National Audit Office

**Report**
by the Comptroller
and Auditor General

**Department for Work & Pensions**

# The disposal of Remploy businesses

**HC 1183 SESSION 2013-14 3 APRIL 2014**

# Key facts

**£53m**
government subsidy to Remploy businesses in 2011-12

**54**
Remploy factories across 12 businesses

**2,150**
disabled people employed in Remploy factories in 2011-12

| | |
|---|---|
| **£49 million** | operating loss of Remploy businesses in 2011-12 |
| **£101 million** | cost of disposing of Remploy businesses |
| **£19 million** | estimated proceeds from disposal |
| **442** | jobs protected as a result of sales |

# Summary

**1** Remploy supported disabled people into work in two ways. Businesses, known officially as Remploy Enterprise Businesses, employed disabled people directly to make a range of items including automotive parts and school furniture. These 12 businesses employed 2,150 disabled people across 54 factories in 2011-12. Remploy Employment Services continues to help disabled people to find mainstream work.

**2** Remploy is a non-departmental public body of the Department for Work & Pensions (the Department) and a public corporation. It is a company limited by guarantee and is funded by government grants and revenue generated from its commercial activities. In 2011-12 Remploy's businesses made an operating loss of £49 million and received £53 million in government subsidies.

**3** In December 2010, the Department asked Liz Sayce to conduct an independent review of employment support for disabled people. In June 2011, the review concluded that Remploy factories represented poor value for money compared with other forms of employment support for disabled people. The review recommended Remploy close factories that could not operate without government subsidies.

**4** In March 2012, the Department announced that it would withdraw subsidies to Remploy's factories. Between August 2012 and December 2013, Remploy disposed of its factories, either selling them as entire businesses or closing them down and selling sites and machinery. Remploy has not disposed of Remploy Employment Services.

## The nature of this report

**5** This report is the result of a risk-based investigation to examine identified or suspected weaknesses in performance by public sector organisations. We decide what to investigate using a range of sources, including: our own analysis of trends and financial information; matters raised by Members of Parliament; issues referred to us by users of public services; and cases passed to us through whistleblowing.

**6** From late 2012, several correspondents raised concerns with us about Remploy's disposal of its factories. We referred specific concerns to the Department's internal investigations team which, after a preliminary review, concluded that there was no evidence of fraud or improper practice.

**7** The Department's investigation considered the narrow questions of fraud and improper practice in specific sales. But correspondents have raised broader concerns about flaws in the planning, management and decisions within the disposal process. Therefore we decided to review the disposal programme and considered whether:

- the Department and Remploy designed and set up a disposal process consistent with its objectives;
- Remploy ran the process in a way that allowed bidders to make viable and informed offers; and
- Remploy decided between disposal options in a way that maximised savings but protected jobs where possible.

**8** We have not re-assessed the decision to dispose of Remploy factories. We have also not investigated past practices of Remploy except where there may be a direct impact on the disposal process.

## Key findings

### Designing the disposal process

**9 Remploy tried to sell loss-making factories and preserve jobs even though the likelihood of sale was small.** The Department and Remploy recognised that they were not likely to sell factories that were not commercially viable but, nevertheless, tried to sell all businesses in an attempt to protect as many jobs as possible. By January 2014 it had safeguarded jobs for 442 of its employees (paragraphs 1.5 to 1.6).

**10 Remploy designed the process to take into account the viability of factories.** The Department commissioned and published an external report from KPMG on the viability of the Remploy factories. KPMG found that 36 of the 54 factories were not currently viable without government support and that the remaining 18 factories might be viable. Remploy divided the factories into two groups and tried to sell or close the 36 loss-making factories in stage one of the disposal process (paragraphs 2.4 to 2.6).

**11 Remploy had limited time to sell the factories, which limited pre-sale restructuring but reduced costs of continuing to maintain factories.** Remploy's advisors suggested that some of the businesses could be restructured to increase opportunities for sale. Remploy decided that the possible gains from restructuring or tailoring the sale process for different factories would not outweigh the costs of delaying the disposal process and continuing to support loss-making businesses. By March 2014 Remploy had sold 25 factories as entire businesses and closed or sold the remaining 29 sites and their related assets separately (Figure 3 and paragraph 2.18).

## Managing the process

**12 Remploy could have improved its communication with bidders.** Some bidders raised concerns about the timeliness and quality of information provided by Remploy. Their concerns included being treated poorly or unfairly in the process of developing and making offers. Bidders did not always understand the full implications of existing contracts affecting the commercial viability of any offer. In Healthcare an existing sales agreement awarded one potential bidder pre-emptive rights in the case of disposal, which could have deterred other bidders from making offers. In Marine Textiles there were contracts relating to ownership of intellectual property rights and existing sales agreements but Remploy was unable to provide documentation which set out the valuation of these rights (paragraphs 3.4 to 3.5 and 3.12).

**13 There is no evidence that bidders were prevented from making offers for Remploy businesses.** Remploy had published KPMG's assessment of site viability and made it available to bidders. In one case Remploy excluded a bidder from the process for allegedly breaching confidentiality agreements. Remploy offered to reinstate the bidder if it provided additional assurances regarding confidentiality (paragraph 3.8).

## Deciding between options for disposal

**14 Remploy and the Department set clear criteria for assessing bids.** They assessed bids on the basis of cost, sustainability and employment. Some bidders may have been uncertain about the basis for assessing bids but Remploy had provided the criteria in advance of the process (paragraph 3.14).

**15 Remploy and the Department sought independent advice on the quality of individual bids against these criteria.** Recommendations on best and final offers were made to the board through its subcommittee and a panel containing independent advisers. Final outcomes did not differ significantly from previous assessments of viability (paragraph 3.14).

**16 The costs of disposal are likely to be less than expected.** The business case for the disposal of Remploy businesses estimated the cost of the programme to be £109 million. The Department estimates that actual net costs will be about £101 million, including £63 million in redundancy payments and £8 million in additional support for former disabled employees. Sales have so far raised £12 million and Remploy expects this to reach £19 million (paragraphs 1.3 to 1.4).

# Concluding remarks

**17** Remploy and the Department completed the disposal of Remploy factories with limited time and below budget. In some cases Remploy was restricted by previous contractual arrangements in designing the sales process, and better communication would have helped bidders to understand these restrictions. But overall Remploy appeared to respond proportionately to these constraints. The likelihood of selling more than a minority of the factories was always small, and the Department and Remploy had to balance the need to protect public money and employees' jobs.