



House of Commons  
Committee of Public Accounts

---

# Government contracts for Community Rehabilitation Companies

---

**Twenty-Seventh Report of Session 2017–19**

*Report, together with formal minutes relating  
to the report*

*Ordered by the House of Commons  
to be printed 14 March 2018*

## The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No. 148).

### Current membership

[Meg Hillier MP](#) (*Labour (Co-op), Hackney South and Shoreditch*) (Chair)

[Bim Afolami MP](#) (*Conservative, Hitchin and Harpenden*)

[Sir Geoffrey Clifton-Brown MP](#) (*Conservative, The Cotswolds*)

[Martyn Day MP](#) (*Scottish National Party, Linlithgow and East Falkirk*)

[Chris Evans MP](#) (*Labour (Co-op), Islwyn*)

[Caroline Flint MP](#) (*Labour, Don Valley*)

[Luke Graham MP](#) (*Conservative, Ochil and South Perthshire*)

[Robert Jenrick MP](#) (*Conservative, Newark*)

[Gillian Keegan MP](#) (*Conservative, Chichester*)

[Shabana Mahmood MP](#) (*Labour, Birmingham, Ladywood*)

[Layla Moran MP](#) (*Liberal Democrat, Oxford West and Abingdon*)

[Stephen Morgan MP](#) (*Labour, Portsmouth South*)

[Anne Marie Morris MP](#) (*Conservative, Newton Abbot*)

[Bridget Phillipson MP](#) (*Labour, Houghton and Sunderland South*)

[Lee Rowley MP](#) (*Conservative, North East Derbyshire*)

[Gareth Snell MP](#) (*Labour (Co-op), Stoke-on-Trent Central*)

### Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No. 148. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

Committee reports are published on the [Committee's website](#) and in print by Order of the House.

Evidence relating to this report is published on the [inquiry publications page](#) of the Committee's website.

### Committee staff

The current staff of the Committee are Richard Cooke (Clerk), Dominic Stockbridge (Second Clerk), Hannah Wentworth (Chair Support), Ruby Radley (Senior Committee Assistant), Carolyn Bowes and Kutumya Kibedi (Committee Assistants), and Tim Bowden (Media Officer).

### Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 6593; the Committee's email address is [pubaccom@parliament.uk](mailto:pubaccom@parliament.uk).

# Contents

---

<b>Summary</b>	<b>3</b>
<b>Introduction</b>	<b>4</b>
<b>Conclusions and recommendations</b>	<b>5</b>
<b>1 Transforming Rehabilitation</b>	<b>8</b>
The changing volumes of work for Community Rehabilitation Companies	8
Third sector involvement in rehabilitation services	9
Ensuring joint working and information sharing	10
Community Rehabilitation Companies' performance	11
<b>2 Making Community Rehabilitation Companies' contracts work</b>	<b>12</b>
The financial sustainability of CRCs	13
<b>Formal minutes</b>	<b>15</b>
<b>Witnesses</b>	<b>16</b>
<b>Published written evidence</b>	<b>16</b>
<b>Published correspondence</b>	<b>16</b>
<b>List of Reports from the Committee during the current session</b>	<b>17</b>



## Summary

More than three years into its seven year contracts with Community Rehabilitation Companies (CRCs), the Ministry is a long way from delivering the 'rehabilitation revolution' it had promised. In 2017, the Ministry was forced to adjust its contracts with CRCs because it pushed through its reforms too quickly and failed to anticipate foreseeable consequences. The volumes of work paid for under the contracts has dramatically reduced, meaning that CRCs have not invested in probation services. The quality of rehabilitation services has suffered as a result and is undermining the objectives of the reforms.

The Ministry accepts that the CRC contracts were plainly not working as intended and has agreed to pay them up to £342 million more of taxpayers' money. But the Ministry could not explain what it is getting back for this extra commitment. Despite this bailout, 14 out of 21 CRCs are still forecasting losses. This raises concerns about the potential for contracts, or providers, to fail. One provider, Interserve, has issued two profit warnings. As a company with multiple contracts across government this is particularly worrying in light of the collapse of Carillion.

The future income of CRCs will increasingly depend on their ability to reduce stubbornly high reoffending rates. While there has been a modest decrease in the number of re-offenders since CRCs were introduced, 19 CRCs have not met their targets for reducing the frequency of reoffending. These disappointing results raise questions about whether the current arrangements will be able to deliver the promised benefits before the contracts expire in 2021–22. The Ministry urgently needs to make sure CRCs improve the quality of the services they provide and deliver on their promises of innovation to achieve the improved outcomes that offenders and communities so desperately need.

