



House of Commons
Committee of Public Accounts

Support to incapacity benefits claimants through Pathways to Work

First Report of Session 2010–11

*Report, together with formal minutes, oral and
written evidence*

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The Committee of Public Accounts

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The current staff of the Committee is John Patterson (Clerk), Lori Verwaerde (Senior Committee Assistant), Jane Lauder and Pam Morris (Committee Assistants) and Alex Paterson (Media Officer).

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Summary

During 2008–09, the Department for Work and Pensions (the Department) paid £12.6 billion in incapacity benefits to 2.6 million people who were unable to work because of disability or ill health. The Pathways to Work programme was launched nationally between 2005 and 2008 to help reduce the number of incapacity benefit claimants through targeted support and an earlier medical assessment. It is delivered by contractors in 60% of districts, with Jobcentre Plus providing the service in the remainder. By March 2010, the programme had cost an estimated £760 million. The numbers on incapacity benefits reduced by 125,000 between 2005 and 2009. Pathways contribution to this reduction has been much more limited than planned.

The Department's intention of reaching a group of people who had never before been required to participate in employment support was admirable, but we found that the programme has had limited impact and was not well implemented. Early medical assessments appear to have had some success in moving people off incapacity benefits, although the Department does not monitor whether all these people move into work or onto other benefits. In other areas money has not been spent effectively. Private providers have seriously underperformed against their contracts and their success rates worse than Jobcentre Plus even though private contractors work in easier areas with fewer incapacity claimants and higher demand for labour.

We are concerned that Pathways was introduced without effective piloting and rigorous evaluation of its likely impact. The early evaluation, which suggested 25% of participants would find work, was flawed as it included people who made an inquiry about the benefit but then did not go on to actually claim the benefit and, in the pilot areas, participate in Pathways. This gave an over-optimistic impression of what the programme could achieve, which then contributed to a lack of realism in the bids submitted by providers and the targets set in their contracts.

Contractors have universally failed by considerable margins to meet their contractual targets for helping claimants who are required to go through Pathways. They have performed worse than Jobcentre Plus areas, although recent improvements have narrowed the difference. Despite being paid £100 million in 2008–09, providers claim not to have made a profit from their contracts. The Department agreed to pay £24 million in service fees early in view of contractor cash flow problems, although we consider the need for this was questionable given the large size of some of the organisations involved. The Department had an objective to build a healthy market, but has failed to develop an adequate understanding of the supply chain. It has not monitored how well prime contractors are sharing rewards and risks with the more than 80 specialist sub-contractors involved, and we have concerns that effective small private and voluntary organisations working in local communities are being asked to take an unfair share of the risk by prime contractors.

The Department should consider the evidence of our enquiries thoroughly before embarking on its new Work Programme. It should ensure good value for money by making good use of Jobcentre Plus resources and maintaining a sustainable balance

between public, private and voluntary providers to allow proper competition and a good basis for comparing performance.

On the basis of a Report by the Comptroller and Auditor General,¹ this Committee took evidence from the Department and two major providers on why Pathways has failed to get significant additional numbers of incapacity benefits claimants into work and how the lessons from Pathways can be applied to the new Work Programme.

1 C&AG's Report, Session 2010–11, *Support to incapacity benefits claimants through Pathways to Work*, HC 21

Conclusions and recommendations

- 1. The number of incapacity benefits claimants has remained in excess of 2.5 million for over a decade, and nearly 1.5 million claimants have been in receipt of these benefits for more than five years.** This has been an intractable problem for the Department and it deserves credit for trying to tackle it. Nevertheless, its work has, at best, reduced the number of claimants by just 125,000 between 2005 and 2009. Our recommendations suggest how we believe the Department should prioritise its work to ensure resources are used effectively to tackle this problem and help claimants back into work.
- 2. The performance by the mainly private sector providers has been universally poor in relation to their main target group, those people who are required to go on the Pathways programme.** The targets agreed with providers were over-optimistic, considerably exceeding the best performing Jobcentre Plus districts in the early pilot areas, and underestimated the difficulty of supporting this client group. Providers started from a low knowledge base with little direct experience of working with incapacity benefits claimants. Providers have also had less opportunity to work with people early in their claim, partly because handover of claimants from Jobcentre Plus has taken longer than was anticipated at the procurement stage. The Department should be more ready to challenge bids from providers where there are grounds to suspect performance projections are over-optimistic. The Department should seek to maintain a balance between public, private and voluntary providers to ensure adequate opportunity to compare performance and value for money.
- 3. Effective implementation of the programme was hampered by a flawed process of piloting and evaluation, which gave too positive a view of how well Pathways could be expected to perform.** The Department should make sure it properly evaluates its pilots so that it has precise evidence of the likely employment impact for claimants before it launches future programmes.
- 4. In 2008–09, £94 million (38% of Pathways expenditure) was spent on employment support that did not deliver additional jobs.** The Department should fundamentally review the nature and funding of its employment support for claimants of incapacity benefits. It should provide clear guidance to those involved in delivering the Work Programme on the type of support that is most likely to deliver additional jobs, drawing on robust evidence.
- 5. There is a lack of robust information on what happens to those claimants who fail to participate in Pathways.** The Department does not hold proper information on the number of incapacity benefits claimants who have failed to take part in mandatory elements of Pathways and had their benefit reduced as a result. In developing the new Work Programme, the Department should build on its experience of measuring sanction rates for Jobseeker's Allowance claimants and create a robust equivalent system for claimants of incapacity benefits.

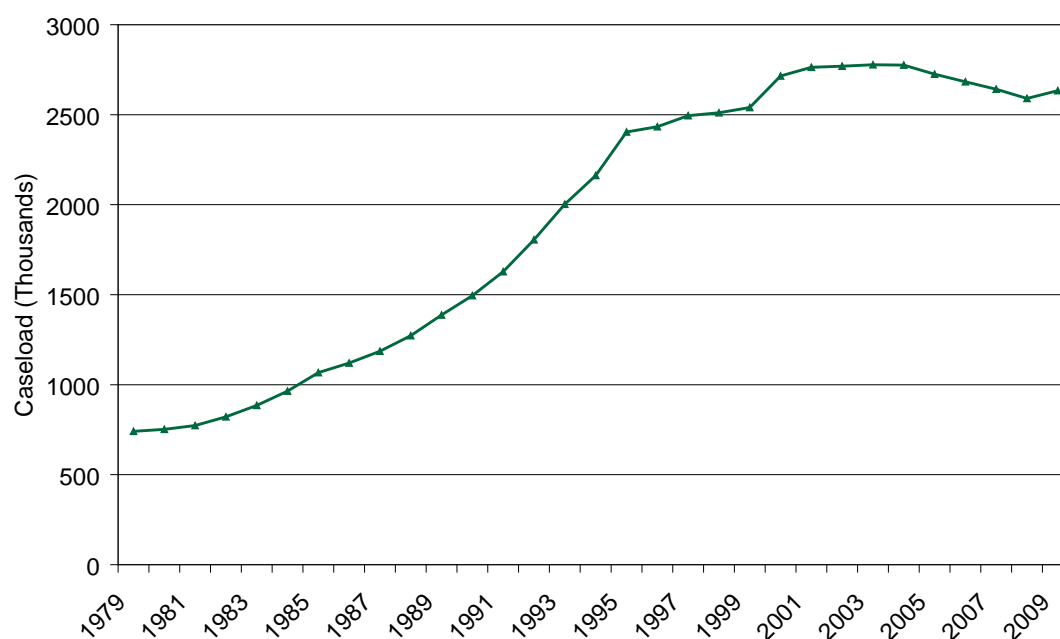
- 6. Better information is needed to help set incentives for providers based on better analysis of the claimant group.** Providers favour a differential pricing system that would reflect the varying levels of support needed to help people with different problems. The Department should collect data so that it understands the costs and benefits of the different types of support for incapacity benefits claimants. It should use this knowledge in designing and testing the contracting model it develops to deliver the Work Programme from Summer 2011.
- 7. The controls in place are insufficient to manage the risk of providers submitting inaccurate contract payment claims.** The Department should strengthen its controls to provide greater confidence that it will detect claims that are not valid, drawing on a range of techniques including systematic checks against benefit records, and contact with individuals and their employers. Contracts should be clear that, where errors are found, the rest of a provider claim will be investigated and deductions applied.
- 8. The Department lacks the information it needs to understand the supply chain for employment support, which conflicts with its objective of ensuring a healthy market exists.** The work underway to guard against unfair treatment of subcontractors and other delivery partners through the new ‘Merlin’ standard is welcome. The Department should assess its effectiveness in ensuring risks and benefits are distributed fairly throughout the supply chain and should report back to this Committee by the end of 2010.
- 9. As the Employment and Support Allowance is extended to all existing claimants, there is a risk that some of those who are re-assessed and found fit to work will not receive the employment support they need.** Early evidence shows that the new medical assessment, introduced with Employment and Support Allowance, will deliver a significant reduction in the number of incapacity benefits claimants. The Department should evaluate the accuracy of the new medical assessment robustly to evaluate that it is fit for purpose.
- 10. Many existing incapacity benefit claimants will be found fit to work when they undergo the new medical assessment, and many will move on to the more work-focused benefit, Jobseeker’s Allowance.** The Department has no information on claimants who are refused incapacity benefits. It should monitor them to know how many move onto Jobseeker’s Allowance. The Department has also not yet fully evaluated its capacity to support large numbers of people who transfer in this way. It should undertake such an assessment and put in place the additional support required before the medical assessment is rolled out.

1 The number of Incapacity Benefit claimants

1. Incapacity benefits are a group of benefits claimed by working age people on the grounds of disability or ill-health. During 2008–09, the Department for Work and Pensions (the Department) spent £12.6 billion on incapacity benefits.²

2. The number of people claiming incapacity benefits peaked in 2003 at 7.7% of the working age population.³ In August 2009, the number was 2.63 million (7.2% of the working age population), and has remained in excess of 2.5 million for over a decade (**Figure 1**).⁴ Some 1.5 million of the 2.6 million people currently on incapacity benefits have been in receipt for more than five years, indicating that this a deeply intractable issue.⁵ Around 650,000 people leave incapacity benefits every year and whilst the Department does not have reliable information on the destinations of around a quarter of these, it estimates that at least 55% move on to other benefits like Jobseeker's Allowance and Retirement Pension.⁶

Figure 1: Incapacity benefits claimants volumes over time



Source: DWP Work and Pensions Longitudinal Study

2 C&AG's Report, para 2

3 Q 186

4 C&AG's Report, para 1.1

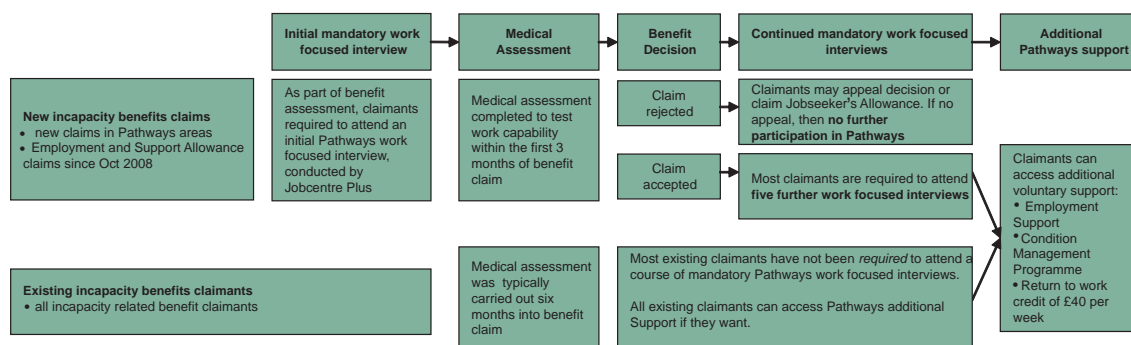
5 Q 167

6 Ev 22

3. In 2006, the Department set an objective to reduce the volume of incapacity benefits claimants by one million between 2005 and 2015.⁷ A key part of its strategy to achieve this target has been mandatory participation in the Pathways employment support programme for new claimants of incapacity benefits. In contrast, most long-term claimants have so far not been required to participate in Pathways, but can do so voluntarily.⁸ The Department also introduced the requirement for new claimants to attend work-focused interviews in order to receive their benefit, and to undertake a medical assessment earlier in their benefit claim than in the past.

4. In October 2008, the Department introduced a new benefit called the Employment and Support Allowance for all new incapacity benefits claims. The Allowance established a new medical assessment to help determine eligibility for the benefit which, following the Pathways experience, is completed much earlier in the claim. The Employment and Support Allowance also incorporated the programme of Pathways obligatory work-focused interviews (Figure 2).⁹

Figure 2: Employment support routes for someone claiming incapacity benefits¹⁰



5. The Department uses external contractors ('prime providers') to lead the delivery of Pathways in 60% of Jobcentre Plus districts, paying 70% of the contract value on the basis of performance achieved. In the remaining 40% of districts, Pathways is led by Jobcentre Plus, but it also draws on the NHS and external contractors to support delivery.¹¹

6. The Department accepted that the Pathways programme has not achieved the results intended in terms of the number of people helped into work or net financial savings and, for the £793 million spent on it to end March 2010, Pathways has not provided a net return to the Exchequer.¹² Although there has been a reduction of 125,000 claimants in receipt of incapacity benefits between February 2005 and August 2009, the Department accepted that Pathways will have contributed only modestly to this reduction, and cannot determine precisely its contribution.¹³

7 C&AG's Report, para 1.5

8 C&AG's Report, para 8

9 C&AG's Report, para 10

10 Derived from C&AG's Report, Figure 2

11 C&AG's Report, para 9

12 Qq 126–129 and 166

13 Qq 158 and 159

7. Moving those new and repeat claimants who are required to participate in Pathways into employment has proved harder than the Department expected. This has impacted both on the performance of the programme as a whole and on the performance of providers.¹⁴

2 Performance of providers delivering Pathways to Work

8. All the contractors employed to deliver Pathways have performed well below their contractual targets despite the Department paying service fees earlier than planned in order to improve performance.¹⁵ The target job rate agreed with contractors was to move, on average, more than one in three of the claimants required to participate in the programme (37%) into work over the life of contracts.¹⁶ To date, on average, providers have found work for 12% of mandatory participants.¹⁷

9. Reed in Partnership Limited and A4E told us that while performance has improved over time, for mandatory participants they have achieved on average less than half what they promised in the contracts they signed with the Department.¹⁸ Against an average target of 36% of participants into work, A4E has to date found work for 15% of mandatory participants.¹⁹ Reed in Partnership has so far found only 9% of mandatory participants work²⁰ against its target of 32%²¹ (**Figure 3**).

