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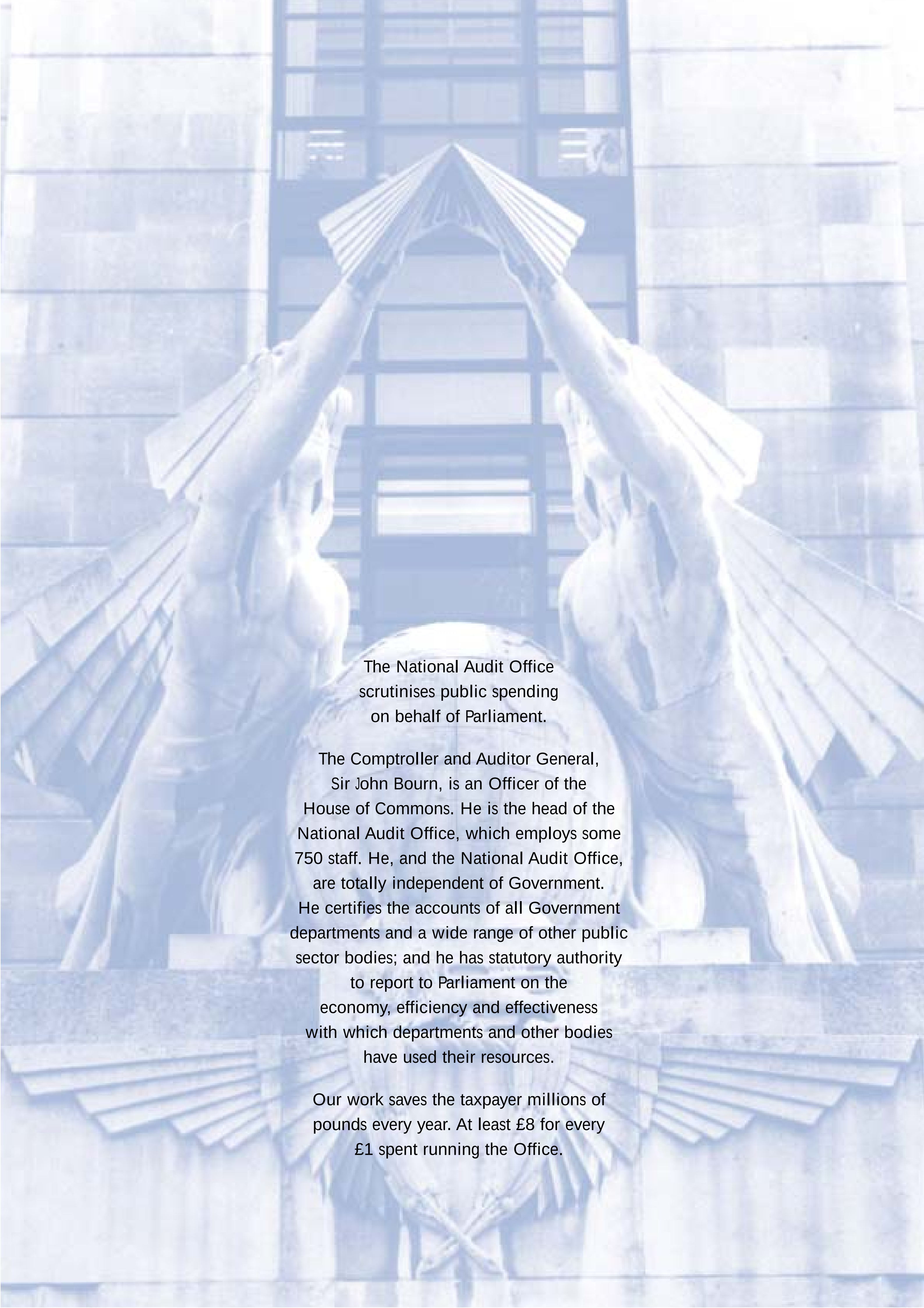
NATIONAL AUDIT OFFICE

Individual Learning Accounts

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HC 1235 Session 2001-2002: 25 October 2002



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Comptroller and Auditor General

