Department for Work and Pensions

Welfare Reform

To make provisions about social security; to amend the Vaccine Damage Payments Act 1979; and for connected purposes.

Report by the Secretary of State for Work and Pensions
Under section 82 of the Welfare Reform and Pensions Act 1999.

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Ordered by the *House of Commons* to be printed on
21st November 2006

HC 39 LONDON: The Stationery Office £7.50

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

Introduction

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

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

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

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

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

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

Implementation of the provisions of the related primary legislation

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

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

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

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

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

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

Proposed expenditure

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

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

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

- **Variation from expectation of completion times** – were activities to take longer to complete than expected, this would have the impact of pushing back the date of follow on activity, and could mean that there is less expenditure in the period up to Royal Assent;

- **Variation from expectation of costs** – were activities to require higher levels of funding than expected; and

- **Impact of external events** – were activities to be delayed due to the need to respond to external events, such as if implementation of the Personal Details Computer System was put back for any reason.

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

- **Development solution** – where the development involves an innovative IT solution the risk of variation from expectation is increased, as developing the IT bears with it further risk. However the ESA solution is based on tried and tested systems that are already in use in DWP;

- **Development timetable** – where the development involves an entirely new system the development project would have less confidence in estimating the timescales required. The ESA development is, however, similar to the one already successfully delivered for Pension Credit; and

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

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

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

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

17. There are other project costs related to this work, but these are not related to development of the new service and therefore, under Government Accounting rules, do not require authorisation under

Section 82. For instance this includes the accommodation costs for the project team, as they are housed on existing estate, for which the Department is contractually committed to pay regardless of whether there is an ESA development. It also includes normal scoping and planning work that has already taken place and will be continuing during this calendar year.

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

Value for money of other options for authorisation to incur expenditure

19. The process the Department followed in establishing whether it would be necessary to seek section 82 authorisation began with determining whether expenditure was truly necessary ahead of Royal Assent to the Welfare Reform Bill. It is clear that implementation of the ESA from 2008 is challenging but achievable if expenditure starts in January 2007. If it is delayed beyond that then implementation would be most unlikely. Therefore expenditure ahead of Royal Assent would be necessary.

20. There are a number of ways that authorisation for such expenditure could be achieved. These are:

- Paving Bill;
- Value for Money bid;
- Contingency Fund;
- Use of the estimates; and
- Section 82.

21. In the circumstances of the Employment and Support Allowance:

- A Paving Bill could not be pursued as the timescales meant that it would be unlikely to receive Royal Assent before the Welfare Reform Bill. The response to the consultation exercise had only been published in June 2006 and the Government remains committed to implementation from 2008;

- A value for money bid can only take place where the development takes place as part of a far larger programme – but no such programme exists and the size of the Employment and Support Allowance development means that it would be difficult to argue that it was simply part of a larger programme;

- The Contingency Fund could not be used as Employment and Support Allowance development cannot be defined as something the Department could not have known about or planned for; and

- The Appropriation Act cannot be used to fund a programme this size without breaking the 1932 Public Accounts Committee Protocol.

22. In this situation section 82 was the only viable option. In these circumstances no assessment of the value for money offered by the other options was undertaken, since such work would clearly have been nugatory.

Value for money of the benefits of achieving the 2008 deadline

23. The Work and Pensions Select Committee has expressed concern that the Department is unable to provide the Committee with a specific value analysis of the benefits of achieving the 2008 deadline and the costs associated with not doing so. The Department remains clear that without section 82 it will not be possible to implement the Employment and Support Allowance from 2008. Implementation in 2008 is a clear ministerial commitment and remains a primary concern as the Department expects the new benefit, with its clearer framework of rights and responsibilities, to deliver substantial reductions in the incapacity benefits caseload which we do not wish to see avoidably delayed. The Department remains unable to provide precise value for money analysis for the same reason given to the Work and Pensions Select Committee and currently untested elements of the Employment and Support Allowance programme are extremely difficult to quantify at the present time. The Regulatory Impact Assessment produced for the Welfare Reform Bill (as published in July 2006) set out the case for introducing the new benefit and Pathways.