10. Provider bids for the work were based on a limited understanding of how mandatory participation in the programme would affect the client group. The assumptions that providers made at the bidding stage about the support needs and work-readiness of this group have proved inaccurate.²² In particular, providers were surprised by the number of mandatory claimants referred to them who had a history of previous claims, who presented additional challenges.²³ The assumptions made about claimants who volunteered to participate in Pathways (longer-term claimants) have proved more reliable because they were based on experience of delivering a similar scheme for this client group, the New Deal for Disabled People.²⁴ Providers reported that voluntary participants—who tend to be easier to help—have made up a much bigger proportion of the claimants they have worked with than was anticipated at the Pathways bidding stage.²⁵

11. To date, contractors in provider-led Pathways areas have performed worse than Jobcentre Plus, despite, in general, operating in parts of the country with lower incapacity benefits numbers and unemployment levels, and relatively strong demand for labour.²⁶ While Jobcentre Plus' Pathways performance is still slightly ahead of the providers, the

15 Qq 109–113 and 176

16 Q 144

17 Supplied to Committee by Department via NAO

18 Q 24

19 Q 10

20 Q 25

21 Qq 19–65, 73 and 74

22 Qq 1, 12, 71–72, 96–97, and 110–111

23 Q 11

24 Qq 2–7

25 Qq 9 and 131

26 C&AG's Report, para 2.16

Department reported that more recent performance data showed that the differential has narrowed.²⁷ Providers also suggested that performance in helping people into work is not simply a function of the vacancies available or the amount of economic activity; other factors relating to individual claimants and housing costs may, for example, be important.²⁸

Figure 3: Provider performance for mandatory participants

Provider Contract	Target (%)	Actual (%)
A4e (Surrey and Sussex)	50	13
A4e (South East Wales)	33	12
A4e (West Yorkshire)	32	14
A4e (North and Mid Wales)	32	13
A4e (Devon and Cornwall)	31	16
A4e average	36	15
Reed (London South)	32*	9
Reed (London West)		9
Reed (London North)		7
Reed (Cambridgeshire & Suffolk)		10
Reed average	32	9
Average Performance across all Providers (to date)	37	12

*The average across all the Reed districts, as reported by Reed at the hearing

12. A number of inflexibilities in the programme may have contributed to poor provider performance. The rigid requirement to have Pathways mandatory work-focused interviews at monthly intervals and poor service continuity at the handover of claimants to providers by Jobcentre Plus staff has impeded performance. A delay in the average time it takes for Jobcentre Plus to complete the initial work focused interview, compared with initial Departmental planning assumptions, has also reduced the opportunity for providers to work with claimants in the very early stages of their claim. Providers felt that the recent decision to put Jobcentre Plus staff in their premises to conduct the first work-focused interview has helped them to establish a relationship with participants earlier in the claim process. On the other hand, because of initial delays in the administration of the new medical assessment for the Employment and Support Allowance, providers are working with claimants who were subsequently found to be not eligible for their support.²⁹ The Department said that it intends to learn from the Pathways experience, recognising the innate difficulty of the claimant group, and intended to give future providers delivering the

27 Q 191

28 Qq 13–16; C&AG's Report, para 2.16

29 Qq 68–69, 103–106, 114–117, 196 and 200

forthcoming Work Programme a more flexible payment structure which allowed them to develop a longer-term relationship with participants.³⁰

13. Providers also referred to the difficulties associated with the recession but they and the Department both accept that, while it has meant that competition for jobs has increased, poor contractual performance by providers is not explained by the recession alone. Factors such as the underestimation of the complexities of the claimant group, which led to overly optimistic bids, are equally important.³¹

14. 70% of payments to providers are linked to performance, with the remaining 30% paid monthly as a service fee. As a consequence of poor performance, providers are not finding the contract profitable.³² Reed in Partnership reports that it has not made a profit on any of its Pathways contracts to date. From an investment of £3 million in Pathways contracts, it is currently £1 million out of pocket,³³ with the actual cost of supporting mandatory participants into work estimated at two and half times the level assumed when it bid for the contract.³⁴ Had they achieved their contracted target, Reed expected to make a return of about 10% on capital invested.³⁵ Providers got their contracting model for Pathways wrong insofar as they priced their bid on the basis that they could deliver a high volume of job outcomes for only limited investment per participant.³⁶

15. The Department's systems for assessing provider bids proved ineffective in Pathways and it did not challenge over-bidding by contractors with no bid being ruled out solely because its proposed targets were unrealistic.³⁷ The Department reported that it has now strengthened its approach and requires suppliers to give a much more detailed rationale for the performance levels they offer.³⁸ In the meantime, the Department reported that it had so far not terminated any contracts despite poor performance, but that two providers were subject to contract 'breach notices', which may lead to termination.³⁹

30 Qq 175–177

31 Qq 69, 111 and 196

32 Qq 78–81, 83–84 and 93–95

33 Q 87

34 Q 86

35 Qq 88 and 118–122

36 Qq18 and 124

37 Ev 22

38 Q 144

39 Q 147

3 Applying the lessons from Pathways to Work

16. Pathways performance has not been in line with expectations and its precise contribution to a reduction in the volume of people claiming incapacity benefit cannot be measured.⁴⁰ The Department made a number of mistakes in the Pathways to Work programme that must be avoided in future programmes. It reported that it is making a number of improvements ahead of the new Work Programme, drawing on its experience of Pathways.

17. The methodology used by the Department to assess the impact of the programme in pilot areas was flawed because it sampled people who made an inquiry about claiming incapacity benefits, not those who actually went on to claim.⁴¹ This meant that the Department was not able to tell what the employment impact of Pathways for actual claimants was prior to the national roll out of the programme. At the time of the evaluation, the Department said that it had no reason to think that there would be a difference between the two groups,⁴² a view shared by its evaluation panel at the time.

18. The Department accepted, with hindsight, it should have evaluated the Pathways pilot to include both those who enquired about incapacity benefits and those who actually started on the benefit.⁴³ The Department nevertheless believes that it took a sound and responsible decision in rolling out the Pathways programme nationally.⁴⁴ Having a more realistic approach to evaluation sampling and more thorough piloting would have provided a stronger basis on which to assess the cost effectiveness of a programme that has so far cost in excess of £750 million.⁴⁵

19. In 2008–09 some £94 million was spent on additional support through Pathways for new incapacity benefits claimants, but this did not increase the likelihood of someone finding work.⁴⁶ The Department did not indicate when it intends to stop spending money on these elements of additional Pathways employment support but accepted that they have not added value and that lessons need to be learnt for future employment support delivered in the Work Programme. Only the early medical assessment introduced as part of Pathways and now incorporated into the Employment and Support Allowance, and the prospect of a more active process requiring claimants to participate in work focused interviews whilst in receipt of benefits appears to have reduced claimant numbers.⁴⁷

40 Qq 126–129, 134, 158–159 and 166

41 C&AG's Report, para 11

42 Qq 136–138

43 Qq 163–164

44 Qq 141–142

45 Qq 150, 161, 164 and 179

46 C&AG's Report, para 29

47 Q 150

20. Failure to attend a Pathways work-focused interview for those claimants who are required to participate in the programme can lead to a benefit reduction of around 25%. In contrast to Jobseeker's Allowance, the Department does not hold reliable data on the proportion of incapacity benefits claimants who are 'sanctioned' in this way, and this is a significant weakness.⁴⁸ The Department recognises that the rate of sanctioning is low but the absence of robust data gives no reliable basis for exploring why that might be the case.⁴⁹ It is therefore impossible to determine the impact of sanctions on this claimant group. The Department agrees that this is a weakness and is something that it needs to examine further to inform the design of the Work Programme.⁵⁰

21. The Department also needs to counter the risks of providers investing resources in 'easier to help' claimants in order to receive outcome payments,⁵¹ and should do more to create the right incentives to providers to help *all* claimants find work. Providers and the Department agree that a model of differentiated contract payments, in which outcome payments vary according to how difficult a claimant is to support back into work, would offer a better incentive structure.⁵² The effectiveness of this approach depends on being able to devise a model which accurately costs and predicts likely claimant behaviour, something the Department has not yet been able to do.⁵³ Although the Department has learnt a lot about claimant behaviour from Pathways, it is essential that changes to the payment model are not made to the detriment of value for money.⁵⁴

22. The Department requires Pathways providers to retain documentary evidence for all the jobs they claim to have achieved, but checks only a 10% sample.⁵⁵ Whilst the Department believes it has improved the level of control over provider payments in recent years, the level of checks appears insufficient given the risks and value of payments.⁵⁶ There is no independent validation of payment claims with the employer or claimant, and no routine basis for reviewing the rest of a contractor claim where an error in the 10% sample of claims is found.⁵⁷ This leaves a significant gap in the controls in place to detect erroneous or fraudulent claims by providers.

23. Prime providers have referred only 12% of participants to their subcontractors, choosing to work directly with the remaining 88%.⁵⁸ This concentration of work with prime providers does not appear consistent with the Department's commissioning strategy and its objective of maintaining a healthy welfare-to-work supplier market.⁵⁹ The Department accepted that it needed to learn lessons about the treatment of subcontractors and its 'line

48 Q 168

49 Q 169

50 Qq 168–170

51 C&AG's Report, para 4.13

52 Qq 18, 89–92, 107–108, 123–124 and 131

53 Q 134

54 Q 133

55 Q 170

56 C&AG's Report, para 4.3

57 Qq 18 and 170

58 Qq 98–99 and 154; C&AG's Report, para 4.7

59 Q 154

of sight' to subcontractors delivering frontline services, though it remains adamant that its principal relationship is with the prime provider.⁶⁰ The Department is now asking organisations bidding for contracts under the Work Programme to provide, at an early stage, much more detailed information on their supply chain policy and experience.⁶¹ Recognising this as a gap, the Department has introduced a new accreditation system ('Merlin') to set out its expectations for supply chain management and to grade providers according to their performance.⁶²

24. Significant progress in reducing claimant numbers appears dependent on the introduction and roll out of the new medical assessment for all incapacity benefits claimants. Around 38% of new claimants have so far been found capable of work and not eligible for the Employment and Support Allowance, potentially increasing the volume of claims for Jobseekers Allowance.⁶³ The Department plans to pilot the new medical assessment with existing claimants in Aberdeen and Burnley later this year, before rolling it out to all existing claimants by 2014. It is important that the Department understands fully the impact this roll out might have on claims for other benefits and the capacity of Jobcentre Plus to process these in light of the Government spending review.⁶⁴ Until piloting work is complete, the Department admits it does not know precisely what proportion of existing claimants who are re-assessed will go on to claim Jobseeker's Allowance where they are found 'fit for work' under the new assessment criteria.⁶⁵

25. A measure of the success of the new medical assessment will be the level of benefit appeals which result in the Department's decision being overturned. The Department reported that around one in three claimants has so far appealed against its decision to disallow the benefit, with fewer than half (40%)⁶⁶ being successful on appeal.⁶⁷ This represents a significant proportion of claimants whose appeal is upheld and the Department should look to reduce this rate over time, in particular, monitoring rates for existing claimants who are due to be re-assessed against the new criteria.

26. Claimants who do not qualify for incapacity benefits may transfer to Jobseeker's Allowance. These claimants are likely to require more targeted interventions, given that many will have been claiming incapacity benefits for a long time and may need additional support to find work.⁶⁸ There remains a risk that these claimants will be transferred from one benefit to another rather than finding work and leaving benefits altogether.⁶⁹

60 Qq 171–172

61 Q 154

62 Qq 155–156

63 C&AG's Report, para 26

64 Qq 151, 185–186 and 189

65 Q 152

66 *Employment and Support Allowance: Work Capability Assessment: Official Statistics, July 2010* at: http://research.dwp.gov.uk/asd/workingage/esa_wca/esa_wca_27072010.pdf?x=1

67 Q 184

68 Qq 182 and 183

69 Q 184 and 188

Formal Minutes

Wednesday 8 September 2010

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon

Stephen Barclay

Jackie Doyle-Price

Matthew Hancock

Chris Heaton-Harris

Joseph Johnson

Rt Hon Mrs Anne McGuire

Mr Austin Mitchell

Nick Smith

Ian Swales

James Wharton

Draft Report (*Support to incapacity benefits claimants through Pathways to Work*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 26 read and agreed to.

Conclusions and recommendations 1 to 10 read and agreed to.

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

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

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

[Adjourned till Tuesday 14 September at 9.30 am

Witnesses

Wednesday 21 July 2010

Page

Mr Chris Melvin, Chief Executive, Reed-in-Partnership and **Mr Steve Marsland**, Executive Director, A4e and **Sir Leigh Lewis KCB**, Permanent Secretary, **Mr Adam Sharples**, Director-General, Employment and **Mr Alan Cave**, Delivery Director, Department for Work and Pensions

Ev 1

List of written evidence

Department for Work and Pensions

Ev 22

List of Reports from the Committee during the current Parliament

First Report

Support to incapacity benefits claimants through Pathways to Work

HC 404

Oral evidence

Taken before the Committee of Public Accounts on Wednesday 21 July 2010

Members present

Margaret Hodge, in the Chair

Mr Richard Bacon
Stephen Barclay
Jackie Doyle-Price
Justine Greening
Matthew Hancock
Chris Heaton-Harris

Joseph Johnson
Mrs Anne McGuire
Austin Mitchell
Nick Smith
Ian Swales
James Wharton

Mr Amyas Morse, Comptroller and Auditor General, and **Mr Jeremy Lonsdale**, National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, gave evidence

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL SUPPORT TO INCAPACITY BENEFITS CLAIMANTS THROUGH PATHWAYS TO WORK [HC 21]

Witnesses: **Mr Chris Melvin**, Chief Executive, Reed-in-Partnership, and **Mr Steven Marsland**, Executive Director, A4e, gave evidence.

Q1 Chair: Can I start by welcoming both Steve Marsland and Chris Melvin. Thank you both for agreeing to come, particularly at such short notice. I apologise for that but it is because it took some time for the Committee to get established and for us to begin to be able to diary the hearings that we want to have. We are extremely grateful to you both for coming to see us. Can I also say to you we are expecting a vote any time, so we may just start and then find we have got to adjourn to allow democracy to take its course. We deliberately requested that private providers came so that we could hear from you about your experience of the Pathways Programme. What is interesting to me, if I can start off, is that the NAO Report suggests that the performance was not very good, it was certainly below the performance of the contract, the areas in which you were operating tended to be the areas where one would have thought it would be easier to achieve the outcomes that were needed, and there had to be an adjustment in the terms of the contract through the process so that you got more of the payments upfront than were originally intended in the contract. As we move forward into the new Work Programme that the Government intends to promote I think it would be very helpful if you could tell us what it was that meant you could not deliver in the way that you thought you would be able to. I do not know who would like to start.