## Introduction

---

Probation services are designed to protect the public by supervising offenders in the community, overseeing their rehabilitation and ensuring that offenders understand the impact of their crimes on victims. In June 2014 the Ministry of Justice (the Ministry) introduced its Transforming Rehabilitation reforms. It dissolved 35 self-governing probation trusts and created a public sector National Probation Service and 21 Community Rehabilitation Companies (CRCs). CRCs supervise offenders who present a low or medium risk of harm, while the National Probation Service manages offenders who present higher risks. In February 2015, the CRCs were transferred to eight, mainly private sector, suppliers working under contracts managed by HM Prison and Probation Service (HMPPS). But since then activity volumes types of rehabilitation work which CRCs are paid for under the contracts—have been far lower than expected and are forecast to continue to fall.

We examined the Ministry’s progress with its Transforming Rehabilitation programme in July 2016 and concluded that the Ministry’s negotiations to resolve the issue of CRCs’ reduced activity volumes were undermining the objectives of the reforms. We recommended that the Ministry should review and adapt the way CRCs were paid for their work to create stronger incentives for them to provide innovative services that meet the needs of all groups and reduce reoffending. In March 2017, CRCs told the Ministry that they were projecting substantial forecast losses of £443 million across the remaining life of the contracts. The Secretary of State for Justice announced in July 2017 that the Ministry had “adjusted the CRCs’ contracts to reflect more accurately the cost of providing critical frontline services”. The Ministry has agreed to commit additional funding of up to £342 million to CRCs over the remaining life of the contracts.

## Conclusions and recommendations

1. **The Ministry of Justice (the Ministry) still has a long way to go before it achieves the objectives of its reforms.** Despite committing up to £342 million more of taxpayers' money to stabilise its contracts with Community Rehabilitation Companies (CRCs), the Ministry has not fixed the underlying problem or ensured that its 'rehabilitation revolution' will actually be delivered. We are deeply concerned that, following the injection of additional public money into these contracts, 14 out of 21 CRCs are still forecasting losses. The majority of CRCs are therefore not much closer to a sustainable position than they were before the contracts were changed. Despite the additional funding, the Ministry did not persuade us that the CRCs will improve the services they deliver. CRCs will be increasingly dependent on income through payment by results as the contracts progress. Reoffending rates in particular are critical to the future income of CRCs. CRCs are paid for reducing the number of reoffenders and also the number of offences that reoffenders commit. The latest data published by the Ministry show modest declines in the number of reoffenders, but 19 CRCs have not met their targets for reducing the frequency of reoffending. These early results are disappointing and, if not turned around, could further threaten the financial sustainability of CRCs, restricting innovation and promised investment.

**Recommendation:** *The Ministry should update the Committee by the end of April 2018 about the financial stability of providers, particularly following profit warnings issued by one provider, and set out any further changes it intends to make to get its rehabilitation revolution on track to ensure the prime goal of reducing offending is actually achieved.*

2. **The Ministry's failure to pilot or properly understand its fundamental changes to the probation system has led to CRCs not investing in probation services, which have suffered as a result.** CRCs are paid for the types of activity they undertake rather than the volumes of offenders they supervise, meaning their financial health depends on carrying out types of rehabilitation work which attract payment. The Ministry failed to anticipate the potential for lower than expected volumes of work flowing to CRCs. In 2015–16 the volumes of work CRCs were paid for ranged from 8% to 34% less than anticipated, and are projected to be 16% and 48% lower in 2017–18. Yet the Ministry only modelled changes of up to 2% during the procurement. Lower than expected volumes of work meant that CRCs faced the prospect of significantly reduced income over the life of the contracts. The Ministry also significantly overestimated the ability of CRCs to reduce their costs to match any fall in income when it agreed the contracts. HM Prison and Probation Service (HMPPS) argued that it would not have been possible for them to anticipate lower volumes of activity and that the lower volumes can be explained by differences in the types of criminal cases heard by the courts and changes in the requirements attached to offenders' sentences. However, it should have been well within the Ministry's capability to recognise that the composition of criminal cases heard by the courts was changing and to monitor and respond to shifting trends in sentencing decisions. The Ministry did not convince us that it was not possible to foresee or model the impact of factors within its purview. The consequence of this failure is that CRCs have not invested in probation services and offenders are not receiving the right support to help them address their needs.