Implications of failing to use the power to incur

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

Maintaining Parliamentary oversight and control

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

- Progress to date gives confidence that the Bill will receive Royal Assent. There was widespread support for the principles of the reforms in the Bill when it was introduced and the main Opposition parties did not divide the House of Commons at the Second Reading debate;

- The Bill is very unlikely to run out of time and Parliament will have a full opportunity to consider the Bill in detail. The Bill will make use of the carry-over procedure, with the necessary motion unopposed at Second Reading. Ministers are hopeful of Royal Assent by Easter 2007; and

- The staged approach to IT development should ensure that if Parliament amends key features of the Bill at later stages of the Bill's passage, the IT development can be amended to reflect this without incurring substantial nugatory spend.

Risk and benefits of power to incur

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

Risks

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

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

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

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

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

Benefits

Benefit – Financial

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

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

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

Benefit – Delivery

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

Assurance of control

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

28. The Department will be including termination provisions in all IS/IT related contracts so as to limit the exposure to nugatory expenditure. Although the Department would be able to terminate contracts at any stage, this would not stop some of the liability being incurred – the notice period commonly being 30 days. This means that termination in early April would cost approximately a further £9m (the cost of 30 days) there would be no expenditure after that point. This puts irrecoverable expenditure at expenditure to the point of termination plus a further £9m. However, if termination did not take place until the beginning of June then the full amount of expenditure (£31.25m) would be irrecoverable. This is the maximum exposure.

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

Delivery timetable

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

Employment and Support Allowance

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

Project risks

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

Activity in 2008

33. In the Welfare Reform arena there are a number of activities planned for 2008. In order to provide clarity for providers, advice agencies and customers, a high level view of activities in each of the main areas is attached at Annex D.

Changes to legislation

34. Changes to legislation could render the expenditure nugatory as policy undergoes broad changes. Annex E sets out an analysis of possible legislative changes. Progress on the legislation so far suggests that the risk of changes to the key area of conditionality is low, but even so the staged approach to contracting in the proposed section 82 period is designed to limit exposure of nugatory expenditure.

Sample contract

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

Conclusion

36. I am of the opinion that it would be possible to implement the proposed Employment and Support Allowance system from 2008 unless expenditure on the new service can be incurred from January 2007, which is before the likely date of commencement of the Welfare Reform Bill. There are no other options and therefore the condition is section 82(1)(b) of the Welfare Reform and Pensions Act 1999 is satisfied.

37. In accordance with section 82(2), I lay this Report before the House of Commons, for agreement that the expenditure may be incurred.

John Hutton

Secretary of State for Work and Pensions

The consent of Her Majesty's Treasury has been obtained to the making of this report.