Mr Marsland: When we first put the bids in for Pathways contracts we had a lot of assumptions and a lot of data around a particular client group and it was a client group that we had not worked with before as a set of providers. We had some experience through the New Deal for Disabled People contracts but the big unknown for us was the mandatory client

group in particular, the make-up and the attributes of that particular client group, and how ready for work they were going to be and how easy they were going to be to place into work. When we put the bids in, in a lot of the work we were doing we were looking in particular at that client group. As happened over the course of the contract, our assumptions around that voluntary client group, which is very similar to the New Deal for Disabled People client group, we have now pretty much met those contractual targets that we set ourselves three years ago.

Q2 Chair: A third into work?

Mr Marsland: Of the voluntary client group.

Q3 Chair: My understanding was that a third under contract, a third of those with whom you were worked, were expected to gain employment. Am I right about that?

Mr Marsland: I am not sure what the Department's expectation was.

Q4 Chair: I thought the contract expectation was that.

Mr Marsland: Our contract expectation was 43% and cumulatively today we are on 42%.

Q5 Chair: 42% of those with whom you worked have found a job?

Mr Marsland: Of the voluntary client group.

Q6 Chair: The voluntary?

Mr Marsland: I am just talking about the voluntary client group.

Q7 Chair: My understanding from reading the Report is that you increased the voluntary client group. 40% of those with whom you worked were from the voluntary client group, which was in excess of what the terms of the contract were with you, and those people are easier to work with because they are nearer to the labour market.

Mr Marsland: I am not sure that is true in all cases because obviously a number of those clients have been on incapacity benefit for a number of years. I agree that the fact they are willing to step forward and are interested in work is a big advantage, but I do not think it goes to say that they are therefore definitely easier to help than some of the mandatory client group who are more recently—

Q8 Chair: Let me ask you another question. You said out of those who volunteered for the programme you got 40% in work.

Mr Marsland: Yes.

Q9 Chair: Those you worked with, how many were volunteer participants rather than mandatory?

Mr Marsland: I have not got that exact data but I think it was about 40% in the end when the original contract expectations were about 20%.

Q10 Chair: Out of the remaining 60% who did not volunteer, how many did you get into work?

Mr Marsland: Cumulative to date A4e's performance is about 15%. Over the last six months in particular that figure is up at 25%.

Q11 Chair: So are you saying that you found the contract worked for you?

Mr Marsland: Just to go back to the initial part of my response, the point I was making was with the voluntary client group, the expectations we had of that client group in our contracts we have pretty much met. The biggest difference has actually been the mandatory client group. The assumptions that we made, and I am talking about A4e here, about that particular client group were that there would be quite a high proportion of that client group, although they were being mandated on to Pathways, which as you rightly point out does create some additional barriers as opposed to volunteering, that were more job ready because they were recent, they were new claimants on to IB so, therefore, they would have more recent work history, but what happened was once we got into the live running of the contract we discovered that the mandatory customers were not necessarily new claimants, they were repeat claimants, multiple claimants, so they had a lot of claimant history, they were not necessarily new claimants. That was one aspect that certainly we found when we started to deliver that meant that client group was different than we had anticipated when we put the bids in and set our performance expectations.

Q12 Chair: Mr Melvin?

Mr Melvin: Thank you. I think the point we should start from is that this was an entirely new group of people that the Department for Work and Pensions

identified as requiring support. Over a period of time the Department used a number of different interventions and methodologies to deliver that support, so we had the pilots of Jobcentre Plus delivery and then the private sector delivery. As you rightly say we have not achieved our targets over the period for which the Report took its data, which was the fiscal year to the end of March 2009. Certainly in the instance of Reed-in-Partnership, where our contracts were in the final phase of Pathways, that was our first year of operation. It is not uncommon in employment contracts for performance to improve over a number of years of operation. There is a requirement for us to find premises, recruit staff, engage with those customers that are referred to us and, indeed, support our supply chain. There are voluntary sector organisations that are working for us. While we would have wanted to have done better, for me what is important are the lessons that we take from this contract because this group of people are some of the most disadvantaged people in our society, they are a very, very long way from the labour market and whichever area of the country they may live in if we want to get them into work they have got a requirement for a significant amount of support. While through this contract there are tens of thousands of people who have found jobs through both the public and private sector delivery, what is equally important is that the Department and providers have learned lessons both as the contracts have gone on but also in order to make sure that future contracting is more effective and provides value for the public purse.

Q13 Chair: There are a number of questions. The Report suggests you performed less well than Jobcentre Plus who worked in tougher areas. The Report suggests you found it more difficult. How do you respond to that?

Mr Melvin: I do not agree that the private and voluntary sector worked in tougher areas.

Q14 Chair: No, Jobcentre Plus worked in tougher areas.

Mr Melvin: I disagree with that statement. I would contend that a number of the areas that were contracted to the private sector have higher numbers of people who are unemployed. What I would say about the Report—

Q15 Chair: I will just read this to you because very helpfully Richard has pointed this out. Under 2.16 on page 24 it says: "A greater proportion of Jobcentre Plus Pathways operate in areas with higher levels of incapacity benefits claimants and unemployment. On this basis, it might be expected that Provider-led Pathways are better placed to deliver a higher proportion of participants into work, given relatively strong demand for labour in the areas they operate".

Mr Melvin: I have read the Report. Thank you for pointing out that element to me. If I give you the example of London, where we operate, there is a higher demand for labour but if you look at the London labour market statistics at the moment 32

people are chasing every vacancy in London currently and that is more than any other part of the country. Equally, in London the cost of entering the labour market is greater perhaps than in some other areas. Things like transport costs, costs of childcare and costs of housing are greater. It is not simply the number of vacancies that are available or the amount of economic activity in a given area, it is the factors that individuals face to entering the labour market that are important.

Q16 Chair: I have to say there are some Jobcentre Plus-led Pathways in London too and the performance of the private sector providers was less good than the public sector. When we get these reports the facts are agreed between the Department and the NAO, so disputing the facts is a bit difficult. What we are trying to do is get underneath those facts and get a better understanding of the reason.

Mr Melvin: Can I just give you one example of where it is perhaps risky to make direct comparisons? In the Jobcentre Plus delivery areas the measurement is for those people who have gone off benefit and in the private sector delivery areas the measurement is for those people who have gone into jobs and employers have agreed to sign written evidence which we have then gone out and collected. There is a gap between the numbers of people who go into jobs and the evidence that we collect. I am just pointing out there is a risk in making direct comparisons between one kind of delivery and another.

Q17 Chair: Therefore, if we move to a system where you are going to get more outcomes-based funding are you happy with that?

Mr Marsland: Looking forward and looking at the contracts that are in play at the moment, things like Flexible New Deal, using the technology that is provided by PRAP, which is a computer system that actually checks off benefit records, we are hoping that problem will go away for our sake. Chasing employers for bits of paper in order to claim our outcome payments is time consuming and wastes a lot of resources.

Q18 Chair: One of the problems in the Report is that there is not enough checking of private providers' performance, and I know you are saying that is chasing bits of paper around the place but there is a concern from the NAO that your performance is not being checked and accurate as we speak.

Mr Melvin: Over the last few years the Department has moved forward significantly in the way it manages both private and voluntary sector contractors and it is continuing to do that. I think we should absolutely welcome outcome-based contracts. One of the things that we need to learn from this contracting process is that basically price and performance were linked so in order to drive down the price you had to up your performance and there are probably more effective ways of contracting where, yes, you deliver a price which is cost-effective to the taxpayer but where the performance part of the bidding is not directly linked to that.

The Committee suspended from 3.46pm until 3.57pm for a division in the House.

Q19 Mr Bacon: First of all, could you tell us what your targets were for the mandatory element of the contract?

Mr Marsland: A4e's average worked out at just under 32%.

Q20 Mr Bacon: 32% of what?

Mr Marsland: 32% of the mandatory starts into work.

Q21 Mr Bacon: I am sorry, can you explain that more clearly. You are saying that the target was that of those who were within the mandatory cohort you were to get 32% of them back into work?

Mr Marsland: Correct.

Q22 Mr Bacon: Of those whom you were supposed to get back into work, this 32% of the cohort, what did you achieve against that target?

Mr Marsland: Cumulative to date we are on just over 15%.

Q23 Mr Bacon: So less than half the actual target?

Mr Marsland: Yes.

Q24 Mr Bacon: What about you, Mr Melvin?

Mr Melvin: A very similar story with slight differentials in different contract areas. We are around about half as well.

Q25 Mr Bacon: What was your target and what did you achieve?

Mr Melvin: I think our target was somewhere in the area of 30% and we achieved somewhere around 14%.

Q26 Mr Bacon: Which areas of the country are we talking about here?

Mr Melvin: We have got three contracts in London and one which covers Cambridgeshire and Suffolk.

Q27 Mr Bacon: How many contracts do you have, Mr Marsland?

Mr Marsland: We have five contracts.

Q28 Mr Bacon: You have five contracts and you have three, so a total of eight contracts. Do the percentages for each of the contracts vary, so it might be, for example, 31% for one of them and 32% for another and 29% for another?

Mr Melvin: Yes, at that level but not hugely.

Q29 Mr Bacon: Mr Melvin, you said you had three contracts in London.

Mr Melvin: Four in all. Three in London.

Q30 Mr Bacon: Three in London and one in Cambridgeshire.

Mr Melvin: Cambridgeshire and Suffolk.

Q31 Mr Bacon: That is a joint one, is it, Cambridgeshire and Suffolk?

Mr Melvin: Yes, that is counted as one area.

Q32 Mr Bacon: So you have got four altogether?

Mr Melvin: That is correct.

Q33 Mr Bacon: Which are the ones in London? Are they different London boroughs?

Mr Melvin: The three in London cover South London, which is all the way from Hounslow around to Bromley, we have West London, which is from Ealing up to Harrow, and Northeast London, which is Haringey, Enfield, Walthamstow, that area.

Q34 Mr Bacon: Then Cambridgeshire and Suffolk. Is it the whole of the counties of Cambridgeshire and Suffolk?

Mr Melvin: That is correct.

Q35 Mr Bacon: For the South London one, what was the target that you were expected to achieve?

Mr Melvin: I do not have the exact figures with me.

Q36 Mr Bacon: What about for the West and Northeast one?

Mr Melvin: I have only got the average for all of them.

Q37 Mr Bacon: The average for all of them is 32%?

Mr Melvin: Yes.

Q38 Mr Bacon: You could supply the Committee with a break down for each of those?

Mr Melvin: Of course. I would be very happy to.

Q39 Mr Bacon: What about Mr Marsland, which are your five contracts?

Mr Marsland: We have Cornwall and Devon and the target for that was 31.26%.

Q40 Mr Bacon: And what did you achieve?

Mr Marsland: I think I have only got our actual performance aggregated.

Q41 Mr Bacon: Start by listing all five. You have Cornwall and Devon, what are the other four?

Mr Marsland: North and Mid Wales, West Yorkshire, South East Wales and Surrey and Sussex.

Q42 Mr Bacon: 31.26% for Cornwall and Devon. What about North and Mid Wales, what was the target there?

Mr Marsland: 31.82%.

Q43 Mr Bacon: What about West Yorkshire?

Mr Marsland: 31.62%.

Q44 Mr Bacon: And South East Wales?

Dr Hall: 33.3%.

Q45 Mr Bacon: What was the target for Surrey and Sussex?

Mr Marsland: It is interesting with Surrey and Sussex because we actually inherited that contract from a provider that went bust. Their target that they put forward was 50%.

Q46 Mr Bacon: What was the provider that went bust called?

Mr Marsland: Instant Muscle.

Q47 Chair: Their target was 50%?

Mr Marsland: That was the target that they bid, yes.

Q48 Mr Bacon: You inherited their target?

Mr Marsland: Yes.

Q49 Mr Bacon: You just took on the contract and agreed at the time you took on the contract that you would keep their target or was that just part of the deal?

Mr Marsland: That was part of the deal, yes. We did put forward that was perhaps a little bit stretching.

Q50 Mr Bacon: For each of those five you have just given the target figures, but what were the actual achieved figures? Cornwall and Devon?

Mr Marsland: Just bear with me for one second. We are just talking mandatory at the moment, are we not?

Q51 Mr Bacon: Yes.

Mr Marsland: Surrey and Sussex 13%.

Q52 Mr Bacon: 13% against a 50% target?

Mr Marsland: Yes.

Q53 Mr Bacon: That was not very good, was it? What about South East Wales?

Mr Marsland: South East Wales 12%. This is cumulative to date.

Q54 Mr Bacon: West Yorkshire?

Mr Marsland: 14%.

Q55 Mr Bacon: 14% against 31% target.

Mr Marsland: Yes.

Q56 Mr Bacon: North and Mid Wales?

Mr Marsland: 13%. Devon and Cornwall 16%.

Q57 Mr Bacon: So in most cases less than half what you were supposed to do. Mr Melvin, you are saying that for those three in London and Cambridgeshire and Suffolk you do not have those individual figures in the way that Mr Marsland does?

Mr Melvin: I do not have the targets, no.

Q58 Mr Bacon: I am talking about the actual performance.

Mr Melvin: I have got the actual performance.

Q59 Mr Bacon: So what was the actual performance for London South?

Mr Marsland: The actual performance for London South was 9%.

Q60 Mr Bacon: 9%?

Mr Melvin: Yes.

Q61 Mr Bacon: London West?

Mr Melvin: Was 9%.

Q62 Mr Bacon: London North?

Mr Melvin: Was 7%.

Q63 Mr Bacon: And Cambridgeshire and Suffolk?

Mr Melvin: Was 10%.

Q64 Mr Bacon: That was against an average of a 32% target?

Mr Melvin: Yes.

Q65 Mr Bacon: You can supply us with the individual targets for each of those?

Mr Melvin: I can.

Mr Bacon: If you can write to the Committee that would be very helpful. That is quite illuminating.

Q66 Joseph Johnson: The maths does not make sense there. If your overall average was 15% and each of the individual averages was 9%, 9%, 7% and 10% that is impossible.

Mr Melvin: The reason there is a difference is the overall average figure I have includes the voluntary group, which is in addition to the mandatory group.

Q67 Chair: We did ask, Mr Melvin, just for the involuntary figures.

Mr Melvin: I am sorry. I misunderstood.

Q68 Mr Bacon: What do you attribute this very poor performance to for this mandatory group?