**Recommendation:** *The Ministry should, by April 2018, write to the Committee to explain how it will ensure any future changes to the contracts of this scope and scale are well thought through and piloted to minimise damaging unintended consequences.*

3. **The Ministry has still not delivered on its commitment to ensure that the third sector can help improve rehabilitation services.** A cornerstone of the Ministry's probation reforms was to open up the market to a diverse range of providers of rehabilitation services, including from the third sector. In our previous report on Transforming Rehabilitation, we were concerned that smaller expert providers were being squeezed out and recommended that the Ministry and HMPPS must deliver on their commitment to sustain a diverse market of suppliers. Overall, the extent of involvement of the third sector in delivering probation services has been woeful. HMPPS told us that this is another consequence of CRCs having less funding than anticipated and being unable to invest in more innovative ways of delivering probation services. But we remain concerned that some charitable trusts have withdrawn from providing services for offenders as a consequence of the decision to extend statutory supervision to those sentenced for less than 12 months. This risk could, and should, have been foreseen by the Ministry.

**Recommendation:** *The Ministry should, by April 2018, publish a comprehensive analysis of the gaps in provision of rehabilitation services across all CRCs that could be addressed through greater involvement of the third sector. It should use future negotiations to seek commitments from CRCs to make greater use of the third sector.*

4. **It is unacceptable that, almost half way through their seven year contracts with the Ministry of Justice, CRCs are not yet able to link their ICT systems to HM Prison and Probation Service.** In a service that relies on successful joint working between multiple partners, it is essential that ICT supports, rather than frustrates, effective and efficient collaboration. In our 2016 report, we recommended that the National Offender Management Service (NOMS), the predecessor to HM Prison and Probation Service, should implement a fully functional and reliable link between NOMS and CRC systems by the end of 2016. The Government accepted our recommendation and stated that its target for all CRCs to link their ICT systems was "summer 2017". It is therefore lamentable that by the start of 2018, and over three years into the contracts, HMPPS has acknowledged that it has made little progress. The Ministry informed us that 14 CRCs expect to link their IT systems into the HMPPS system during the first half of 2018. Six CRCs plan to remain on their current arrangements, while one has yet to decide. The Ministry told us that the delays were largely a result of CRCs failing to invest in IT as a result of lower than expected income, but accepted it had contributed to this its delays in delivering a working link between systems.

**Recommendation:** *HMPPS should, by July 2018, write to the Committee to confirm whether the 14 CRCs have successfully linked with HMPPS' ICT systems as planned and, if not, explain the reasons for any further delay.*

5. **The Ministry still does not have complete and robust performance information, creating a risk that CRCs are not being held to account.** We previously recommended that the Ministry needed to provide confidence that CRC performance data was reliable and complete. Yet at the time of our evidence session the Ministry had still not published performance information for five of its 24 performance indicators. There was no discernible improvement in the performance of CRCs between October–December 2015–16 and April–June 2017–18. The performance of CRCs against their contracts has been woeful and, on average, only 8 of 24 targets have been achieved. The Ministry overcomplicated the performance measurement arrangements with too many targets, some of which, such as securing accommodation for offenders, are not actually within the control of CRCs. These weaknesses mean that the Ministry cannot be sure whether poor performance by CRCs is due to their lower than expected income or their incompetence. HMPPS told us that it has changed how it measures the performance of CRCs under the contracts, but both witnesses admitted that performance has not been as good as it should be.

**Recommendation:** *The Ministry should, by April 2018, write to the Committee explaining its rationale for changing how CRCs' performance is measured and set out when it expects CRCs to be achieving their new targets.*

6. **It is not yet clear what the Ministry has received from CRCs in return for the contract changes it negotiated with them.** In responding to the underinvestment in probation services, a situation of its own making, the Ministry agreed to provide additional funding of up to £342 million for CRCs. The Ministry had also identified service credits—financial penalties for poor performance—with an overall value of £7.7 million, but only imposed £2 million of this. It waived £2.2 million and agreed that £3.3 million could be reinvested by CRCs. The Ministry has also identified that it is owed £9 million of taxpayers' money by CRCs. It has not yet taken any action to recoup this money. We were disappointed that neither the Ministry nor HMPPS could point to a tangible list of commitments from CRCs as a result of the additional money. In particular, we are not convinced that the additional payments will not be used to prop up parent companies that own the CRCs. The Ministry could not adequately explain the wide variations in the fixed costs claimed by different CRCs, which ranged from 44% to 99.8% of total costs. There are also variations in the administrative costs charged by parent companies to CRCs. We expect the Ministry to vigorously defend taxpayers' interests in its oversight of CRCs and in any future negotiation.