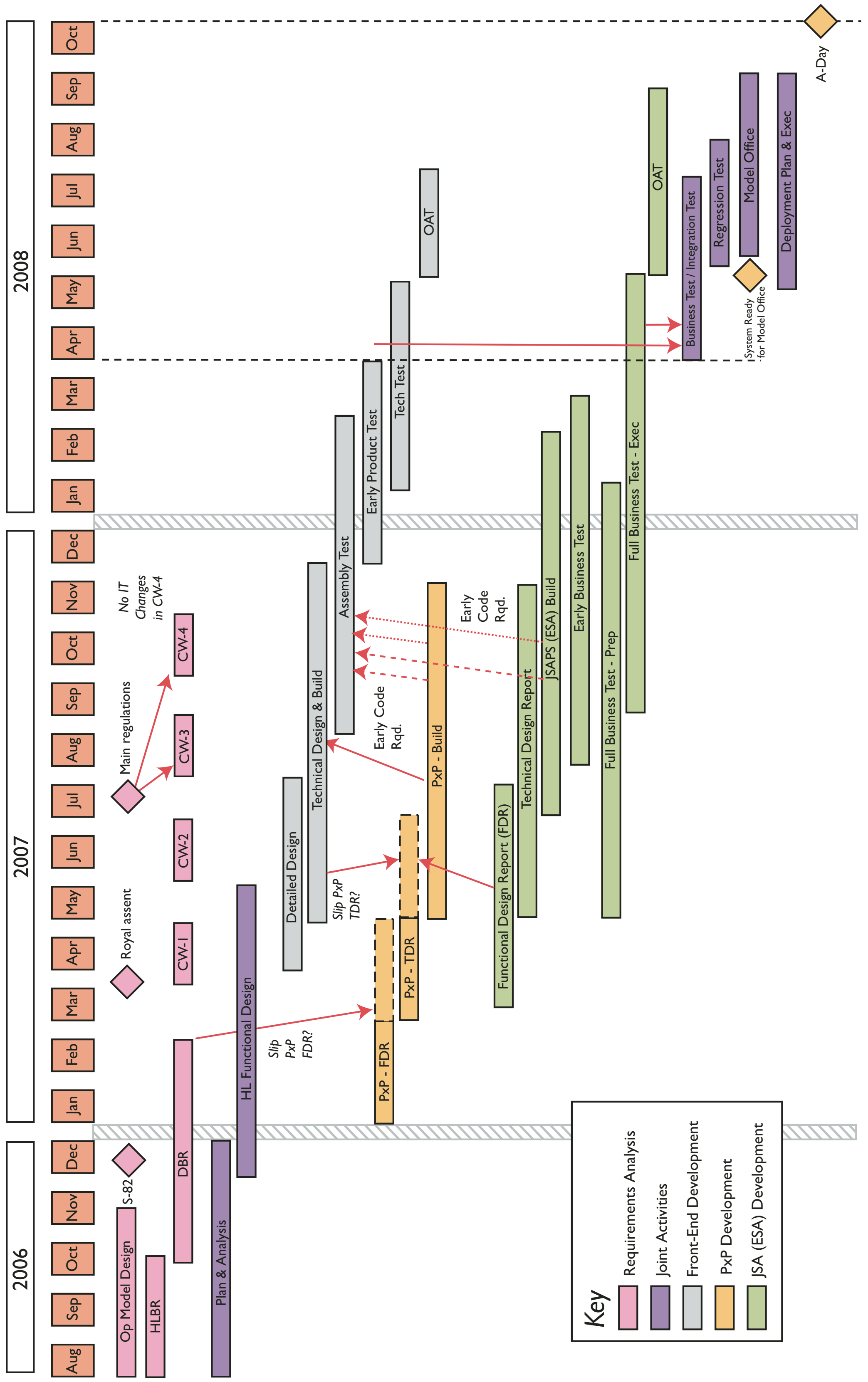
Kevin Brennan

Dave Watts

Two of the Lords Commissioners of Her Majesty's Treasury

ANNEX A

Annex A – High Level Indicative End to End IS/IT Plan



ANNEX B – EMPLOYMENT AND SUPPORT ALLOWANCE

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

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

    - A new Employment and Support Allowance (comprising of contributory and non-contributory benefits), which will simplify the existing benefits system for those whose health affects their capacity for work;
    - A focus on early intervention, with increased support to employers and employees in managing health in the workplace; improved absence and return to work management; and increased support to health professionals to enable them to provide holistic treatment plans which recognise the benefits of work with respect to rehabilitation and long-term health;
    - More customer contact and more employment-related advice and support for individuals with health conditions to enable them to realise their ambition to return to work, building upon evidence from the successful Pathways to Work pilots;
    - The ongoing development of disability rights to provide a level playing field for those with disabilities; and
    - Housing benefit reform, which includes the national roll out of the Local Housing Allowance and a housing benefit sanction for anti-social behaviour as part of the Government's RESPECT agenda.

Employment and Support Allowance System

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

    - A new modernised system using Benefit Processing Replacement Programme (BPRP) architecture;

- A Jobseeker's Allowance Payment System (JSAPS) based legacy solution;

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

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

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

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

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

   - Siebel is now the Department's preferred product for handling customer contact;

   - CMS is based upon an earlier technology platform and is not as good an option as PTP CAM; and

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

7. The fourth option was, therefore, the recommended option. It would see the Department using two systems with which it was familiar, and working on a development timetable similar to the one that successfully delievered Pension Credit. Although it is more complex than the Pension Credit system as it requires front-end integration, it does not require an innovative IT solution. Similarly it would not rely

on a single supplier, but would include those suppliers best suited to deliver for each part of the development. The solution identified is a stand-alone devlopment and is therefore not dependent on the successful implementations of other projects.

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

Costs

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

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

ANNEX C – PROJECT RISKS

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

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

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

    - Timetable changes;
    - Scope changes; and
    - Estimation changes.