Mr Melvin: I think there are a number of reasons which come to bear on this. The first thing we have already touched on is in our contracts we are in the first year of delivery, so if you look at the in-month performance it is much better than the figures I have given you for the cumulative performance because as time goes along performance goes up. That is one thing but that still would not have got us through to our targets. We had a number of issues around the process within the contract. Basically a customer has six work-focused interviews. The first one is done by Jobcentre Plus and then there are five which we are contracted to do. In the first stages of the contract there was a huge dropout between the first interview done by Jobcentre Plus and the subsequent work-focused interviews on our premises. Up to half of the people on which that percentage is calculated did not actually turn up in our office. That is one major reason why the percentages are so low, because they are based on referrals rather than customers actually seen. I must say both Jobcentre Plus and the Department have responded to that very well. They have now co-located in our premises those individuals who are responsible for the first work-focused interview and that has meant the dropout over time has reduced significantly. The Department should be recognised for responding to that very effectively. That is one area. The second area is the contracts stipulated originally that there should be a

set period of time, I think it was six weeks, between each work-focused interview and really I would suggest what is required with any employment programme, particularly one working with such disadvantaged people, is that the level of service is agreed with the individual so that if we need to see them two weeks later or tomorrow or two months later then that is what can happen. In this process it was stipulated by the contract when that intervention would take place. Another major issue was around the introduction of the Employment and Support Allowance benefit and where the work-focused interview actually took place. We had significant numbers of people who attended our premises after the first work-focused interview we worked with, and in many instances who we found a job for, who subsequently failed their work capability assessment and therefore were taken off the programme. Despite us working with them and finding a job for them, the work capability assessment indicated that they were not eligible so they did not count in the performance figures. There is a whole number of lessons that have been learned during this process which have contributed to what on the face of it seem disappointing results.

Q69 Ian Swales: I would like to ask if you feel that the recession has had any impact on your performance and, if so, have you been able to see that in your management information?

Mr Marsland: I think it would be a little bit too easy to blame the performance on the recession. Although clearly it will have had an impact I do not believe we have any cast-iron evidence that would suggest the recession has played a big part in this, although, as Chris indicated earlier, when a number of people who are out of work are chasing a smaller number of jobs this particular client group are going to be towards the back end of the queue for those jobs. That would be expected. We certainly do not have any cast-iron evidence that would blame the recession for those figures.

Mr Melvin: As we opened our first sites the recession hit, so we have only ever worked in the recession. That is another reason why comparing a Jobcentre Plus contract that started four years ago with one that started 18 months ago is difficult to do.

Q70 Chair: Over the coming period there will be no public sector jobs out there. You are going to be paid in the new world entirely on outcomes and your outcomes, as Richard has seen, are poor. Sitting here, I cannot understand how on earth you think you are going to improve your performance to meet the demands of the outcome payment.

Mr Melvin: I would say that very few of the jobs that we put people into are public sector jobs actually. Many public sector jobs have quite significant assessment and entry requirements which can be either off-putting or sometimes beyond some of the abilities of the people we work with. If you look at the kinds of jobs that people tend to go into, the one sector which is often delivered by the private sector but depends on public sector money is care. Quite a lot of people from these kinds of programmes go to

care. The main sectors are things like logistics, retail, hospitality and leisure. Who knows what the impact of the drop in public sector jobs will be but, on the face of it, it is only a relatively small proportion of people from these programmes who go into public sector jobs.

Q71 Chris Heaton-Harris: You have talked about your targets and I am concerned that when looking at these programmes you talked yourselves into bidding too high. Did you underestimate the nature of the claimant group that you were looking at?

Mr Marsland: In part answer to that and also in part answer to Mr Swales' question, if you just take the performance of our contracts for the last six months we have delivered 25% of mandatory starts into jobs and 52% of voluntary customers into jobs. Although 25% is still below the 31% target, now we have been running these programmes for a little bit longer we have got used to the client group, we have ironed out the wrinkles in the process around ESA, et cetera, we are now delivering a much better set of performance than we were in the early part of the contract. In response to the Work Programme question what we will be doing is making sure that those sorts of performance outputs are taken into the Work Programme performance offers that we will be putting forward.

Q72 Chris Heaton-Harris: So the bids you make in the future will be more realistic?

Mr Marsland: In the first question I started to answer I said we did absolutely underestimate, if you like, particularly the make-up of that mandatory client group. Absolutely we bid, as I am sure Chris did, in good faith that we could deliver those targets. It is not in our interest to under perform on our contractual obligations and financially it does not make sense in outcome-related contracting either. As I said before, we were anticipating that a lot of that mandatory client group were new fresh claimants on to incapacity benefits who may have more recently come out of work but what actually happened was a much higher proportion of those fresh claims were not actually fresh claims, they were repeat claims, changes of circumstances, so they were mandating customers who had been on these benefits for a significant amount of time. That is one aspect.

Q73 Stephen Barclay: Could I just come back to Richard's point. The figures you gave of 9%, 9%, 7% and 10% were the jobs amounting to eight hours for 13 weeks, were they not—that is what is meant by a sustainable job—yet one in four people came back on to the programme. Should we not be knocking 25% off those percentages given that they did not stay in employment for very long?

Mr Melvin: If you are measuring the job entry rate those are the figures that I gave and if you are measuring a sustainable job then, yes, you would have to look at individual contractors but across the programme that would be the case. I would also just say that in most employment programmes there is a

dropout of about that amount in the first 13 weeks and if you look at private sector recruitment it is slightly less but it is actually not far off that level.

Q74 Chair: I would just say to you that 25% back is overall including voluntary and mandatory and I bet you the numbers dropping out of the mandatory route will be more than 25%.

Mr Melvin: I do not know.

Q75 Chair: Do you know?

Mr Marsland: I have not got those specific figures.

Q76 Chair: Can you get those figures?

Mr Melvin: I can try.

Q77 Chair: Can you let the Committee have them?

Mr Melvin: Yes.

Q78 Austin Mitchell: Mr Marsland, despite this poor performance, are you still making a profit on the deal?

Mr Marsland: The Surrey and Sussex contract has cost us quite a lot of money.

Q79 Austin Mitchell: You have lost money?

Mr Marsland: We have lost money on that particular contract. The other four contracts over the period of time cumulatively certainly make an operating profit and make a very small contribution to our overall profitability as a business but I have to be honest and say they are not particularly profitable, no.

Q80 Austin Mitchell: Mr Melvin indicated that performance will improve with experience, but surely the circumstances will worsen particularly—I am not being political—if this Government continues this massive insane programme of cuts. You are going to have more on your plate and it is going to be more difficult to get people into work. Are you going to be able to generate a profit on this kind of contract?

Mr Melvin: We have not made a profit on any of the contracts to date but performance month-on-month has improved and that has continued up to this point.

Q81 Austin Mitchell: To profitability?

Mr Melvin: People going into jobs, sustaining in jobs and our profitability because they are very, very closely linked.

Q82 Austin Mitchell: If profits do not improve and performance does not improve all that much, are you going to give these contracts up?

Mr Melvin: The contracts we have run into March next year and we will run them until March next year.

Q83 Austin Mitchell: Will you want to continue after March?

Mr Melvin: Probably because we will have paid off most of our overheads by then. Essentially if you look at the way we account for things the cost of investment is paid off over the first three years so they would be marginally profitable.

Q84 Austin Mitchell: Is that true for you, Mr Marsland?

Mr Marsland: I would say that is very accurate for us as well.

Q85 Joseph Johnson: A question for you, Mr Melvin, please. What would be the cost to the public purse of supporting back into work each person under the contracts you administer, on average?

Mr Melvin: I do not know off the top of my head but it is somewhere around the £3,000 mark.

Q86 Joseph Johnson: How much does that differ from your original expectation at the outset of the bidding process?

Mr Melvin: It would be two and a half times as much probably.

Q87 Matthew Hancock: You have talked about some of the difficulties you had with the contracts being too bureaucratic at first and some of the policy problems but what I want to get at is the consequences for you of your performance being below target. How much did that hit your profitability on the contracts taking the average performance below target?

Mr Melvin: From our point of view we invested £3 million in these contracts to get them up and running and we are still £1 million out of pocket.

Q88 Matthew Hancock: How much worse is that financial performance compared to if you had hit the targets?

Mr Melvin: If we had hit the targets we would have made a return of somewhere in the region of around 10% on our invested capital.

Q89 Chair: So on what basis will you want to sign a new contract? What changes will you look to because you cannot carry on subsidising forever?

Mr Marsland: Looking forward with the way the Department is looking to contract with providers the framework contracts in the Work Programme it allows a much more flexible way of contracting so that we can adjust the contracts to reflect changes in policy and changes in the labour market with assumptions around the client group.

Q90 Chair: I do not understand that. Will you be looking for a contract that says, "I don't get 33% into work, I can get 10% into work"? What is going to change to make it profitable for you? Will you get paid more for fewer people? Where has the world got to change to keep you guys in that business?

Mr Melvin: One of the things I hope will be recognised is that different individuals and different groups require different levels of support. There are some people perhaps who have been claiming Jobseeker's Allowance for a relatively short period

of time who require little intervention to get them into work. Many of the people who came to these Pathways contracts, as Steve said, were repeat claimants who had years and years of history of claiming.

Q91 Matthew Hancock: Are you saying that differentiation was not enough under the previous contracts?

Mr Melvin: What we had previously was different named programmes for different groups. Pathways had some of the lowest fees per outcome compared to some of the other groups. I would argue that many of the people in here require some higher fees. You might compensate that for having lower fees on contracts, say, for people on Jobseeker's Allowance. With the proposed Work Programme there is a single programme and I hope that resources can be brought to bear on individuals in relation to what their requirement is.

Q92 Matthew Hancock: Is that targeting resources more effectively at the individuals most in need?

Mr Melvin: Yes, it is differential pricing depending on what their requirement is. You will have to have some kind of proxy, you cannot individualise every single payment. If you have groups of need I believe it will give you a more effective set of outcomes.

Q93 Mrs McGuire: The decision to become involved with Pathways was obviously a business decision for both your companies, albeit I understand the ethics that underpin your approach, but given it was a business decision and you have already said you invested £3 million do you think the contracts at the point that you signed them were fair contracts? We will start with Mr Melvin.

Mr Melvin: Yes, we signed them in good faith.

Q94 Mrs McGuire: That is a slightly different answer to my question. Did you think this was a good business investment? Obviously you are taking a bit of criticism here about your outcomes.

Mr Melvin: Sure.

Q95 Mrs McGuire: From a business point of view did you think that this was a good deal for Reed International?

Mr Melvin: I set up Reed-in-Partnership 12 years ago with the shareholders of the Reed Recruitment Group and we have found more than 100,000 people jobs in that time, we work very closely with the Department and have always resolved our issues and always done a good job. In that spirit I signed that contract because I think the Department in the main contracts well, manages well and we deliver well for them.

Q96 Mrs McGuire: Was this a different client group from the ones you had experience of?

Mr Melvin: Yes, it is a different client group and clearly a different set of contracts given that we are talking about performance of around the 10% mark and on many of our contracts we are getting in excess of 40% of people into work. I would also submit to

the Committee that in many instances programmes that the Department have procured have improved over time. If you look at things like the New Deal for Disabled People, now a very, very successful programme, in its first year it did not meet its targets. If you look at things like the prototype Employment Zones, they got very, very few people into jobs but when they launched the fully-fledged Employment Zones they now have a programme which has done probably better than other programme that has been commissioned in the UK. While undoubtedly performance is disappointing we have learned a lot of lessons from that. We have improved it on a month-by-month basis. For me, what is important is that learning goes into future procurements so that the people we work with get the best chance of us finding them a sustainable job, the taxpayer gets best value for money and we do not end up going bust.

Q97 Mrs McGuire: Would that be a similar comment from A4e?

Mr Marsland: I think it would, yes. We recognised that when we were entering into these contracts there was an element of risk because it was a client group that we had not worked with before and we were building a lot of our knowledge based on delivering New Deal for Disabled People contracts which, as Chris has mentioned, were very successful. Similar to Chris, we have done business with the Department for many, many years and usually when you are entering into these contracts there is a very commonsense approach to contracting in that if circumstances change, if assumptions are not coming out as planned, there is a dialogue with the Department to perhaps change bits of policy around the programmes that then deliver better, which is what we all want both as providers and the Department.

Q98 Mrs McGuire: That brings me quite neatly to my next question. You are the first part of the supply chain and, as I understand it, the principle behind the provider contract approach was first of all to allow more effective management of the provider-led programmes through 11 contractors but there was an expectation that some of the delivery would be in partnership with other organisations both in the voluntary and private sectors. Can I ask Mr Melvin how many other voluntary organisations are involved in your contracts?

Mr Melvin: Off the top of my head I do not know, but there is a huge number of voluntary organisations that range from organisations that deliver services to specific groups of people to—

Q99 Mrs McGuire: Did you use them though?

Mr Melvin: Yes. I will give you an example. In our Cambridgeshire and Suffolk programme, 40% of that programme is delivered by Papworth Trust which is a voluntary sector organisation.

Q100 Mrs McGuire: Did you give them the same flexibility in approach that you expected from DWP in terms of how they were working with a more difficult client group, to quote your own words?

Mr Melvin: In contractual terms we gave them the same terms that we had.

Q101 Mrs McGuire: So when your contract changed to give you more flexibility and upfront payment, you did that with your subcontractors in all instances?

Mr Melvin: For lots of people we have a fee for service, so if you are delivering some counselling, for instance, we do not pay the contractor when someone gets a job because they would never accept that, we pay them when they deliver the service. In instances where subcontractors are doing end-to-end delivery then they get paid in the same way that we get paid. Going beyond that we do an awful lot to try and make sure our subcontractors can deliver the very best service, so we give them access to our IT system, we train their staff, we share all of our job vacancies with them. We are committed to making the supply chains in which we work both as a subcontractor and as a prime to do the very best job for the customers we serve.

Q102 Mrs McGuire: So none of the criticisms that were made by the subcontractors would reflect on Reed's relationships with your subcontractors? You have seen them in the NAO Report.

Mr Melvin: I have read it, yes. It is not something I recognise in the way that we behave, no.

Mr Morse: I am so sorry. Just for the benefit of the Committee you mentioned so you do not go bust and so on, but just for clarity you are actually a large company, are you not?

Mr Melvin: We are a company that turned over last year some £80 million.

Mr Morse: Just to be clear, looking at Reed-in-Partnership, as I understand it, you have got a combined value of the contracts you have of about £400 million, is that not right?

Mr Melvin: In terms of the order book?

Mr Morse: Yes.

Mr Melvin: Yes.

Mr Morse: So there is not much chance of you going bust in the near future.

Mr Melvin: No. My comment was that if all of the contracts we lost money on were like this contract then we could not sustain it, our cash flow would fall away and we would end up insolvent. My point was around the return on this contract.

Mr Morse: I understand that. I am sorry to intervene because I try not to normally. It is relevant to the Committee when considering the changes in the terms of the contract and the assistance you got in what is relatively speaking quite a small contract for you compared to the other things you have going on. You are also quite a large company, I think I am right in saying, is that right?

Mr Marsland: Last year we turned over £146 million.

