



Remploy

Department for Work and Pensions
Remploy – Review of Future Business Options

10 July 2006

*connectedthinking

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Remploy

Executive summary

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It is possible over time to support a larger number of disabled people into work, in a manner more closely aligned with government policy, at a cost comparable with other providers and within Remploy’s existing annual funding envelope of £111m.

Task

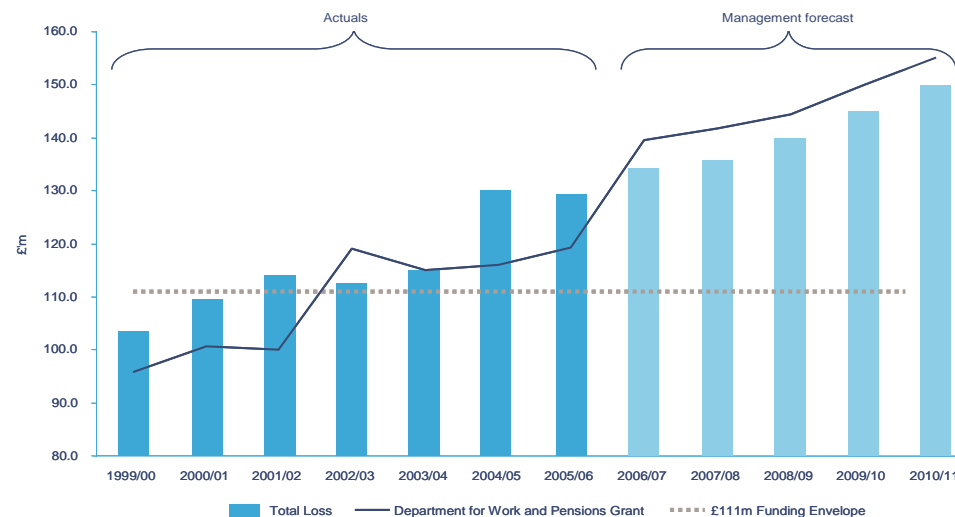
- To conduct a review of future business options of Remploy which would enable the Government to support more disabled people into work within the organisation’s existing agreed annual funding envelope of £111m, or at a slightly higher level of investment if this would mean more disabled people being supported into employment.

Context

- We understand the review was triggered by three factors:
 - the direction of the Government’s disability employment strategy, as expressed in *Improving the Life Chances of Disabled People*¹, which recommended a greater emphasis on programmes to integrate disabled people into open employment rather than segregating them in factories

- a report by the National Audit Office² which noted the low level of progressions from Remploy factories into unsupported employment, and which recommended greater focus on the more cost-effective Interwork programme
- the inability of Remploy to operate within the agreed envelope of allocated funding, and the likelihood that the budget would continue to be exceeded by a significant margin as shown by the graph below.

Chart 1: Historical & forecast losses and funding requirement



REVIEW

Remploy

- Remploy currently supports about 9,000 disabled people in its 83 factories, a Managed Services business and 11 Interwork areas. It is an executive Non-Departmental Public Body (NDPB) sponsored by the Department for Work and Pensions, and as such enjoys a guarantee from the Secretary of State to fund its financial liabilities.

Method

- During our review, we assessed a range of potential scenarios, covering a spectrum ranging from the “status quo” to more radical possibilities such as closing almost all factories. The diagram below shows this continuum and the underlying balance between Remploy’s factories and Interwork.

Chart 2: The scenario continuum



- We examined in detail four scenarios on this spectrum. Two were already on the table, and two were generated based on PwC key assumptions and criteria:
 - Scenario 1, reflecting the “status quo” position
 - Scenario 2, reflecting the Board's "site reduction" scenario
 - Scenario 3, reflecting the simplification of Business Units
 - Scenario 4, reflecting a greater emphasis on Interwork
- We appraised them against the following criteria:
 - A funding envelope of £555m over the five years to 31 March 2011 (the “Funding Criteria”)
 - Maximising the number of disabled people supported into employment, with emphasis on those with highest support needs (the “People Criteria”)
 - Minimising the execution risks (the “Delivery Risks”)
 - Providing flexibility for the Department to consider ending the Secretary of State’s guarantee to fund Remploy’s financial liabilities and moving from NDPB status to one based on contractual funding.

Advisory

Our activity

- The review is a forward-looking analysis of possible scenarios. We have relied on management information and on models produced by the company. However, we challenged the robustness of the underlying assumptions in the pre-existing scenarios, and set the criteria and assumptions for the two scenarios we generated ourselves.
- Within the figures we identified areas of substantial risk, and have quantified their likely impact on the funding requirements. This results in some significant differences from the funding requirement generated by management's models.

A comparative formula

- We required a methodology to enable us to compare each scenario with the others on a consistent basis.
- We therefore developed a formula to illustrate how many disabled people could be supported under each of the different scenarios. We allowed for the £555m budget over 5 years to be allocated in a variety of ways between Remploy factories, Interwork and other Workstep providers.

- The emerging figures show the number of disabled people who could, additionally, be supported using any surplus funds within the budget of £555m.
- Conversely, if the scenario exceeds the £555m funding envelope, the formula shows how many disabled people the state would *not* be able to support into work because the funds were being expended on supporting Remploy.

People

- In any scenario where there is a reduction in the number of posts within factories a level of comprehensive support would be needed which was both different in nature, and much more extensive, than assistance for employees in a conventional restructuring situation.
- In order to understand the challenges and to capture best practice, we carried out research into UK and international experiences of closing supported factories.
- Our review sets out, and costs, packages of appropriate support to help people affected by any scenario involving redundancies to find new jobs.
- Our analysis of stakeholders during the review highlighted that the nature, extent and duration of such support packages would be key to determining the acceptability of any change involving factory closures.

Table 1: Summary of scenarios

Scenario	Base funding estimate	Sensitised funding estimate (£m)	5 year average no. of supported people into employment per year	Year 5 number of supported people into employment	Funding criteria	People criteria	Delivery risks
1	735	770 – 790	<2000	<100	No	No	Low
2	595	640 – 670	>7000	>15,000	No	Yes	V high
3	565	580 – 610	>8000	>16,000	Partial	Yes	V high
4	481	500 – 520	>8000	>18,000	Yes	Yes	Medium

Findings

- Our appraisal of the four different scenarios for Remploy shows that it is possible to support a greater number of disabled people into work, in a manner more closely aligned with government policy, at a cost comparable with other providers and within the organisation’s annual funding envelope of £111m, after a period of transition.
- To achieve this, more of the funding would need to be spent on job placement activity; and less on sustaining Remploy’s factories.
- In broad terms, the more radical the scenario implemented, the greater the degree of delivery achieved against the Government’s criteria.
- The table shows the number of disabled people who would be supported into employment under each scenario, assuming a cost per supported employee (Cost/SE) of £5k which we have taken as an appropriate benchmark since it represents the amount of Workstep funding which other providers receive.
- All options other than the “status quo” carry delivery risks, and in the case of the “site reduction” (Scenario 2) and “Business Unit simplification” (Scenario 3) these risks are very high.
- The Government may wish to consider not simply the strategic direction of Remploy, but also the *pace* at which change should be implemented.
- Stakeholders both within and outside Remploy will be watching closely to see the impact on disabled people who currently work in the factories. The extent and duration of any support package offered would partly dictate the acceptability of the change.
- Any significant change at Remploy is likely to require the enhancement of the management team with the introduction of change-management, restructuring and turnaround skills. In addition, the Department should articulate its end goal clearly, and introduce relevant key performance indicators to monitor progress and incentivise the change at every level.

Advisory