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

Timetable changes:

- **Risk:** Advance of A-day resulting in earlier IS/IT spend to cater for reduced time window;
- **Effect on expenditure – section 82/total project:** Increase/Decrease;
- **Effect on delivery risk:** Major increase; and
- **Likelihood:** Very unlikely. Due to the risk of unsuccessful delivery, the Department would argue strongly against a more aggressive timetable.
- **Risk:** Problems filling key roles when required resulting in potential slippage and therefore reduced section 82 expenditure;
- **Effect on expenditure – section 82/total project:** Decrease/Neutral for slight delays, but an increase if requirements completion delayed more than 8 weeks;
- **Effect on delivery risk:** Neutral for slight delays, but an increase if progress is delayed more than 8 weeks; and

- **Likelihood:** High. Most Departmental IT project profiles are re-planned towards the end of the requirements stage. It is common for the design activity to be re-profiled to deliver several weeks later than the original plan, with subsequent stages of the project maintaining the original schedule end date through increased parallel working and overtime.
- **Risk:** Royal Assent delayed up to three months;
- **Effect on expenditure – section 82/total project:** Major increase (but already reflected in the section 82 estimates)/Neutral;
- **Effect on delivery risk:** Neutral, provided the delay is not due to contention over clauses affecting the fundamental elements of the ESA IT system design (Part 1 and Schedules 1, 2, 3 and 4), or due to amendments introducing new benefit components. The IT system will be designed to be configurable for many areas, while the operation of much of the conditionality will be governed by procedural guidance; and
- **Likelihood:** Unlikely.

Scope changes:

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

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

Estimation Changes

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

Formal Reviewing process

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

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

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

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

What is being done to minimise risk of changes to the timetable

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

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

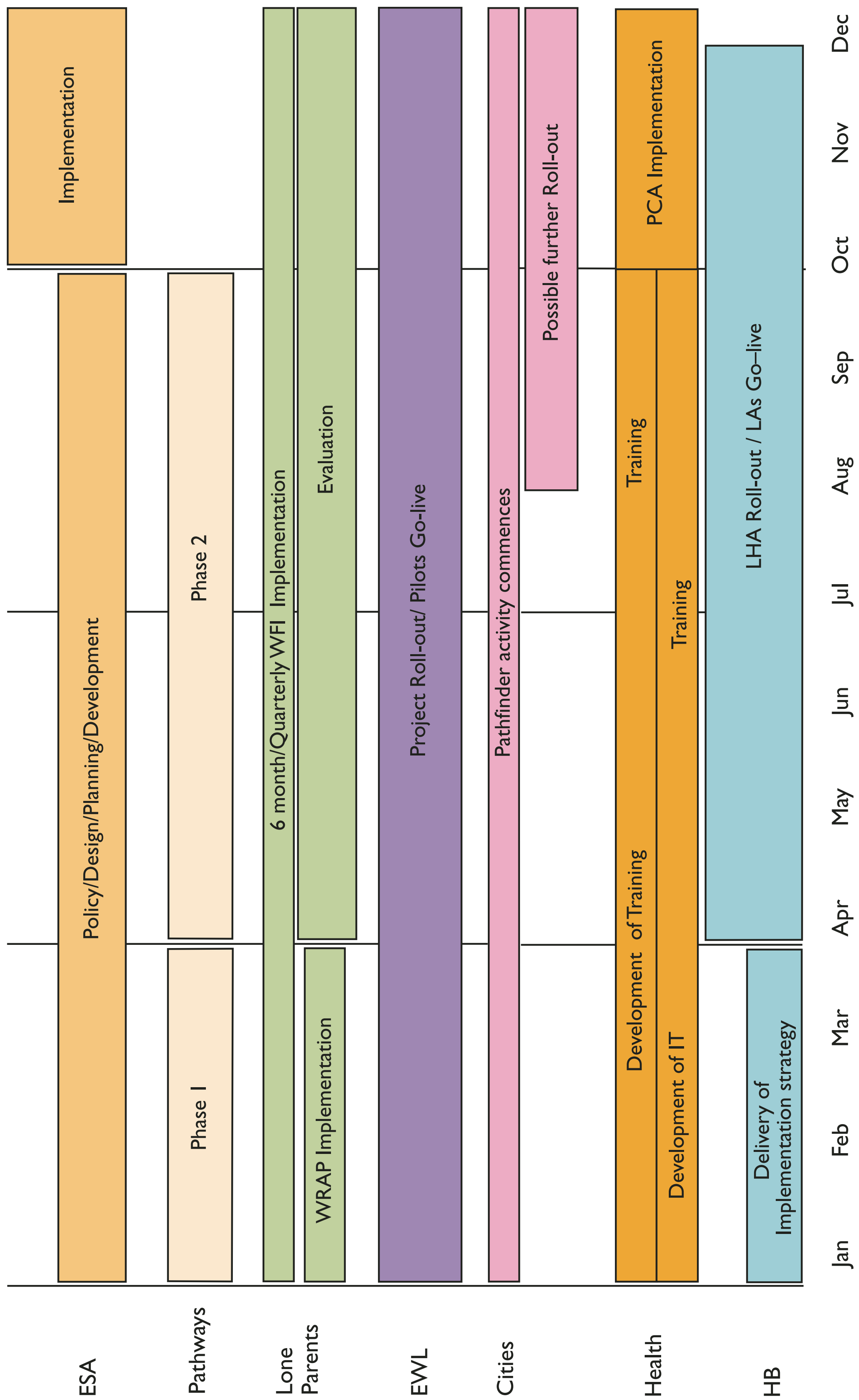
10. The project will aim to maintain rigorous control of project scope whilst enabling the throughput of changes using the change windows built into the plan.