Q103 Chair: Of which the contracts are what?

Mr Morse: You must be doing a good job because you have got a lot of contracts in the public sector. I simply wanted to make the point that neither of you gentlemen could describe your companies as being

in distress on this particular matter. I know you do not want to be making losses into the future, and that is quite legitimate, but nonetheless we should not go away with the idea that you are in a position of hardship.

Mr Melvin: No. I have been quite clear on this contract we have lost money but my point was if all contracts were like this we would not be in this market.

Q104 Matthew Hancock: When the contract was renegotiated what did the Department get in return for giving you more upfront payment and less payment by results?

Mr Melvin: We did not get any more upfront payment. There was an upfront payment that was profiled across the three year contract and what happened was the final six months of that payment was brought forward, so the total quantum of the upfront payment remained the same. It had an impact on our cash flow. It had no impact on our bottom line or our profit and loss.

Q105 Matthew Hancock: What did the Department get back in return for that concession?

Mr Melvin: We were asked to come up with a number of performance improvement measures which were around investing more in training, investing more in our subcontractors, making sure that in some instances we had more staff on particular sites. There was an individual action plan done contract-by-contract that was signed off by the Department which we were scrutinised on and on that basis that money was advanced. It was not additional money, it was an advance.

Q106 Matthew Hancock: Those things help you fulfil the contract so they should have been things that you were doing anyway.

Mr Melvin: We sat down with the Department and went through a number of things that we had done. They questioned us on a number of areas where they thought we could do better, which is good standard contract management practice, and on the basis that we agreed with their interpretation we signed up to a number of additional activities, investments, and on that basis that upfront money was brought forward.

Q107 Nick Smith: Can I come back to the contract and lessons learned and differential payments to different groups. From what you say it is harder to get a job for people who have been on IB for longer, and that is intuitive, I get that, but was there a different contract for people who had been on IB for less time and presumably would cost less to place and get jobs more quickly?

Mr Melvin: In the areas we operate the only contract for incapacity benefit claimants was the Pathways contract.

Mr Marsland: The New Deal for Disabled People contract that runs in the Jobcentre Plus-led Pathways areas.

Q108 Nick Smith: Do you think it would be helpful to have new contracts with differential payments for people who have been on IB for different lengths of time?

Mr Marsland: I think it would, yes. That was part of the issue with the upfront funding. There was a nervousness, if you like, from the provider base to throw a lot of money and investment at this particular client group and that upfront funding helped us to do that which has led to those performance improvements that I was quoting earlier.

Q109 Stephen Barclay: Just to clarify, in terms of the concession given by the Department when advancing the additional payment or the earlier payment to you the concession you gave was there would be an improved performance?

Mr Melvin: The action plan listed a number of activities that we would invest in and there was an expectation that performance would improve, which it did.

Q110 Stephen Barclay: So the numbers you gave to my colleague earlier, Mr Bacon, reflected that improvement. Prior to that point the numbers were even worse than those numbers, were they?

Mr Melvin: Yes, because those numbers are cumulative from day one of the contract. In the first month of the contract almost no one will get a job because you are simply registering them.

Q111 Stephen Barclay: So the gap between what you actually tendered on and those, if I may say, optimistic estimates and what you immediately delivered on afterwards was wider than those numbers that you gave earlier?

Mr Melvin: It probably was at that point in time.

Q112 Stephen Barclay: It would have been if the performance improved surely?

Mr Melvin: When we tender there is a flat contractual performance expectation, but within that there is a profile which will say at the beginning it will be lower, at the end it will be higher, and the total contract target is the target for performance over the full three year period.

Q113 Stephen Barclay: Surely the performance will have improved. You have the estimate figure that you gave and the performance either improved when you were given the concession or it did not.

Mr Melvin: The performance improved after we were given the concession, yes.

Q114 Mr Bacon: Mr Melvin, could you just say what is the total value of your contracts with the Government?

Mr Melvin: In terms of order books, so going forward over a number of years, or in a given year?

Q115 Mr Bacon: What is it at the moment and what is it going forward?

Mr Melvin: Going forward it is somewhere in the region of £200 million. In the last year the Government spent just over £80 million with us.

Q116 Mr Bacon: The £400 million that was mentioned is what?

Mr Melvin: I do not quite recognise that figure.

Q117 Mr Bacon: You mentioned £400 million.

Mr Melvin: No, I did not. Obviously with an order book it goes up and down and every month you have not won something it goes down. It may be that my figure is more current. It is very difficult to estimate an order book at the moment.

Mr Morse: I can assist. This is from the Work and Pensions Select Committee evidence session, so it is bound to be right.

Mr Melvin: What was the date of that?

Mr Morse: This was based on the memorandum submitted by yourselves, so I guess it must be right. Congratulations on finding another £200 million.

Q118 Mr Bacon: My question was going to be what is the average profitability?

Mr Melvin: Over the 10 years that we have worked in this business we have made between 5% and 10% profitability on our contracts.

Q119 Mr Bacon: Mr Marsland, what is the total value of your contracts and what is the average profitability?

Mr Marsland: It is a bit of a difficult question because the Flexible New Deal contracts that we have in place, which are our biggest contracts at the moment, when we contracted for them they were worth about £750 million but with the changes to the volume predictions they will have come down quite considerably, so I would estimate probably about £500 million. That is over five years.

Q120 Mr Bacon: And the profitability?

Mr Marsland: Last year we made just over 5% profit.

Q121 Joseph Johnson: What level of profit? Operating profit? Net income?

Mr Marsland: That was after tax.

Q122 Joseph Johnson: Before tax?

Mr Marsland: Before tax was probably about 9% I think.

Mr Lonsdale: Just to be absolutely clear about the £400 million, it is the total value of the contracts with DWP and JCP delivered since 1998 to the date that you submitted the memorandum. It is a cumulative figure.

Mr Melvin: The Government has spent £400 million with us in the last 12 years.

Q123 Chair: In the new world, given this tough client group, what incentive do you require to ensure that you get these hard to place people into work and that you do not cherry pick other groups and leave this group untouched?

Mr Melvin: I think the payment differentials will make a significant difference and a programme which allows the customer and the provider to agree the level of service that is appropriate to that individual will deliver better results.

Q124 Chair: Much higher payment? Do you want double what you are getting at the moment?

Mr Melvin: I do not know. For me, the more pertinent issue is around making sure that when we bid we do not have to drive up our performance offer in order to drive down products. I tried to make this point earlier. The Government wants the best price for their contracts and in these contracts the only way to do that was to promise a very high level of performance. Clearly as good contractors to Government we want to deliver value for money, but particularly with this client group it was different from other client groups, it had never been done before, it was the first time it was done and no one was really clear about the level of performance we could expect. In that instance to have a model where you have to set fairly high levels of performance in order to reduce the price to the level that would win I am not sure was the best way to have done that deal.

Q125 Chair: Mr Marsland, do you want to add anything to that?

Mr Marsland: No, I do not think I do. That is an accurate summary.

Chair: Can I thank you both especially for coming to us at short notice. We are very grateful to you. Thank you very much indeed.

Witnesses: **Sir Leigh Lewis**, Permanent Secretary, **Mr Adam Sharples**, Director-General, Employment, and **Mr Alan Cave**, Delivery Director, Department for Work and Pensions, gave evidence.

Q126 Chair: Can I welcome Sir Leigh Lewis, Alan Cave and Adam Sharples to the Committee and again similarly say we are particularly grateful to you because I know we did not give you much notice of this hearing and I know it is difficult for you all, so I am extremely grateful to you. We wanted to get going before the summer. Having heard about the performance, do you know the net effect of this policy? Did the Government save money or was there an increased demand on public expenditure? If so, how much?

Sir Leigh Lewis: What I think we know, Chair, is that the programme did not achieve the outcomes that we had intended for it.

Q127 Chair: Did it save money?

Sir Leigh Lewis: The programme overall, if you take the other elements not Pathways in isolation but the new Employment and Support Allowance and the work capability assessment, there is evidence that is the case, and the inexorable rise in the number of people on incapacity benefits which had been going up from under 1 million to a peak of 2.78 million has in recent years begun to plateau and to slightly fall. That suggests this was part of an endeavour which has saved public money.

Q128 Chair: What I am trying to get at is, did Pathways to Work cost us X?

Sir Leigh Lewis: I do not think we can say what Pathways to Work has cost us, what I think we can say is that it has not delivered the net savings that we were hoping for at the outset, and the net savings which the evaluation suggested were there to be gained.

Q129 Chair: Has it cost us more than it saved us?

Sir Leigh Lewis: We are probably pretty well in balance, is our view.

Q130 Chair: As we move forward to the new Work Programme, are you going to be able to tell the Committee a year or two down the line the cost of that programme? Are you going to be evaluating it in such a way so we can evaluate whether the cost of the actual Work Programme was a worthwhile investment on behalf of the taxpayer in terms of savings?

Sir Leigh Lewis: Yes, I very much hope we will and one thing which we are very clear on, just to echo some of what the previous witnesses have just said to the Committee, is there are some significant lessons to be learnt from the Pathways experience. I do not think we should be too apologetic about the Pathways experience but it is very clear there are some serious lessons, and if we learn those lessons we can expect the Work Programme to be a more successful programme than it otherwise would be.

Q131 Chair: Let me take you on to that. What the Report does show is that it is extremely difficult with this particular cohort to get them back into work. From that experience and to the extent Pathways did not work, what in your view are the other barriers that were not addressed through that programme which need to be addressed, and how is that experience and that knowledge informing the way you are designing the new programme?

Sir Leigh Lewis: There are a number of lessons which we think we need to learn. First of all, we need to be clear and sure that the incentives are sufficient to get the outcomes that we want. I think again, and it was interesting that both witnesses said this, one lesson we have learnt is the incentives and the payments should be differentiated between the different degrees of difficulty of the client groups within the overall client group. Overall this was a very difficult client group but, as the Committee have already established, voluntary participants were easier to help than mandatory participants, self evidently, and in the Work Programme there is going to be quite a range of people, all disadvantaged to a degree but some more than others.

Q132 Chair: Can I just interrupt you for a moment? Incentives to the providers or incentives to the clients?

Sir Leigh Lewis: Incentives to the providers. In other words, we should offer the providers differential payments reflecting the degree of difficulty of sub-groups within the overall client group.

Q133 Chair: Given the poor performance of providers on the outcomes they have given us, the balance sheet between our investment in the programme and the outcomes looks even more dodgy, does it not?

Sir Leigh Lewis: That assumes that you start at the base, which is the current rates for Pathways and you simply add more. What I am saying is that we will want to exercise a more sophisticated judgment in relation to the Work Programme so that you might decide that for some of the relatively easier to help groups the outcome payments will be lower, for some of the hardest to help groups the outcome payments might be higher. In other words, we want to make it worthwhile for the providers to work with all of the individuals who will be on the programme. We want to remove any incentives to cream, we want to try and ensure the payment structure reflects the actual degree of difficulty, and I think we have learnt a lot from Pathways in that respect.

Q134 Justine Greening: I was slightly concerned by your earlier answer about not really knowing whether or not Pathways to Work had been worth the money which had been invested in relation to the savings we got from helping people back into work; I would have thought that was a pretty straightforward calculation. Alongside that, my other question is, what analysis are we doing within DWP to understand the relative costs of different clients? In other words, if we do think we should move towards a more differentiated pricing mechanism with these contracts, surely we need to know what is a realistic price to offer a provider and we have not got an understanding of how much it costs different sorts of claimants and people on this programme to get them back into work. Are you doing any work to look at that sort of angle?

Sir Leigh Lewis: We have done a lot of work actually on all of those and I think the overall conclusion on value for money is pretty well the one which is in the Report itself, and that is that we cannot demonstrate this programme—Pathways itself—in the way it actually performed provided a net return to the Exchequer. What I think we do know is that the overall way in which we have over a period of time been tackling the issue of the numbers of people on incapacity benefits does appear to have had a real impact. We do believe for example the introduction of the new, more tough, more stretching work capability assessment has had an impact; we do believe having the work capability assessment earlier in the claim has had an impact; we do think that the intensive working with people who for many years under our benefits structure have had almost no active involvement with government and have simply been passive recipients of benefits has had an impact. So we know a great deal about this client group but I think it is absolutely right to say that this client group did prove to be more intractable than we had first thought.

Q135 Chair: In the Report, you accepted the £94 million on support was totally ineffective. Have you any comments on that?

Sir Leigh Lewis: I do not think that we should simply cast into the pit all that was done on the Pathways programme, I really do not. Let us just step back for a moment and try and look at this in the round. This, as the NAO Report says, was a highly intractable group. Indeed the Report itself says the Department should take credit for attempting to improve the position of a highly intractable group. First of all, we piloted, and we piloted very extensively. We evaluated those pilots very extensively. The evaluation showed there was a net positive income from the programme. We then rolled that programme out nationwide in stages. The latest evaluation has shown, and it is a disappointing conclusion, that the national roll out has not replicated the gains that were shown by the pilot programme. At the time there was a very quick and ready acceptance of that, we did not hide it away or bury it or pretend it was not happening or put our heads in the sand, we took and accepted that conclusion and we are very much using the lessons learned in the Work Programme. So if you take that story overall, it is not actually a story that we should be too apologetic about.

Q136 Mr Bacon: To go back to what you said about the pilots, you described them as very extensive, but the Report says in paragraph on page 6, “. . . the pilot evaluation sampled people who made an enquiry about claiming incapacity benefits, not those who actually went on to claim.” This meant, as it says later in that paragraph, “. . . the Department was then not able to tell what the employment impact of Pathways for actual claimants was prior to the national roll out of the programme.” Would it not have been better to have had a more realistic sample for your pilot? Is that not basic pilot evaluation 101, that you include the right cohort?

Sir Leigh Lewis: I think with hindsight we would certainly have included both those who enquired and those who started, but let me just say something about the evaluation, because I have gone into this in considerable detail. First of all, the evaluation methodology was not dreamed up on the back of an envelope, it was agreed by a highly expert evaluation steering group including representatives not only from DWP but from the Treasury, Department of Health and the devolved administrations. The tender went to—

Q137 Chair: Can I just stop you on that because I think we all, even those of us who are ex-ministers, were surprised to read that in the National Audit Office Report. If that group of the great and the good actually thought it was right to do an evaluation based on people who might, because they know under the old IB you would get more than you get on JSA, walk into a Jobcentre Plus office and say, “Hang on, I want to make some enquiries about IB” and then you put them into the evaluation, it just looks potty. It does look absolutely potty. How that highly skilled group could have got down there, I just do not know.

Sir Leigh Lewis: I think when you look back you say, “In the light of what we now know, of course we should have looked at both groups.” At the time, it was the considered view of a highly professional group that there was no reason to believe that there would be any difference between these two groups, and this was not done, as I say, on the back of an envelope. It was done after a very extensive process involving a lot of analytical experts and not just from our own Department.