**Recommendation:** *The Ministry should, by the end of April 2018, write to the Committee with details of what the taxpayer has received for the extra money it has pledged to CRCs. As part of this, the Ministry should clarify what protections it has put in place to ensure that the additional funding is being directed towards frontline rehabilitation services, and take immediate steps to recoup the £9 million owed by CRCs.*

# 1 Transforming Rehabilitation

---

1. On the basis of a report by the Comptroller and Auditor General,<sup>1</sup> we took evidence from the Ministry of Justice (the Ministry) and HM Prison and Probation Service (HMPPS) on progress with its Transforming Rehabilitation reforms, the changes made by the Ministry to its contracts with Community Rehabilitation Companies (CRCs), and the future of the Ministry's reforms. We also received evidence from two of the companies that own CRCs: Sodexo<sup>2</sup> and Interserve.<sup>3</sup>

2. Probation services are designed to protect the public by supervising offenders in the community, overseeing their rehabilitation and ensuring that they understand the impact of their crimes on victims. In June 2014 the Ministry introduced its Transforming Rehabilitation reforms. It dissolved 35 self-governing probation trusts and created a public sector National Probation Service and 21 CRCs. CRCs supervise offenders who present a low or medium risk of harm to society, while the National Probation Service manages offenders who present higher risks. The Ministry's reforms also extended a requirement for probation supervision for the first time to approximately 40,000 offenders released from prison sentences of under 12 months; a group with particularly high reoffending rates.<sup>4</sup> In February 2015, the Ministry transferred ownership of CRCs to eight, mainly private sector, suppliers working under contracts managed by HM Prison and Probation Service (HMPPS).

## The changing volumes of work for Community Rehabilitation Companies

3. CRCs are paid according to the types of rehabilitation services they provide—or volumes of activity—rather than the number of offenders that they supervise. They are paid different amounts for different types of rehabilitation services. But the volume of activities undertaken by CRCs has been far lower than expected, meaning CRCs faced the prospect of far less money than they expected. The actual volumes of activity undertaken by CRCs ranged from 8% to 34% less than anticipated in 2015–16 and are projected to be 16% and 48% less than anticipated in 2017–18.<sup>5</sup> One of the aims of the CRC contracts had been to encourage CRCs to invest in innovation to improve services and reduce reoffending.<sup>6</sup> As a result of the lower volumes of activity and projected lower incomes, however, most CRCs struggled financially and have not invested in services. In March 2017, CRCs told the Ministry that they were projecting substantial forecast losses of £443 million across the remaining life of the contracts.<sup>7</sup>

4. In July 2017, the then Secretary of State for Justice announced that the probation system had “encountered unforeseen challenges” that led to the Ministry adjusting its contracts with CRCs.<sup>8</sup> The Ministry explained that there were three reasons why it had adjusted the contracts.

---

1 Report by the Comptroller and Auditor General, [Investigation into Changes to Community Rehabilitation Company Contracts](#), Session 2017–19, HC 676, 19 December 2017.

2 Sodexo ([RCC0001](#))

3 [Interserve](#), 19 January 2018

4 Q 29

5 Qq 58, 60, 62

6 Q 40

7 Qq 40, 43, 45, 51

8 Q 34

- Firstly, the number of offenders being referred to the National Probation Service was higher than expected, while the numbers being referred to CRCs was lower. The Ministry told us that this is the result of changes in the nature of crime, with many more serious offences coming before the courts.<sup>9</sup>
- Secondly, courts tended to impose fewer accredited programmes to non-custodial sentences, for which CRCs receive greater payments. The Ministry admitted that courts appear to have lost confidence in some of the services delivered by CRCs.<sup>10</sup>
- Finally, the Ministry assumed that CRCs could be more flexible in reducing their costs than turned out to be the case.<sup>11</sup> The payment mechanism in the contracts assumed that 20% of CRCs' costs were fixed. In fact, the Ministry's later analysis showed that fixed costs were on average 77% of total CRC costs. Sodexo, which, in partnership with Nacro, owns 6 CRCs, told us that the Ministry's allocation of costs during the procurement process was incorrect. It told us that that its CRCs could have managed their costs for limited changes in volume, but the changes were far greater than this.<sup>12</sup>