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

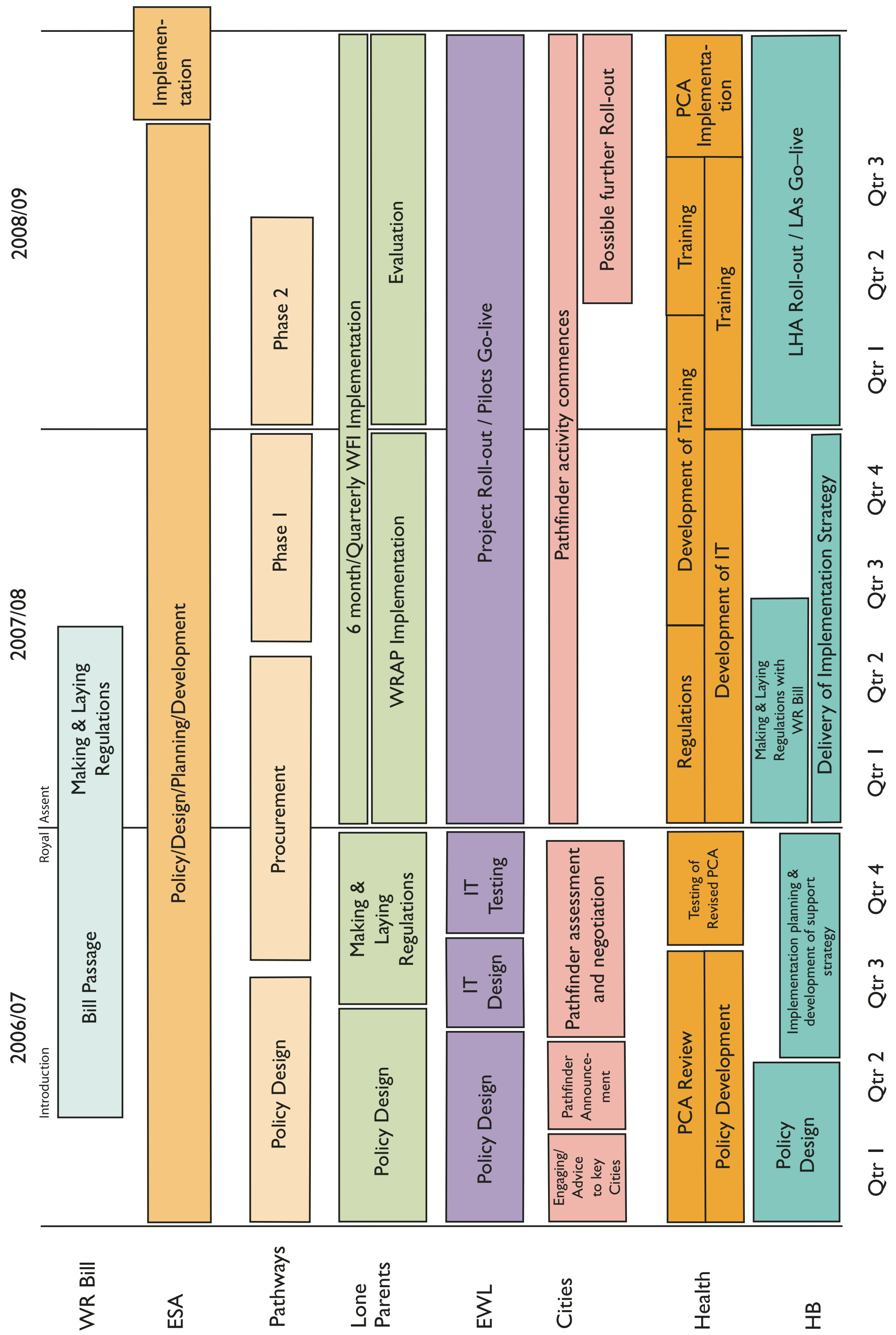
12. The Project should report progress on an 'earned value' basis as well as financially so that the Project Board can be assured that the required progress is being made.