Q138 Mr Bacon: It does say, “. . . an assumption that the employment impact of the two groups would be similar was not substantiated”, so it was not that extensive, was it?

Sir Leigh Lewis: Again, we come back to what we knew at the time and what we know now, and these are different. We did not believe at the time that by basing the evaluation on those who made an enquiry we would get a distorted outcome. I think we now know in the light of the experience that it would have been better at least to sample both groups, and that would certainly be a lesson we take forward into any future evaluation. But at the time none of those who were responsible for the evaluation—and remember the evaluation went to a consortium led by the Policy Studies Institute, it included (I will bore the Committee) the Institute for Fiscal Studies, the National Centre for Social Research, the Social Policy Research Unit, Mathematica, Professor David Greenberg of the University of Maryland—stood up and said, “We are doing this on a crazy basis.” So an awful lot of very expert people thought this was a sound basis on which to evaluate.

Mr Bacon: It clearly proves William Safire was right when he said, “I would far rather be governed by the first thousand people in the Boston telephone directory than the Harvard Faculty.”

Q139 Stephen Barclay: Is what you are saying very openly that there is a lack of accountability? You were around, as I understand it, when the pilot was done, as was Mr Sharples, you agreed to this target which, as you have just alluded to, was for a very difficult group, a long-term problem for which in essence you were saying you could cut this by two-fifths amounting to 1 million people—I am not sure if that included the trend as well in which case potentially, if one goes back to 1996 when it was below 2.5 million, that is more than a million you were cutting in the target but the target is a bit unclear about that—and 50% of these were on the voluntary scheme? So it was an extremely ambitious objective based on a pilot which was incorrectly assessed. Who actually is accountable?

Sir Leigh Lewis: In the end, as the accounting officer for the Department, I am accountable for every judgment taken by civil servants in my Department, and I do not duck that for one moment and I never have before this Committee. But I cannot know personally what an effective evaluation methodology is and I think it is fair to say that both senior civil servants and ministers at the time believed on all the evidence before us that we had an effective evaluation methodology. It is worth saying

that one of the OGC Gateway reviews commended our evaluation process as an example of best practice, so it was not as if there were people queuing up to tell us at the time this was a flawed evaluation methodology.

Q140 Stephen Barclay: Was there an expectation within the Department that a large proportion of the 1 million would be delivered from the Employment and Support Allowance. Did that influence the fact the contracts with the private suppliers were signed, as I recall in December 2007 and April 2008 on three year contracts, in essence just before that Employment and Support Allowance kicked in with a higher medical test?

Sir Leigh Lewis: The ambition, aspiration as it was then, of the then Government to reduce the numbers of people on incapacity benefits by 1 million by 2015—it is worth remembering what the timescale was—was not based on a single component, it was not based solely around Pathways, it was also based around a new benefits structure, it was also based around more active intervention and so on. So all of these elements I think were coming together to propel the Department at that time. It was a journey we had been on for some time but it was a journey which was accelerating, to seek to do more to tackle, I repeat, what the NAO Report says has been a deeply intractable group.

Q141 Chris Heaton-Harris: On this point, I think you have just admitted really that you rushed through the design of Pathways to meet different timetables.

Sir Leigh Lewis: I just want to say that I do not think I have just admitted that, so I do not want that to be in the record. I have not, I am afraid.

Q142 Chris Heaton-Harris: When we read back Gurney's record, it sounded a bit like you were in a bit of a rush. I am concerned in a way on the basis of what Mr Bacon just said, that you under-estimated the nature of the claimant group in this programme and possibly, almost definitely in fact, and it says so in this Report, page 27, paragraph 3.10, the fifth and sixth lines of that, that the bids that you got to run this programme did exactly the same thing. So was this programme actually doomed to failure?

Sir Leigh Lewis: The answer is, no, I do not for one moment think it was doomed to failure. To go back on your first point that we rushed, just a couple of points, we competitively tendered the evaluation in 2003, the main evaluation report which demonstrated there was a positive impact from the programme was published in 2007, so that is four years. It does not sound completely rushed to me. I think this programme was not doomed to failure and nor do I think it has been a failure, just to be clear. What I do believe is that we were setting out to tackle a new group that we had not previously tackled in anything like this fashion. We had some evidence to go on, like as the witnesses before were saying, the New Deal for Disabled People, but by definition we were going into uncharted territory. We believed I think that the design and the structure—and

remember it had been piloted, it was piloted very extensively—did lead us to believe that this programme was likely to show a significant positive return on the investment. I am disappointed, as I am sure is every member of this Committee, that does not appear to have been the outcome but in a way it is very easy to be a government and to be a civil service which simply avoids criticism by doing nothing. No one has ever made any advance by not taking some risk and not being prepared to experiment. I think this was a department actually prepared to take a significant but measured risk in order to achieve a very substantial policy objective. Although we did not succeed in the way we had hoped, I think we have learnt a great deal which will help successive governments (because we were talking about the last government and we now have a different government) achieve more in relation to this objective in the future.

Q143 Ian Swales: Just around the design and the evaluation, with due respect to the great and the good, the answers in organisations are often found much lower down and I wondered if you felt enough attention was paid to what a local office manager would tell you, or indeed the claimants themselves? Do you feel enough research was done at the level where it actually happens in designing a programme?

Sir Leigh Lewis: The honest answer to your question is, I do not know, one of my colleagues may, whether the evaluation programme involved any involvement of local office staff. I sympathise with the underlying point of your question. It is worth saying that one thing we are completely unique about I think amongst Whitehall departments is that we operate a back-to-the-floor programme in which the 280 most senior civil servants in the Department spend a week each year trying to do the job of our staff at the front line. I will be doing it in two weeks' time for the fourth time. You do learn an awful lot so I have great sympathy with your underlying point.

Q144 James Wharton: Sir Leigh, I really wanted to follow on to some extent what Chris was saying. It sounds a little bit like not death by a thousand cuts but justification by a thousand faults—there is a little problem here, a little problem here, they compounded and built up and then we had all these issues which have now come out which with hindsight we can look at and say, "We could have done this better." We seem to have accepted there were problems in the piloting process, that we have a very difficult group of people, an intractable group of people, when that all came round to the process of procuring providers to provide this service, first of all the suggested targets the Department came out with were high and ambitious, the providers then came in and over-bid against those targets. Was there no system in place—there certainly was not an effective system in place—where someone at the Department could say, "Within a band of reasonableness around the targets which we are

wanting to achieve, the providers are coming in and they are bidding too high, so it is quite clear the providers are not succeeding in meeting the targets they now have”?

Sir Leigh Lewis: It may be a slightly familiar theme, and I hope I do not become tedious to the Committee this afternoon in saying that, at the time we believed we were acting sensibly and responsibly and we have learnt as we have gone along. I am not for one moment suggesting to the Committee this afternoon this programme has performed as we wanted it to perform. When we got those bids in the phase one areas and we looked at the performance levels which were being offered by the individual providers, again I would want to say to the Committee because it is true, they went through a very, very thorough evaluation process involving specialists of a whole variety of descriptions. We did not at the time believe they were unrealistic. They seemed to match pretty well with provider performance on the New Deal for Disabled People, which was the nearest comparator we had at the time, where job outcome performance had tended to run at between 40 and 50%, so in setting targets which, as the Report says, were around 37% on average overall, that did not look at the time completely out of line. Also, we were dealing with sophisticated experienced providers, as you have just heard, who had not just entered this business two weeks before they put in their first bid, and I think we had a basic entitlement because they were putting their money at risk to believe they had looked at this pretty systematically. I should say that one of the things in the light, however, of all of that experience is that we do now require our suppliers to supply a much more detailed supporting rationale for any performance levels they offer because it is quite clear, with hindsight, that those levels they offered were over ambitious.

Q145 James Wharton: How many of those people or providers who bid were actually rejected because their bids were considered unrealistic?

Sir Leigh Lewis: I need to ask Alan Cave this because I do not know this.

Mr Cave: I am afraid I do not know what the total number of bidding organisations was but we can certainly provide that information.

Q146 James Wharton: Specifically on the basis of them being too ambitious rather than rejected for other reasons.

Mr Cave: Again, I am sure we can provide that information.

Q147 Chair: Have you terminated any contracts?

Mr Cave: We have not terminated any contracts. Two providers are currently under what we call “breach notice”, in other words special measures leading up to termination if there is not an improvement.

Q148 Chris Heaton-Harris: Instant Muscle obviously went under?

Mr Cave: That was before the programme actually started.

Mr Bacon: Not enough muscle!

Q149 Chair: Why are the two under special measures?

Mr Cave: Because, unlike their counterparts, they have not shown the degree of improvement that we have been working with all the providers to achieve.

Q150 Nick Smith: We all accept you have been dealing with some hard yards here and they are a deeply intractable group, having said that, given the weakness of the pilot, given the failure to involve a key target group here, the decision to roll out the £750 million programme does appear not to be the right decision, it appears more to be a roll of the dice than a roll out to the value of £750 million. I want to come on to the business about parts of the Pathways which did make an impact, which is the medical assessment and the work focused interviews. You did talk earlier about the £94 million which has been spent, which does seem to be ineffective, which you said you did not want to throw away or throw into a pit. Of that £94 million, which elements are you still going to spend and how much are you going to take forward?

Sir Leigh Lewis: Can I just go back for a moment because I think it is important I do, to say why I do not believe at all that based on what we then knew it was an irresponsible decision to move to a national roll out? I have been very clear that I believe it was a wholly responsible decision to move to national roll out. I do not want to go endlessly over the methodology but the actual main evaluation report, when it was published by the Policy Studies Institute in 2007, entitled *The Impact of Pathways to Work* reported a positive employment impact of 7.4 percentage points as between past participants and non-participants in terms of employment outcomes, ie 7.4% more participants than non-participants had obtained jobs. On that basis, there was a very rigorous discussion, both inside DWP and across Government because funding had to be approved by the Treasury, and on the basis of that it was agreed that there was a sound basis for moving to national roll out. So on the evidence we had then, I believe this was a sound decision. If I had not believed it, I would not have approved it. Coming on to your second point, what evidence we have learnt, I think the Report is entirely right on this, we have learnt certainly that having the work capability assessment earlier in the claim is clearly effective. Secondly, I think we have learnt the simple prospect that this is going to be an active process so that when people come on to this benefit they know, in contradistinction to the past, there are going to be a series of interventions, there are going to be a series of support measures offered to them, but also some challenges as to what they can do, not what they cannot do, and what their aspirations are. I think we have learnt from the Pathways experience that those elements do very much work.

Q151 Chair: Are you going to get more funding to do more work capability assessments because they do cost? You need to have the people in place to do them.

Sir Leigh Lewis: Yes. I might ask Adam to take that on but, yes, as you know, for example, we have been talking up to now about the flow of participants on to benefits, we will be beginning a pilot this autumn and then nationally from April we will be beginning to roll out a process of assessments for the stock of people on incapacity benefits.

Mr Sharples: Indeed, as you will know, there are still over 2 million people on incapacity benefit and the Government's plan is to put those people through the new medical test in stages starting with two parts of the country—I believe it is Aberdeen and Burnley starting in the autumn of this year—and then rolling out over the subsequent three years. So by 2014 the expectation is that everybody who was on incapacity benefit will have been through the medical test and will be part of the new system getting employment support where appropriate.

Q152 Chair: What proportion of those will go on to JSA?

Mr Sharples: We do not know until the process gets underway. This is a group of people who have been on incapacity benefit for some time and it is quite difficult to say precisely what the proportions will be as they are judged against the new standards of the new medical test. That is exactly the purpose of having these two pilot areas, to take people through the test. That will give us by the end of the year, beginning of next year, a much better idea as to which category they will fall into.

Q153 Chair: Are you expecting this to be funded through the SR process?

Mr Sharples: Indeed. We are part of the Spending Review at the moment but that is the Government's clear intention.

Q154 Mrs McGuire: To change tack slightly, one of the issues is about how you manage the supply chain to a certain extent and that is the other side of the question to appointing private sector providers. Given that DWP's own commissioning strategy also charged the Department with maintaining a healthy market out there, can you explain to me how the prime contractor model which assumed prime contractors would work with 88% of clients while sub-contractors work with 12% of clients contributed to maintaining a healthy market?

Sir Leigh Lewis: Let me say something about that and let me see whether Alan or Adam want to add anything. There is inevitably a balance to be struck here, as again a number of members of the Committee will know. The previous earlier contracting strategy of the Department suffered in many ways from having a plethora of very, very small contracts with relatively small organisations as well as of course some larger ones. But the smaller organisations tended to lack the resources, the critical mass to deliver effectively, and therefore the inherent model of a prime sub-contractor model I

think we believed and believe is able to deliver better value for money. We have all heard some of the feedback that is in the Report from sub-contractors, some of whom are satisfied actually but a number of whom are not with the way the programme operated, and learning those lessons again is important, which may be another theme for this afternoon. Under the Work Programme we are going to ask bidders at the framework stage, very early on in the process, to provide much more detailed information on their supply chain policy and on their experience, and most importantly we have introduced something which goes under the slightly curious name—Alan may know why it goes under this name—of the Merlin standard—

Q155 Mrs McGuire: Merlin as in the wizard?

Sir Leigh Lewis: Indeed, as in the wizard. I do not think I will be drawn into why it is called the Merlin standard. This is basically intended to set out very clearly the Department's expectations in respect of supply chain management, it is built around a number of key principles, and I will not bore the Committee to death with those. As a result of that, all contractors will henceforth be graded as excellent, compliant or unsatisfactory in terms of their supply chain management.

Q156 Mrs McGuire: Who is going to do the grading? Is it the same group of experts who gave us the analysis or is it men, or even women, in pointy hats?

Mr Cave: Not pointy hatted! The idea of the Merlin standard—I am afraid I am not sure I can cast light on why it is called that—is equivalent to something like an ISO standard or Investors in People, in other words it is an accreditation device which will have overseeing it a group of people who include people from the industry itself, some academics, some user representatives and client representatives as well. The aim of the standard is to firstly give some teeth to the code of conduct which was introduced subsequent to the letting of the Pathways contract. Picking up Sir Leigh's point, there is a theme here about what we have learned from the Pathways experience and built into our subsequent strategies and practices.

Q157 Mrs McGuire: So this is another independent body which is going to set a standard for delivery and professionalism which will sit alongside some of the other independent bodies out there which are going to make an assessment and many organisations will have already gone through that assessment. How will that establishment of an independent body meet some of the challenges thrown up in the NAO Report about value for money?

Mr Cave: The NAO Report does talk about the Merlin standard as an example of how we have developed our market stewardship function since Pathways contracts were let. It has focused very specifically on supply chain relationships and it is designed to determine and spread excellence in relationships between prime contractors and sub-contractors.