5. Both HMPPS and the Ministry recognised that they had failed to properly anticipate the possibility and impact of lower than expected volumes of work flowing to CRCs. They told us that in letting the contracts their approach had been to share historical data with potential providers and explain to them how the contracts would be run.<sup>13</sup> The Ministry did not pilot the fundamental changes to the probation system that CRCs represented before rolling them out. During the procurement, it only modelled the effect of a 2% change in CRCs' activity volumes.<sup>14</sup> The Ministry has the capacity and capability to monitor the changing composition of criminal cases heard by the courts, and monitor and respond to shifting trends in sentencing decisions. As part of its reforms, the Ministry extended monitoring and supervision to prisoners who have served 12 months or less—a group of offenders with complex needs—amounting to approximately 40,000 offenders each year. HMPPS told us that CRCs are paid the lowest rates for supervising this group on the basis that they will be compensated under payment by results for reducing high reoffending rates. Although the Ministry claimed these challenges were unforeseen their causes were all within its purview.<sup>15</sup>

### Third sector involvement in rehabilitation services

6. One of the aims of the Transforming Rehabilitation reforms was to open up the probation market to a more diverse range of providers of rehabilitation services, including the third sector. In our 2016 report, we were concerned that the full potential of the third sector was not being realised and that smaller expert providers, local, and voluntary organisations were being squeezed out of the probation system.<sup>16</sup> We recommended that the Ministry and HMPPS must deliver on their commitment to sustain a diverse market of suppliers.

9 Q 34

10 Qq 34, 36–39, 78

11 Qq 35, 41

12 Sodexo ([RCC0001](#))

13 Qq 59, 60, 61

14 Qq 60, 62, 67–72

15 Qq 60, 63, 64, 71

16 House of Commons Committee of Public Accounts, [Transforming rehabilitation](#), Seventeenth Report of Session 2016–17, HC 484, 23 September 2016, page 7

7. The Ministry and HMPPS told us that some CRCs had a good relationship with the third sector and already included third sector and not-for-profit organisations. One CRC is a joint venture with a third sector organisation. They acknowledged, however, that this varies nationally. They also acknowledged that smaller third sector providers feel that they have not been able to participate in rehabilitation work to the extent that they had hoped. HMPPS told us that one of the consequences of CRCs' lower than expected incomes was that CRCs had used smaller providers much less than they had anticipated.<sup>17</sup>

8. Some third sector providers have also withdrawn from providing rehabilitation services due to the Ministry extending its requirement for probation supervision to prisoners who have served under 12 months. This expanded probation supervision to 40,000 prisoners who are serving short sentences and did not previously receive government support on their release, although a large proportion received support from charities and other third sector organisations. HMPPS told us that this has meant that many third sector organisations are withdrawing from probation services because the support they provided is now part of government probation supervision. It told us that it was concerned by the loss of some long-standing third-sector charitable providers, and that services being provided were not as rich as they had been previously.<sup>18</sup>

### Ensuring joint working and information sharing

9. Effective probation services rely on collaboration and efficient, appropriate information sharing between multiple partners, which should be enabled by Information Technology (IT). In 2016, we recommended that the National Offender Management Service should implement a fully functional and reliable link between its and CRCs' systems by the end of 2016.<sup>19</sup> The Government accepted our recommendation and stated that its target for all CRCs to link their ICT systems was "summer 2017".<sup>20</sup> The Ministry and HMPPS told us they had expected their 'strategic partner gateway', which would allow CRCs access to data held by the Ministry of Justice, to be available by June 2015, but that this had been delayed and was introduced only in September 2016. HMPPS told us that part of the delay was attributable to the lack of investment in IT by CRCs as a result of lower than expected income. Both HMPPS and the Ministry of Justice accepted, however, that part of the delay was also the result of it taking them a year longer to open up the gateway to CRCs.<sup>21</sup>

10. At the start of 2018, HMPPS still did not have a system linking HMPPS's and CRCs' IT systems. The Ministry told us that it had now lent CRCs a digital and project management team to work with CRCs and ensure that the two IT systems can link together. So far no CRCs had moved onto the HMPPS system, with the first CRC planning to do so only in April 2018.<sup>22</sup> The Ministry subsequently wrote to us to explain that 14 CRCs expect to link their IT systems into the HMPPS system during the first half of 2018. Six CRCs plan to remain on the current arrangements, and one CRC has yet to decide.<sup>23</sup> CRCs