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

ANNEX D – ACTIVITY IN 2008



ANNEX D – ACTIVITY TO 2008/2009



ANNEX E – CHANGES TO LEGISLATION

1. The Welfare Reform Bill (in particular part 1, which relates to the Employment and Support Allowance) has met with a large degree of consensus through its early parliamentary stages (Second Reading and Commons Committee), with all sides of the House agreeing on the desirability and necessity of the reforms. For example, during Commons Committee, Mr Ruffley (Conservative) said:

   "the Bill had built in consensus and support for its central planks. That is true.... We were in favour of the Bill (at Second reading), and I hope that that spirit of consensus will continue (during Committee)" (17 October 2006)

   and Danny Alexander (Liberal Democrat) said:

   "there is a great deal of consensus around the principles and objectives of the Bill... the Liberal Democrats certainly share in that."

2. During Committee, this spirit of consensus and an understanding of the desirability of the reforms continued and debate was focussed around ensuring that the proposals were understood and a key theme was that correct safeguards would be in place to ensure that vulnerable people would be protected and support offered to all who needed it.

3. On the clauses relating to the new benefit structure, debate centred around the new basis for the benefit – again, with a considerable degree of agreement that a new basis, moving away from the concept of 'incapacity for work' was needed, and on how the new components related to the old system (including the Disability Premium). How existing claimants of incapacity benefits should be treated under the system was also discussed with agreement that they should not be 'left behind' but that benefit levels should be protected.

4. Debate also considered the new basis of the Personal Capability Assessment and the test for who should and should not go into the Support Group. There was a considerable degree of consensus and debate focused on providing clarification for a number of areas including how the assessment process would operate in practice; what the assessments will cover; ensuring that there would be an appeals provision; and the reasons for the use of specific terminology in the Bill.

5. Although there was debate about the conditionality clauses during the Commons committee stage of the Bill, there was no challenge to the overall approach to conditionality, which would mean engagement with customers through interviews with personal advisers and undertaking activity that would make it more likely that the customer will obtain or

remain in work. The basis of the conditionality regime will be the support provided in the Pathways to Work areas. The Pathways regime, which has been operating since 2003, is being rolled out nationwide in advance of the introduction of the Employment and Support Allowance and will be available to incapacity benefits customers and as the backbone of conditionality within ESA on day one. Mandatory work-related activity, as provided for by Clause 12 of the Bill, will be introduced in the future as resources allow and in the light of evidence from the Pathways to Work areas.

6. There were 6 sittings on Part one of the Bill in Commons Committee. On the basis of these sittings it seems that the risk of new concerns resulting in significant changes to the provisions in the Bill significantly affecting the IT specification is low.

7. The emphasis of debate in the Lords could be different but there is no clear picture to date as to whether the tenor of the debate will actually be significantly different or reason to suspect that there will be less of a consensus surrounding the implementation of ESA.

Contingency action

8. The possibility of large changes to the key clauses, or of the Bill not proceeding means that there is an exposure to the risk of nugatory expenditure, even if the current assessment is that the risk is relatively low. The risk is mitigated by the staged approach to contracting in the section 82 period. In the first stage (up to the end of March) the value of the contracts will be £2.8m, which would be the amount at risk of exposure to then end of that period. By the end of March it seems likely that Bill will have completed most stages, and at that point the risk of it not proceeding will have somewhat diminished. At this point the bulk of the section 82 expenditure would start, at approximately £9m a month. Even then the Department would not be committed to spend all the way to July, as the contracts are likely to allow for 30 day notice of cancellation. That is, should the Department cancel in mid April as the Bill was proceeding no further, then the financial exposure would be for the next 30 days.

9. The 30 day notice period is common in Departmental contracts. Shorter notice periods are possible, to further limit the financial exposure, but faced with these contractors will raise the contract price to compensate for the increased financial risk they are being asked to take.

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