Q158 Matthew Hancock: I have been listening with great interest to all the questions and I think there is some sense of frustration and I would like to ask some very specific questions with some short answers, if I may. You said earlier the Pathways to Work did not succeed, is that right, and you said there are important lessons to learn, and I think we can all agree on that, and you said it has not performed as you wanted it to. Can I just confirm you said there was no net impact in terms of cash?

Sir Leigh Lewis: What the Report says, and perhaps it is as good a conclusion as any, in paragraph 12, “Pathways will have contributed in a modest way to the 125,000 reduction in the size of the incapacity benefits caseload between February 2005 and August 2009, but its precise contribution is unclear.”

Q159 Matthew Hancock: Yes, but that does not take into account the cost of Pathways, my question was about the net impact in terms of cost benefit and earlier you said it was impossible to tell whether it has been positive or negative.

Sir Leigh Lewis: The facts in terms of the cost of Pathways are clear. The spend to date, to the end of 2009-10, is £793 million. What we cannot show is that Pathways in itself has delivered a return equal to that figure. I do not think we can go further than the C&AG has. What we can however show, can we not, is that actually the inexorable growth which had gone on in the growth of incapacity benefits has over the last few years, since about 2003, at first plateaued and then has gently fallen—

Q160 Matthew Hancock: You made that point earlier. Using that £793 million figure, that to me gives a figure per reduction in IB claimant of £6,000 per person. The question I was trying to get you to confirm was, earlier you said you could not tell whether there was a net benefit or a net cost to Pathways to Work and I wanted you to confirm therefore there was no net impact.

Sir Leigh Lewis: I do not think I can really go further than what I said before.

Q161 Matthew Hancock: Okay. The pilots were flawed because of the wrong groups being piloted—can I confirm that? You were saying you should have put both types of group separately through the pilots?

Sir Leigh Lewis: I think there is a kind of current theme in that members of the Committee, and I have appeared before the Committee many times and it perhaps will not be the first time, are attempting to re-summarise what I have said in different words. I have not said—

Q162 Matthew Hancock: Exactly. I am trying to clarify what you were saying earlier.

Sir Leigh Lewis: Let me say again what I said earlier. On the evaluation, with hindsight, with what we now know, I think we would clearly have wanted to evaluate both those making an enquiry and also those making a claim. On the basis of all the professional advice we had at the time, we had an

effective evaluation methodology and the pilots themselves appeared to demonstrate a positive net employment impact—

Q163 Matthew Hancock: On the wrong group of people.

Sir Leigh Lewis: On the participants.

Q164 Matthew Hancock: Who you accept are not the correct participants you should have tested.

Sir Leigh Lewis: I accept, with hindsight, we should have evaluated both groups.

Q165 Matthew Hancock: With hindsight, given it did not succeed and you cannot work out whether it had a cost benefit either way and that the pilots were, with hindsight, not perfect, was it not with hindsight a project that failed in that it did not succeed?

Sir Leigh Lewis: No, because that assumes two things, if I may say so. The first is, if you try something and it does not succeed, by definition it was not worth doing.

Q166 Matthew Hancock: That is not the same. I am asking you with hindsight whether it failed, not whether you should have tried it at the start.

Sir Leigh Lewis: With hindsight this programme did not deliver the benefits we expected of it. However, we have learnt a great deal from this programme which I believe will be of real value in the future.

Q167 Mrs McGuire: Given Matthew’s figure—and I have no reason to doubt his arithmetic—of £6,000 per person moved off, and given that we have already heard from the private sector providers that these were the most disadvantaged and difficult people that many of the private sector providers have ever had to deal with, is it perhaps fairer to put it in the context of £6,000 rather than the global figure of £750 million about whether or not we can judge Pathways being successful or not, albeit we would all have liked it to be more successful?

Sir Leigh Lewis: I think it is the case, just echoing that, that 1½ million people—and perhaps one of my colleagues will stop me if they think this figure is wrong but I think it is right—of the 2.6 million people currently on incapacity benefits have been on those benefits for more than five years. That just gives some indication of what a deeply intractable group this is and of the annual benefits cost of those people remaining on benefits.

Q168 Stephen Barclay: Can I move to a different area of the Report and take you to page 19, paragraph 2.2, where the Report notes, “Failure to attend work focused interviews can lead to a benefit reduction of around 25% . . .”, which is quite a dramatic amount. “The Department calls this reduction a ‘benefit sanction’. The Department does not hold robust data on sanction rates for incapacity benefits claimants, but our field visits . . . suggest the incidence of sanctioning is very low indeed (around 1% . . .)”. Why was it such a low priority?

Sir Leigh Lewis: It was not a low priority but I think it is a weakness, just to be clear, that we do not have more robust data on sanction rates for incapacity benefit claimants. This was a new programme. This is very much an issue where the ONS, the Office for National Statistics, has the lead, but I do believe it would be right to discuss with them whether we can get better data in the future on sanction rates. We have very good sanction data for example on other benefits, such as Jobseeker's Allowance. We do not have the data I would wish to have on sanction rates for incapacity benefit claimants and I think that is a weakness we need to address.

Q169 Stephen Barclay: You say it was a low priority, given that it is only 1% was it ministers who were driving that or is culturally the Department reluctant to use that tool?

Sir Leigh Lewis: Certainly to the best of my knowledge and belief, as they say in legal circles, it was not remotely ministers who impacted on this one way or another. There is no reluctance for the Department as a whole to use sanctions. If you look at the data we do have on Jobseeker's Allowance, you will see that sanctions are used quite extensively for those who fail to meet their obligations. Knowing what I do after some years in the Department of its people, if you have a very, very disadvantaged group, many of whom who have multiple problems, there is perhaps a natural belief amongst staff that this is not the first recourse that they want to reach for, which is to reduce someone's benefit. We are not helped in this because we have got such imperfect data to know really what was going on

Q170 Stephen Barclay: In essence, that is what I was driving at. Is it a lack of MI or is it a cultural issue? If I could take you to a different area which plays into that same MI field. If we go to page 13 of the NAO's work on the Department of Work and Pensions Report, it cites the 2008 Report *Progress in Tackling Benefit Fraud*, which was obviously produced whilst you were in post, and which says: "Information on the costs of countering fraud is not complete . . ." It goes on to say: "This is exacerbated by avoidable weaknesses including a lack of a consistent measure of effectiveness across its counter-fraud activities." What I wanted to tease out from you is, for example, taking sub-contractors, did you have line of sight over all sub-contractors operating under these agreements and could you talk through what fraud controls you had in place and what MI you had around that?

Sir Leigh Lewis: I can certainly talk about fraud controls. I know that Report very well because I appeared before this Committee in its previous incarnation and that report also says that the Department has a better understanding and better data on levels of fraud and error than any other comparable country that the NAO in its benchmarking study surveyed. We have very, very extensive knowledge on levels of fraud and error. Having admitted that there is a data weakness about sanction rates here, there we have very, very strong

data indeed. We have pretty tough controls against fraud and irregularity and my colleagues could go through those but, essentially, we subject 10% of all claims to a very thorough investigation. For sustainability claims, where there is a claim someone has been off work for the 13 weeks that generates that extra percentage of payment, we check 100% of those against our benefit records so that we will not accept such a claim if it shows that that person is still on benefit. It was interesting what Mr Melvin said but we have tightened those controls over our providers very, very substantially over recent years.

Q171 Stephen Barclay: Could I just press you though on one point: did you have complete line of sight over all sub-contractors and will you produce an MI on that?

Sir Leigh Lewis: No we did not. Again, I will look to Alan Cave, our Delivery Director, no, because our primary line of sight is to the prime contractor and we do not pursue right down the sub-contracting chain, so, no, I cannot say to the Committee that we had a complete line of sight right down the sub-contracting chain.

Q172 Stephen Barclay: Moving forward do you think you should have line of sight of sub-contractors given the recommendations on fraud?

Sir Leigh Lewis: In a sense if you reach a contract with a prime provider in which you are holding that prime provider accountable for everything that is delivered in their name for what you are paying them, you are entitled, I think, to hold them to account for everything which is done by them and for them, and that is our fundamental position on this.

Q173 Joseph Johnson: Returning obliquely to what Chris was saying earlier about the rush, at the start of the programme should you not perhaps have ensured that you would not find yourselves in the position in which these large prime contractors you were seeking in order to achieve economies of scale were effectively able to hold a gun to your head and hold you to ransom, there not being sufficient other providers out there in the market for you to be able to credibly threaten to take the contracts back from them or indeed to hand them over to the public sector and to do them yourselves?

Sir Leigh Lewis: The first thing to say is I have not at any point felt that anybody has been holding a gun to my head.

Q174 Joseph Johnson: And repriced the contract.

Sir Leigh Lewis: And people who know me very well would know that I would react pretty strongly if I thought anybody was trying to put improper pressure on me. It is interesting; we have 34 separate contracts for 31 districts with 11 separate contractors. This is a market that actually has been growing. When the then Government made its first steps—and we are going right back to Employment Zones—into provider performance there were very, very few entrants in this marketplace at all. I think one of the successes of recent years is that this

market-place is now much larger, much more diverse and much stronger than it previously was, therefore, I think we have much better grounds for believing that the Department can make really good value-for-money contracting decisions.

Q175 Chair: If I can come in on that. What this Report does say is that the contractors failed to perform, and we are moving forward to this world where you are going to try and find more and more contractors to take on all people out of work including the Employment and Support Allowance claimants. What is going to change in the world that will give us the confidence or you the confidence that you will get a better performance out of the contractors at a reasonable price so that you do not pay more than you get back?

Sir Leigh Lewis: A number of things, I think, Chairman. Just picking up the answer that I have just given, I think that there is a very good chance that we will have a very good number of strong providers bidding for the work programme contracts, so I think the stronger the competition the better the prospect that you will get eventual value for money outcomes. Secondly, we have learned a great deal about how better to structure the contracts and, thirdly, we have learned about performance management of the contracts. Some of the measures that we took once we realised that performance across the piece was not at an acceptable level, some of those stratagems, and perhaps Adam Sharples might want to say a little more about this, are not ones that we are intending to put back in the cupboard and never bring out again.

Q176 Chair: I am going to push you on this because universally they performed badly. We have those figures that we have got out there and if we dug into the figures on the involuntary basis, I bet we would find that probably 5% (that is a guesstimate) of those involuntary claimants with whom they work are in a sustainable job, and that is a universal finding. What are you changing? What are you going to change or what are they going to change? Are we crazy to go down this road at all? What is going to change to give us better value for money?

Sir Leigh Lewis: I certainly do not believe at all in any way that we are crazy to go down this road. In a sense you highlight the dilemma we face. It is very easy, whether you are looking at contractor performance or the performance of your 40-odd Jobcentre Plus districts, to home in on poor providers if you have other providers who are delivering against their targets because you can say, "Look, you are giving me all of these reasons why it is all so terribly difficult but here across the road in a different district but with lots of like characteristics they are hitting these targets." What we were faced with as the roll-out went on, it was clear that no providers were hitting their targets. There was differential performance but it was all under target. Therefore in a sense what we had to do was stop and take stock and begin to ask ourselves what was going

on that we were getting such consistent under-performance and that led us to the belief that first of all we and providers had under-estimated the innate difficulty of the group but also that we had not over the piece focused sufficiently right at the beginning on the performance aspect.

Q177 Chair: So what is going to change?

Mr Sharples: Can I just add a couple of points on this. It is a very good question to ask and obviously we have asked ourselves how can we learn best from the Pathways experience. One of the things that providers have said to us is that in some cases they have found the contract structure over-rigid. We required them to conduct a set number of work-focused interviews at set intervals and we required them to offer condition management programmes and other forms of support, and what providers have said to us is that they would like more flexibility and with more flexibility they would work with different customers in different ways. The other thing that we have learned is that again a strong message from the providers is they say this has to be a long-term relationship. If you are working with people who are simply unemployed and helping them back to work the providers say that you tend to get most of your job outcomes in the early months. If you are working with people who are sick and disabled then it is a much more slow-burn result and it takes time to build up a relationship and work with people. That is one reason why as we think about the work programme we have in mind a more flexible structure, more "black box" to use the jargon, and a longer term relationship than was provided for in the Pathways contract.

Q178 Mrs McGuire: May I follow on from that. Both of the providers we had in front of us this afternoon said that their performance is improving albeit that an NAO Report is a snapshot at a particular point in time. Is that your experience just now that they are improving and that some of the justification they gave for their under-performance was to do with the lead-in time building up the expertise, building up the infrastructure. I would just like to know whether we are dealing with a flattening out of 11%, 10%, 9%, 15%, whatever the various figures were, or are we on an upward trajectory?

Sir Leigh Lewis: We are definitely on an upward trajectory. If you take mandatory participants, which everybody has agreed is the toughest group, paragraph 3.9 of the NAO Report suggests that the actual performance has ranged from getting between 3-11% of the mandatory participant group into work. The latest unpublished figures we have got up to May 2010 show that that has risen to 7-19%, so on all the measures we have performance is improving. I do have some sympathy with the points made by our providers. Everyone was learning in this process. This was new for everyone, for the Department, for providers, for their staff, for our staff. I think as people have become more experienced so we have seen good performance, excellence and exemplars of best practice coming through and performance is rising.

Q179 James Wharton: You say everyone has been improving throughout this process. It seems to me that would be a perfect example of why more thorough piloting should have gone on at the beginning of this before over £700 million was spent on a learning curve for the Department and the providers.

Sir Leigh Lewis: I think we are just going to have to agree to disagree on this. I believe that on the basis of all the professional advice we had an evaluation process that lasted for four years from the point where it was first contracted for to when the key report was issued by a highly professional organisation telling us that there was a seriously positive impact, and one which the Treasury endorsed, and the Treasury has never been, as those who have been ministers round this table will know, easy to persuade to agree to an investment. At that point, on the basis of what we gained from them, we had every reason to believe that we had run a thorough evaluation process.

Mr Sharples: Looking back over the history, arguably this is one of the most carefully piloted programmes the Government has run in recent years.

Matthew Hancock: Oh dear!

Q180 Mrs McGuire: Your turn will come! I did YTS.

Mr Sharples: The story started in 2003. There were two waves of pilots followed by a gradual extension across Jobcentre Plus districts in three stages, followed by a move to commission the private sector, which happened in two stages. The whole process took five years from the start of the roll-out to the completion of the roll-out and, as Sir Leigh has explained, at every stage there was evaluation and the results were being monitored. This was a five-year process. Committee members have described this as a rush. It did not feel like a rush to be doing this over five years.

Q181 James Wharton: Will that have involved any external consultants or bodies or organisations and if it did can we ask for our money back?