17 Q 28

18 Q 29

19 House of Commons Committee of Public Accounts, [Transforming rehabilitation](#), Seventeenth Report of Session 2016–17, HC 484, 23 September 2016, page 7

20 HM Treasury, Treasury Minutes, [Government responses to the Committee of Public Accounts on the Thirty-Ninth report from Session 2015–16; the Fourteenth to the Twenty-First reports from Session 2016–17; and progress on Government Cash Management](#), page 15

21 Qq 45, 47

22 Qq 45, 47

23 [Correspondence from Richard Heaton, Ministry of Defence](#), dated 29 January 2018

are not obliged to link directly to HMPPS' IT system and are free to use their own IT systems as long as it is compatible with HMPPS.<sup>24</sup> The lack of progress in securing IT links between CRCs and HMPPS has had an adverse impact on the extent to which CRCs are working efficiently and effectively and their plans to invest in their services. Sodexo, parent organisation to six CRCs, told us that the delays meant that it has not done some of its planned innovation work, and that these delays, issues surrounding the payment mechanism and reduced income were a “distraction from core delivery”.<sup>25</sup>

## Community Rehabilitation Companies' performance

11. When they were set up in 2015, the Ministry's original contracts with CRC specified 17 performance metrics and seven assurance metrics for reporting performance in offender management from the start of the sentence, through resettlement into the community, to completion of offenders' sentences. The Ministry publishes quarterly data on CRCs' performance against these metrics where it is available. The Ministry expected CRCs to have met targets for 11 of the metrics from the start of the contracts, with the remaining metrics to be met from the end of February 2017.<sup>26</sup>

12. We previously recommended that the Ministry needed to provide confidence that CRC performance data were reliable and complete.<sup>27</sup> Yet in the first quarter of 2017–18, the Ministry had still not published performance information for five of its metrics. From October–December 2015 to January–March 2017, CRCs had, on average, achieved their performance targets in one quarter.<sup>28</sup> For April–June 2017—the most recent available data at the time of our evidence session—performance across the CRCs was variable. On average, just one third of performance targets were being met. Performance against HMPPS' targets has therefore not improved.

13. HMPPS told us that while CRCs were, on average, missing nine metrics, they were close to achieving these and therefore did not require formal improvement plans to address this. It told us it was using such improvement plans to hold CRCs to account in some areas. It acknowledged that there were significant issues with the quality of probation work, as assessed both against its targets and by HM Chief Inspector of Probation. It had instigated 67 improvement plans since the contracts were awarded, 38 of which had been discharged owing to improved performance and 29 of which were still live.<sup>29</sup>

14. The Ministry accepted that its contracts were too complicated with too many targets, not all of which were controllable by CRCs. One of the targets relating to securing housing for offenders had not been met by any of the CRCs. HMPPS recognised that achieving the housing target was beyond the gift of CRCs as it relied on CRCs working with other local partners.<sup>30</sup> Both witnesses admitted that performance of CRCs had been variable, and has not been as good as it should be, but argued that it was improving.<sup>31</sup>

24 Qq 48–49

25 Sodexo ([RCC0001](#))

26 [C&AG's Report](#), paras 1.8–1.9

27 Q 42, House of Commons Committee of Public Accounts, [Transforming rehabilitation](#), Seventeenth Report of Session 2016–17, HC 484, 23 September 2016, page 5

28 [C&AG's Report](#), figure 4 and para 1.11

29 Qq 43, 57

30 Q 31, 44

31 Q 42, 43, 57, 76

## 2 Making Community Rehabilitation Companies' contracts work

---

15. The Ministry projects that it will pay an additional £278 million to CRCs under as a result of the changes to its contracts it agreed in August 2017.<sup>32</sup> The Ministry had already paid an additional £64 million to CRCs over and above its contractual commitments.<sup>33</sup> In total it has therefore agreed to additional funding of up to £342 million to CRCs over the life of the contracts. The Ministry and HMPPS could not tell us specifically what they are getting in return from CRCs for the contract changes negotiated with them. The Ministry told us that “[w]e will require them to deliver exactly what they were delivering before, but we will pay them slightly more for the lower-costed items”.<sup>34</sup> The Ministry argued however, that it was still spending less than it had originally budgeted for.<sup>35</sup> Following the session the Ministry clarified its position and stated that its payments to CRCs were increased for all activities, not just those which attract lower payments.<sup>36</sup>

