



The Rt Hon David Gauke MP
Secretary of State for Justice
102 Petty France
London
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8 May 2019

Dear Secretary of State.

Working Links

You have asked for advice about providing financial assistance to some of the CRC supply chain who have lost money as a result of the collapse of Working Links and its three CRCs. This note sets out my position as Accounting Officer.

As you know, Working Links and its three CRCs went into administration on 15 February 2019 and a number of suppliers to the companies are left facing losses. The process of administration is under way to distribute the residual assets of the companies to their creditors. It is unlikely, however, that this process is going to materially address all of the debts.

We have discussed the position of Permitted Subcontractors, namely those subcontractors named in a schedule to our previous contracts with the Working Links CRCs, who are likely to be in a position of loss after the process of administration has concluded.

These organisations were directly involved in the delivery of frontline probation services. But their contractual relationship was with the Working Links CRCs, not the Department. In the usual course of an administration, creditors (including these Permitted Subcontractors) must look to the administrator; Government does not provide a guarantee.

Nonetheless a number of the Permitted Subcontractors have made representations to the Department asking that we make good the losses they have incurred. In total these Permitted Subcontractors are exposed to around £1.2m of losses.

I have been considering whether making good these losses would be consistent with the duties conferred on me by Parliament as the Department's Principal Accounting Officer. I am satisfied that it would be lawful to make the payments, and so no question of irregularity arises. But I am unable to reconcile this course of action with my obligation to ensure that the use of public funds meets the tests of propriety and Value for Money set out in Managing Public Money. I feel bound to take into account the potential repercussions of the Government acting to make good these losses where no legal obligation exists. I must also consider the 'moral hazard' which such action creates in potentially setting a precedent for others to act in a similar way. Moreover, in the absence of a legal imperative to make

good these organisations' losses it is not clear to me that these payments would pass the value for money test.

It is, of course, right that you may take a different or wider view. You are able to weigh more heavily in your considerations the risks of not providing visible support to this sector against a backdrop of what we know to have been a difficult outsourcing process. You may also be concerned that the health and goodwill of organisations such as these will be pivotal to the success of reforms to improve the probation system as a whole.

If your view is that you want to provide financial relief to these organisations, I will proceed accordingly, but to do so I will need your written direction.

I have discussed this advice with Jo Farrar, the Chief Executive of Her Majesty's Prison and Probation Service, and Accounting Officer for that agency. In line with convention where directions are issued, I am copying this letter to the Comptroller and Auditor General (who is likely to inform the Chair of the Public Accounts Committee), and the Treasury Officer of Accounts.

*Yours ever,
Richard*

Richard Heaton