Sir Leigh Lewis: Just to pick up on that, again, in accordance with best practice, we had four external OGC Gateway reviews carried out by external experts through the OGC process, in February 2007, June 2007, October 2007, February 2008 and they were all complimentary and the final one commented: "The programme should be cited as an exemplar for how policy is taken forward and delivered," so the external validation here was that this was a well-managed and well-delivered programme. The OGC could have said, "This is a basket case," and believe you me, they do at times say that.

Mr Morse: I was only going to make an observation which I think is fair, Leigh, which is that the measurement of performance by the contractors was against targets they had. It was not against the ultimate improved targets; it was against presumably targets that were thought appropriate for the time period in which they were operating. I think that must be true. I guess it is fair to compare

the target for any period with what they actually did. The fact they did better later on is good news and it would be very strange and concerning if they did not, but we should not discount the fact that there are two figures that you can quite reasonably compare. I am only saying that for a bit of clarity.

Sir Leigh Lewis: Amyas, I think your clarity is welcome and it is clarity with which I agree. I have not sought from my very first answer to the Committee this afternoon to say that this programme did as well as we wanted it to do, quite clearly it did not, but in a sense what we have been doing is replaying history and asking whether we could have taken better decisions at the time.

Mr Morse: I am not trying to do that at all and I am not trying to rebut you; I am simply trying to provide a little bit of information to the Committee that it is quite fair to compare the targets against the actual performance in the periods concerned.

Q182 Jackie Doyle-Price: The overall outcome of this programme is obviously to get more people off benefits and into work and obviously the medical assessment has been quite a successful way of getting people off benefit, but in terms of those people who have then been put on to JSA what support has been given to them to get them into work because clearly a number of these will have been on benefits for a very long time and will need that extra support?

Mr Sharples: They will get support through the normal Jobcentre Plus process, which involves a discussion with an adviser through a work-focused interview followed up by regular fortnightly short discussions, and then as people stay on benefit for longer if they are unable to find work Jobcentre Plus are able to draw down more options to offer people. At any point in that process if they want to have a discussion with a specialist disability employment adviser then the customer can do that, so throughout that process we are looking to try and help people move into work as quickly as possible.

Q183 Jackie Doyle-Price: Is there any evidence that that has been successful? Will you be monitoring it?

Mr Sharples: Absolutely, Jobcentre Plus has done a tremendous job particularly through the recession. As the volume of claimants has risen Jobcentre Plus has managed to sustain the turnaround and managed to handle larger numbers of customers. Crucially it has managed to maintain the rate of offload from benefits into work, even during the recession.

Q184 Jackie Doyle-Price: I guess my overall concern is we are not just moving people from one category to another and just leaving them there. A follow-on from that is in terms of those people who are then judged as not qualifying for incapacity benefit, what has been the proportion of people appealing against that decision and how have you handled those?

Mr Sharples: The proportion of people who have been found fit for work who have appealed is about one in three. I think fewer than half have been successful in their appeals. Those who are successful obviously then go on to the Employment Support

Allowance. Those who are unsuccessful, if they choose to apply for Job Seeker's Allowance, can go into that regime.

Q185 Austin Mitchell: Just let me shift the ground a bit because it seems to me there is a good deal of political hypocrisy which we are all very good at, not on this Committee but generally. It suited both parties in government to put people on invalidity benefit to reduce the headline unemployment figures. Then suddenly in the early Noughties both parties panicked: "It is costing so much to have 2.76 million on invalidity benefit we must reduce the number." We brought in schemes like this and you can only commend them because it gives people on invalidity benefit a chance and the prospect of work and it encourages them, so it is a good scheme, but it is not going to have, I was going to say cat in hell's chance but let us say a wheelchair at Brooklands' chance of actually reducing the number on benefits, which have actually increased up to August 2009 (I do not know how much they have increased since). It is not going to have a chance of reaching the target which you give us of getting the number of people claiming invalidity benefits down by one million in 2015. You will not have a cat in hell's chance of doing that unless there is some huge medical shake-down and people going for medical examination are told, "If you can reach the medical examination on your own you are fit to work; bugger off."

Sir Leigh Lewis: One difficulty I have, apart from not wanting to engage in political debate at all as a civil servant, is that inevitably between the events described in this Report and the events now we have a different Government.

Q186 Austin Mitchell: Do you think we can reach that target?

Sir Leigh Lewis: One thing I would say is if we take the numbers on incapacity benefits because the actual numbers have only come down by a relatively small number, this has been at a time when the working age population has been growing. If you go back to the peak in 2003, 7.7% of the working age population was on incapacity benefits. We are now at 7%. It would be jolly good if we were at 0.7%. However, this suggests that this is a tough, intractable problem but it is possible to make some real inroads into this.

Q187 Chair: But you do not know how many out of that 0.7% have shifted to other benefits, do you?

Sir Leigh Lewis: I have not instantly got that, no.

Q188 Chair: Do you have that information?

Sir Leigh Lewis: Can I see if we do and come back to the Committee?

Chair: We may be saving on the margin, with people being even poorer, but are we really getting them into work?

Q189 Austin Mitchell: You cannot shift the figures to percentages of the working population. It is an absolute commitment, down a million by 2015, and you are not going to reach it, are you? You can make

a marginal difference, and I welcome the differences that can be made, but these schemes are going to make no more than a marginal difference. The only scheme that is going to make a big difference is a medical shake-down.

Sir Leigh Lewis: Again, I do not want to get into whether a figure was a realistic figure or not a realistic figure. That is not a matter for me.

Q190 Austin Mitchell: It is your figure.

Sir Leigh Lewis: But we are making a big difference in the medical world in two ways in terms of the way we look at the medicine side this, for want of a better way of describing it. First of all, we are introducing work capability assessment for the stock of 2.6 million incapacity benefit claimants. That is a pretty big step. The other is—and it is the work that for example Dame Carol Black has championed—is trying to change attitudes not least amongst the medical community. To parody slightly, and it is a parody, the classic position is the person who appears in their GP's surgery and says, "I am under stress," and the GP says, "I will sign you off." We now know that that is probably about the worst thing you can do and there is quite a medical revolution going on.

Austin Mitchell: That is all very desirable but the fact remains that 80% of the reduction in those staying on benefits that was made on these schemes was due to the earlier medical examinations.

Q191 Chair: I think that is accepted really. I want to shift to something slightly different and then Nick wants to come in and then we will try and draw you to a close because it is late. What the Report also demonstrates is that Jobcentre Plus delivered better with this group than the private providers so I cannot understand on both a value-for-money basis, or indeed effectiveness for the client group, why we are moving to a greater dependence on private providers given that we like to have evidence-based policy.

Sir Leigh Lewis: Just a couple of things to say on that comparison. The first is that it is interesting the differential has been narrowing so the Jobcentre Plus performance is still slightly ahead of the providers but not by as much as it was. I also believe, and I am a previous Jobcentre Plus Chief Executive, that it is a very effective and able organisation so it is quite a tough test to perform as well as Jobcentre Plus. I think both the present Government and its predecessor believed that there is real value in having a plurality of provision in this area, and that leaving this entirely to either the public sector or the private sector or the third sector would be wrong, and that the strengths of the different sectors and their experience when combined together are worth more than the sum of their parts.

Q192 Chair: I understand that but is it your view that the greater emphasis on private providers, which is where the work programme is going, will provide better value for money for the taxpayer and more effectiveness in terms of getting claimants into work, because the evidence does not bear that out?

Sir Leigh Lewis: Ultimately of course these are political judgments and not ones for civil servants but the work programme to me seems an entirely coherent and wholly rational response to the situation we are currently facing.

Q193 Chair: You are evading a little bit. Is it your view that it would better to have a greater balance with more going to Jobcentre Plus who have proven by evidence—and we talked about evidence—to have performed better?

Sir Leigh Lewis: My view put clearly is that a balance in which there is a multiplicity of provision is a good thing and if somebody were to suddenly give me supreme power (which I would recommend against, incidentally!) I would not myself want to change it.

Q194 Nick Smith: Changing tack before we get squeezed for time, how are you working with employers to change attitudes to disability and long-term sickness to keep people in work?

Sir Leigh Lewis: It is a big subject and I do not claim to be the world's expert on it, but through a whole variety of the means, through our Fit for Work campaign, through the establishment of the Office for Disability Issues and through the work of my own Department, which is a huge employer of 118,000 people, I think the whole thrust is to emphasise continually what people can do and not let their disabilities get in the way of them being able to do a job. Time and time again we find as an employer that people who have disabilities and fall within the description of the DDA nevertheless can be every bit as effective as employees as any other employees that we have. I think it is about changing culture right from the top and right through.

Q195 Matthew Hancock: I have got one final question which ties into something that the providers said in the earlier session which is that we were talking about the payment that was brought forward in 2009 and they made clear that this was not necessary to keep them afloat and they also made clear that the poor performance was not due to the recession. So I wonder what response you have to that section of the evidence, which I understand you were here listening to because it gave every impression that with hindsight this was not necessary?

Sir Leigh Lewis: I do not think I do accept that. Incidentally, I share the views of our providers; I think this was more a systemic issue about the very difficult nature of this client group. I think as both of our previous witnesses said the downturn did not help, if you see what I mean, there were fewer jobs and at a time when there are fewer jobs it is harder to place people into work; that is almost self-evident.

Q196 Matthew Hancock: But you would agree that it is too easy to blame it on the recession?

Sir Leigh Lewis: I agree that anyone who says it is all to do with the recession is wrong. It is really quite important to say what we did and what we did not

do. We did not increase the total contract price at all. What we did was to allow providers to apply to have the service fee element of the structure—

Q197 Matthew Hancock: —The fixed bit?

Sir Leigh Lewis: Exactly. Front-loaded so that they were allowed to receive 50% of the total three-year service fee in the first year rather than a third. It was not a huge move and we did it because it was quite clear that the outcome-related payments were going to be much later in materialising than we had anticipated.

Q198 Matthew Hancock: Outcomes were going to be worse therefore you gave them a higher fixed element?

Sir Leigh Lewis: We gave them an initial higher fixed element but this has cost the taxpayer no more money.

Q199 Joseph Johnson: The Report makes clear that it is not best practice to do that and it should only be done as a very last resort. Do you accept that you have set a precedent that will encourage firms in future to bid high? I see that one contractor, Instant Muscle, came in with an offer of 50% of the people taken on it said it would find work for. Surely that was not a plausible assumption on which to bid responsibly?

Sir Leigh Lewis: We all quote selectively and I do not in any way begrudge you but the first part of the sentence that you have quoted from report, paragraph 17, says: “Bringing forward contract payments this way was a pragmatic operational and commercial decision reflecting very difficult economic circumstances and risks to the supply chain . . .” and then it goes on exactly as you said “. . . but cannot be viewed as ideal practice and should only be used as a last resort.”

Q200 Matthew Hancock: We heard there was not a risk to the supply chain earlier from the providers because they said they did not have a cash flow problem.

Sir Leigh Lewis: With respect, you heard from two providers who are very established providers.

Q201 Matthew Hancock: —Who received some of these up-front fixed costs.

Sir Leigh Lewis: Yes, they were able to apply for that provision. This is one of those situations where we are damned if we do and damned if we do not. Civil servants can be very quickly accused of staying rigid, unbending, unyielding and not recognising that the world about them has changed. We believed we faced a very difficult environment and it was right to make some change—and it is quite a limited change—to the funding structure at that point.

Chair: Thank you very much indeed for staying so long and doing it at such short notice and being so honest and open and full in your responses. We look forward to the further information that you have promised us. Thank you very much indeed.

How many of those people or providers who bid were actually rejected because their bids were considered unrealistic?

No Pathways bids were ruled out solely due to unrealistic job outcomes.

The Pathways to Work procurement process followed a two-stage restricted procedure, consisting of a Pre Qualification Questionnaire (PQQ) stage and an Invitation to Tender (ITT) stage.

PQQs were submitted generically, one per Provider, with an indication of which Districts they were interested in and assessed against pre-determined criteria. A number of providers met this criteria in each district and were invited to tender in stage two of the process.

For Phase 1 of Provider Lead Pathways to Work, 125 tenders were received by the closing date of noon on 25 April 2007.

For Phase 2 of Provider Lead Pathways to Work, 108 tenders were received by the closing date of noon on 19 July 2007.

60% of the overall tender mark was assigned to the quality of the bid, with contract price making up the remaining 40%. These were then added together and the bidder with the highest overall tender mark won the competition.

How much of the fall in the proportion of the working-age population claiming incapacity benefits moved onto other benefits?

Between November 2003 and 2009, the proportion of the working-age population in receipt of incapacity benefits¹ fell from 7.7% to 7.0%.² As the table below shows this fall was not matched by any systematic rise in the proportion of the population claiming other working age benefits over the same period: the proportion claiming income support fell steadily and the proportion claiming JSA fell and then rose in the recession.

<i>Time Series (November)</i>	<i>Jobseekers Allowance</i>		<i>ESA and Incapacity Benefit</i>		<i>Income Support for Lone Parents</i>	
	<i>Caseload (thousands)</i>	<i>% of pop</i>	<i>Caseload (thousands)</i>	<i>% of pop</i>	<i>Caseload (thousands)</i>	<i>% of pop</i>
1999	1,083.03	3.1	2,674.71	7.7	930.24	2.7
2000	948.66	2.7	2,722.57	7.8	905.76	2.6
2001	880.36	2.5	2,746.02	7.8	878.59	2.5
2002	850.05	2.4	2,776.56	7.8	856.23	2.4
2003	803.88	2.2	2,780.49	7.7	831.75	2.3
2004	741.06	2.1	2,772.18	7.7	796.53	2.2
2005	836.71	2.3	2,710.50	7.4	778.56	2.1
2006	860.22	2.3	2,672.96	7.3	775.62	2.1
2007	741.1	2.0	2,641.70	7.2	741.83	2.0
2008	1,036.48	2.8	2,605.51	7.1	728.98	2.0
2009	1,469.92	3.9	2,618.38	7.0	695.72	1.9

Each year around 650,000 people leave incapacity benefits and a similar number join. We do not have reliable information on the destinations of all these customers but our best information of the destinations of those leaving incapacity benefits are given in the table.

	<i>Work</i>	<i>Benefits</i>	<i>Retirement benefits</i>	<i>Deceased</i>	<i>Other</i>	<i>Unknown/Not on benefit</i>
IB/ESA	13.3%	37.9%	17.0%	6.3%	1.9%	5%

¹ Incapacity benefits is a generic term which includes Incapacity Benefit, Severe Disablement Allowance, Incapacity Benefit in Youth and Employment and Support Allowance.

² DWP benefit statistics: http://83.244.183.180/100pc/wapog/ccdate/ccstatgp/a_cnpop_r_ccdate_c_ccstatgp.html