16. In changing the contracts the Ministry altered its assumptions of the level of CRCs' costs that are fixed, meaning they cannot be reduced in less than 12 months. CRCs identified that, on average, 77% of their costs were fixed, compared to 20% assumed by the Ministry in the original contracts. The level of fixed costs claimed by CRCs range from 44% to 99.8% of their total costs. We were not convinced that fixed costs of nearly 100% were justifiable for service companies in this sector. HMPPS and the Ministry told us that these fixed costs included the people providing probation services, and that these could not be reduced in less than 12 months.<sup>37</sup> They also told us that the large variation across CRCs reflected, for example, differences between urban and rural geography. We were sceptical that this adequately explained such wide variations.<sup>38</sup>

17. In the context of the recent liquidation of Carillion, we were concerned that insolvency on the part of any of the parent companies which own CRCs could result in significant costs to the taxpayer.<sup>39</sup> In particular, we were concerned that the additional payments to CRCs could be used to help support parent companies rather than improve rehabilitation services.<sup>40</sup> The Ministry told us it has an open book relationship with the suppliers and can see all their figures. In its subsequent written evidence, the Ministry told us that it was not paying CRCs to carry out administrative functions on behalf of the parent organisation.<sup>41</sup> Interserve, which owns five CRCs, told us that the administrative costs of £16.5 million paid by Cheshire and Greater Manchester CRC included £5.2 million for services provided by Interserve to the CRC including central IT, centralised staff, procurement support and insurance.<sup>42</sup>

---

32 Qq 76, 79, 93

33 [C&AG's Report](#), paras 3 and 9

34 Q 78

35 Q 77, 93

36 [Correspondence from Richard Heaton, Ministry of Defence](#), dated 29 January 2018

37 Qq 80–82

38 Q 82, 83

39 Q 77

40 Q 83, 89

41 [Correspondence from Richard Heaton, Ministry of Defence](#), dated 29 January 2018

42 Qq 83, 85, [Interserve](#), 19 January 2018

18. The Ministry pays CRCs on the basis of predicted volumes of activity. At the end of each year, the Ministry determines whether CRCs have been under or over-paid. In 2016–17, the Ministry identified that it was owed £9 million by CRCs from over-payments. It had not decided whether or not to collect all or part of this money due to “wider commercial considerations”.<sup>43</sup> HMPPS told us it was still considering whether to recoup this money or require CRCs to invest it and improve services. The Ministry told us that taking money out of the CRCs now could lead to further deterioration of services.<sup>44</sup> The Ministry can also penalise CRCs through service credits where they fail to deliver services to the standard expected. Between July 2015 and June 2017, the Ministry identified service credits with an overall value of £7.7 million, but only deducted £2 million from CRCs. It waived £2.2 million and agreed with CRCs that they could reinvest £3.3 million back into services. We were therefore not convinced the Ministry was using this mechanism effectively, despite findings from HM Chief Inspector of Probation that CRCs are not generally producing good quality work.<sup>45</sup>

### The financial sustainability of CRCs

19. Despite the injection of additional public money into the Ministry’s contracts with CRCs, 14 CRCs are still forecast to make a loss, two in excess of £40 million over the remaining life of the contracts.<sup>46</sup> We were sceptical that the additional funding committed by the Ministry improved the viability of some of the CRCs.<sup>47</sup> One provider, Interserve, has issued two profit warnings, in September and October 2017.<sup>48</sup> HMPPS told us that the extent to which CRCs make a profit or loss over the life of the contracts would depend on what outcomes they achieved through payment by results under the contracts.<sup>49</sup>

20. CRCs will increasingly depend on income through payment by results as the contracts progress. The overall income available to CRCs declines over the life of the contracts. Yet as part of this, the proportion of income available under payment by results increases, from 6% (£32 million) to 28% (£112 million).<sup>50</sup> Under payment by results, CRCs are paid according to the number of offenders who stop reoffending, and the frequency of reoffences that reoffenders commit. The latest data published by the Ministry in January 2018 show modest declines in the number of reoffenders, but only two CRCs—Merseyside and Northumbria—have met their targets for reducing the frequency of reoffending. The other 19 CRCs have not met these targets.<sup>51</sup> The Ministry and HMPPS told us that they will be returning to discussions with CRCs to examine the implications of the reoffending results.<sup>52</sup>

