing code can be reused may be greater or lesser than this assumption which may result in the actual costs incurred during development being more or less than estimated. Even where existing code is re-used there will still be substantial development required.

8. The profile over time for expenditure on technical development tasks has been planned in line with the actual profile for implementing the Pension Credit system. While Pension Credit is the most recent, relevant project to which Employment and Support Allowance can be compared, there can be no guarantee that the outturn of the two projects will correspond in profile as assumed. There are similarities between the projects, as both involve building on existing IT infrastructure to deliver a new benefit. However, the Employment and Support Allowance is a more complex benefit than Pension Credit, reflecting the needs of the customer group, who will require more regular contact with the Department. This will lead to a longer development timescale, and differences in the detailed IT system required to deliver the new benefit.

9. The expenditure profile for staff time not spent on technical development tasks, and for hardware and infrastructure, is based on spreading the cost evenly over the life of the task. Without a detailed business specification it is not possible to arrive at a greater degree of detail and so greater confidence in the timing of events and delivery of products. This could affect the amount of expenditure that occurs under Section 82.

10. The cost estimates have been prepared on the assumption that Release 1 of the IT system will be delivered by October 2008 in line with the Ministerial target. If development of the new IT system turns out to be more difficult than the Department currently expects, this could have a knock-on effect on the costs of the whole project and could also threaten delivery by the target date. There is flexibility within the project that some elements which are a lower priority could be abandoned, in order to concentrate more effort on the higher priority elements. However, dropping any elements of functionality could have an effect on the service delivered to customers, on the operational efficiencies of the new system and on the profile of costs.

#### *Reasonableness of the estimated data underlying the model*

11. The unit costs for each member of Departmental Staff are based on the average cost of employing staff in that grade. The unit costs of consultant and contractor support are based on rates agreed with suppliers. The rates at which IT staff at a given level of skill are made available, under standard services arrangements, have been subjected to independent review by the Department's central procurement and finance functions. The costs of infrastructure such as IT hardware and telephony are also based on standard services arrangement contracts. All of these figures, therefore, can be predicted with reasonable confidence.

12. While the unit costs are known with reasonable confidence, the amount of effort required for each project task is an estimate. The estimates for each task were prepared by staff experienced in the relevant field and are based in part on their experience of other similar projects. However, the Employment and Support Allowance project is currently at a very early stage and detailed specifications do not yet exist, so the breakdown into tasks can only be performed at a high level. Therefore the current estimates are indicative only and do not constitute a precise budget for the project. Some key decisions have not yet been made, for example relating to the operational business model, and also the extent of connectivity between front and back ends. This level of uncertainty is inherent in a major project at such an early stage of development.

#### *Sensitivity of the cost estimates to variability in the data and assumptions, and the Department's approach to managing the risks of variability*

13. The Department recognises that the biggest risk to delivery of the project is the availability of resources, particularly skilled IT staff, in sufficient numbers to maintain the project timetable. The Department will be unable to spend the full amount authorised under Section 82 if it does not have sufficient internal capacity allocated to the Employment and Support Allowance project at the right time. There is also a risk that the Department's contractors will be unable to recruit skilled IT staff in sufficient numbers in early 2007.

14. The Employment and Support Allowance project is still at an early stage without a fully defined specification, and therefore the Department's detailed cost model has not yet been subjected to systematic sensitivity analysis. However, the Department has undertaken a risk analysis (as set out in the Department's Section 82 report) and has attempted to quantify the risks and their effect on the basis of past experience. Taking a cautious view, the Department has estimated that IT development costs could increase by as much as 40% (some £80 million, in total, of which around £11 million could possibly fall in the Section 82 period). This is in addition to the 8% increase in the total estimated project costs since the original Section 82 report.

15. A number of other risks have been identified, most of which are deemed to be unlikely. They are also assumed to have negligible impact on the expenditure incurred under Section 82, although they would have the effect of increasing the cost of the project overall. The Department is keeping all risks under review.

#### CONCLUSIONS ON THE COST ESTIMATES PREPARED FOR THE PURPOSES OF SECTION 82

16. On the basis of my examination, I have concluded that the cost estimate, prepared by the Department for the purposes of Section 82, falls towards the higher end of a range of possible outcomes but is not unreasonable given the degree of uncertainty inherent in the early stages of a major IT project. The £31.25 million requested under Section 82 is an estimate of the maximum to be spent under this

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authority, and assumes that Royal Assent is not achieved until July 2007. This is a prudent approach but does mean that it is likely that the total spent prior to Royal Assent will be significantly less than the authorised amount—as little as £4.52 million if Royal Assent is given in March 2007.

17. My conclusions are, however, subject to a number of caveats. By their very nature, the Department's cost estimates are projections only and actual expenditure is likely to be different from the estimates since anticipated events frequently do not occur and the variation may be material. In addition, the estimates have been prepared for the purpose of authorisation under Section 82, using a set of assumptions that include a prudent assessment of the timing of Royal Assent, and assumptions about other future events that are not necessarily expected to occur. Consequently, readers of my report are cautioned that the cost estimates should not be relied upon for purposes other than authorisation under Section 82.

18. The resources actually expended under authority of Section 82 are therefore likely to vary depending on two key factors:

- (a) The length of time prior to Royal Assent. The Department has no control over this. The effect that this has on Section 82 expenditure is clearly set out in the Section 82 report.
- (b) The amount of work required in the early stages of the project, and the availability of Departmental Staff and contractors to undertake this work. The work required for a new IT system is difficult to predict at a time when some key decisions have yet to be made and detailed specifications are still under development. Once requirements are known, the extent to which resources are available for the project is under the control of the Department. The Department acknowledges the effect that resource risk could have on expenditure and project delivery, and is acting to manage this risk.

*John Bourn*

*November 2006*

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