21. The Ministry told us that the overall profitability of CRCs is not its concern, and that it would not simply pour money into CRCs because they were loss making. We asked how it could be sure that the quality of the services CRCs provide is good enough given

43 Q 54, [C&AG’s Report](#), paras 1.7, 1.13

44 Q 55

45 Qq 90–92, [C&AG’s Report](#), paras 1.10, 1.12

46 Q 96, [C&AG’s Report](#), para 3.5

47 Qq 97, 102

48 Qq 85–89

49 Q 79

50 Q 102, [C&AG’s Report](#), paras 3.6–3.7

51 Q 103, Ministry of Justice, [Final and Interim Proven Reoffending statistics for the Community Rehabilitation Companies and the National Probation Service](#), 25 January 2018, page 3

52 Q 56, 99

that many are making losses. The Ministry assured us that it would consider this as part of any changes to its contract with CRCs in future.<sup>53</sup> The Ministry did not convince us, however, that it is exerting its authority sufficiently to make sure the contracts deliver improvements in services, innovation, and reductions in reoffending.<sup>54</sup>

---

53 Qq 79, 97–98

54 Qq 40, 92, 96, 98, 100–101

# Formal minutes

---

**Wednesday 14 March 2018**

Members present:

Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown

Stephen Morgan

Chris Evans

Anne Marie Morris

Luke Graham

Bridget Phillipson

Shabana Mahmood

Draft Report (*Government Contracts for Community Rehabilitation Companies*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 21 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

*Resolved*, That the Report be the Twenty-seventh of the Committee to the House.

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

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 19 March 2018 at 3.30pm]

## Witnesses

---

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Wednesday 17 January 2018

*Question number*

**Richard Heaton**, Permanent Secretary, Ministry of Justice, and **Michael Spurr**, Chief Executive, HM Prison and Probation Service

[Q1-116](#)

## Published written evidence

---

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

RCC numbers are generated by the evidence processing system and so may not be complete.

- 1 Sodexo ([RCC0001](#))

## Published correspondence

---

The following correspondence was also published as part of this inquiry:

- 1 [Correspondence with Interserve](#)
- 2 [Correspondence with the Ministry of Justice](#)

## List of Reports from the Committee during the current session

---

All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2017–19

First Report	Tackling online VAT fraud and error	HC 312 (Cm 9549)
Second Report	Brexit and the future of Customs	HC 401 (Cm 9565)
Third Report	Hinkley Point C	HC 393 (Cm 9565)
Fourth Report	Clinical correspondence handling at NHS Shared Business Services	HC 396 (Cm 9575)
Fifth Report	Managing the costs of clinical negligence in hospital trusts	HC 397 (Cm 9575)
Sixth Report	The growing threat of online fraud	HC 399 (Cm 9575)
Seventh Report	Brexit and the UK border	HC 558 (Cm 9575)
Eighth Report	Mental health in prisons	HC 400 (Cm 9575)
Ninth Report	Sheffield to Rotherham tram-trains	HC 453 (Cm 9575)
Tenth Report	High Speed 2 Annual Report and Accounts	HC 454 (Cm 9575)
Eleventh Report	Homeless households	HC 462 (Cm 9575)
Twelfth Report	HMRC's Performance in 2016–17	HC 456
Thirteenth Report	NHS continuing healthcare funding	HC 455
Fourteenth Report	Delivering Carrier Strike	HC 394
Fifteenth Report	Offender-monitoring tags	HC 458
Sixteenth Report	Government borrowing and the Whole of Government Accounts	HC 463
Seventeenth Report	Retaining and developing the teaching workforce	HC 460
Eighteenth Report	Exiting the European Union	HC 467

Nineteenth Report	Excess Votes 2016–17	HC 806
Twentieth Report	Update on the Thameslink Programme	HC 466
Twenty-First Report	The Nuclear Decommissioning Authority’s Magnox	HC 461
Twenty-Second Report	The monitoring, inspection and funding of Learndirect Ltd.	HC 875
Twenty-Third Report	Alternative Higher Education Providers	HC 736
Twenty-Fourth Report	Care Quality Commission: regulating health and social care	HC 468
Twenty-Fifth Report	The sale of the Green Investment Bank	HC 468
Twenty-Sixth Report	Governance and departmental oversight of the Greater Cambridge Greater Peterborough Local Enterprise Partnership	HC 896
First Special Report	Chair of the Public Accounts Committee’s Second Annual Report	HC 347