National Audit Office
22 October 2002

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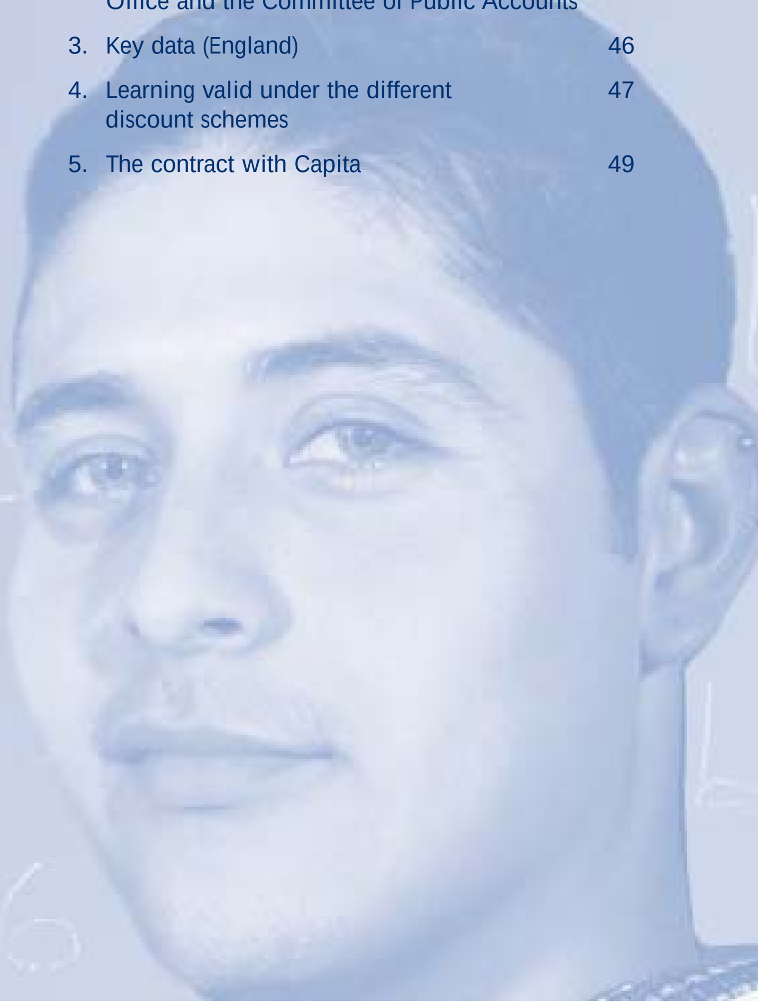


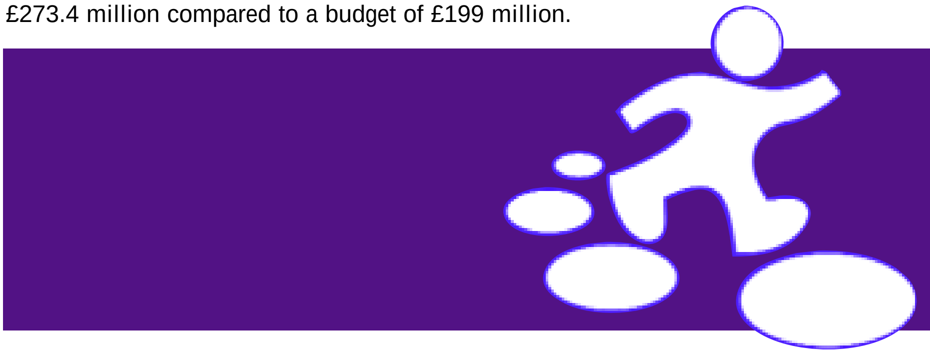
executive summary

In this section

Introduction

1 The Government introduced Individual Learning Accounts (ILAs) in England in September 2000, to widen participation in learning and to help overcome financial barriers to learning faced by individuals. Although anyone[1] could open an account, the scheme was targeted at bringing back into learning those people who had not done any for some time and those who lacked skills and qualifications. In October 2001 the Secretary of State for Education and Skills announced withdrawal of the scheme from 7 December 2001 because: demand for accounts was much higher than expected; there were concerns about how the scheme was being promoted and sold; some learning providers[2] were abusing the system, offering low value, and poor quality learning; and there were increasing numbers of complaints from learners.

2 The scheme was far more popular than expected. The Government's commitment to a million account holders undertaking learning over two years was achieved in September 2001, six months early. Two months later, take-up had increased by 50 per cent. Total expenditure (as at June 2002) amounted to £273.4 million compared to a budget of £199 million.



3 In line with police advice, the Secretary of State closed the scheme with immediate effect on 23 November 2001, following allegations that a large number of account numbers had been extracted from the system and offered for sale. At the time the Department for Education and Skills[3] (the Department) estimated that if the scheme was not closed immediately, the value of fraudulent claims could run into tens of millions.

4 We examined the design, implementation and closure of the scheme in view of the substantial sums of public money at risk and concerns expressed by the Committee of Public Accounts, learners and providers about the closure. Our methodology is summarised in Appendix 1. Our report contains wider lessons for the design and implementation of new policies in the future.

1 Aged 19 and over who satisfied residency requirements set out in the Regulations.

2 Any person, firm, company or other organisation offering training, teaching or other learning opportunities registered by the ILA Centre.

3 The Department for Education and Skills took over education responsibilities from the Department for Education and Employment in June 2001.

Overall conclusions

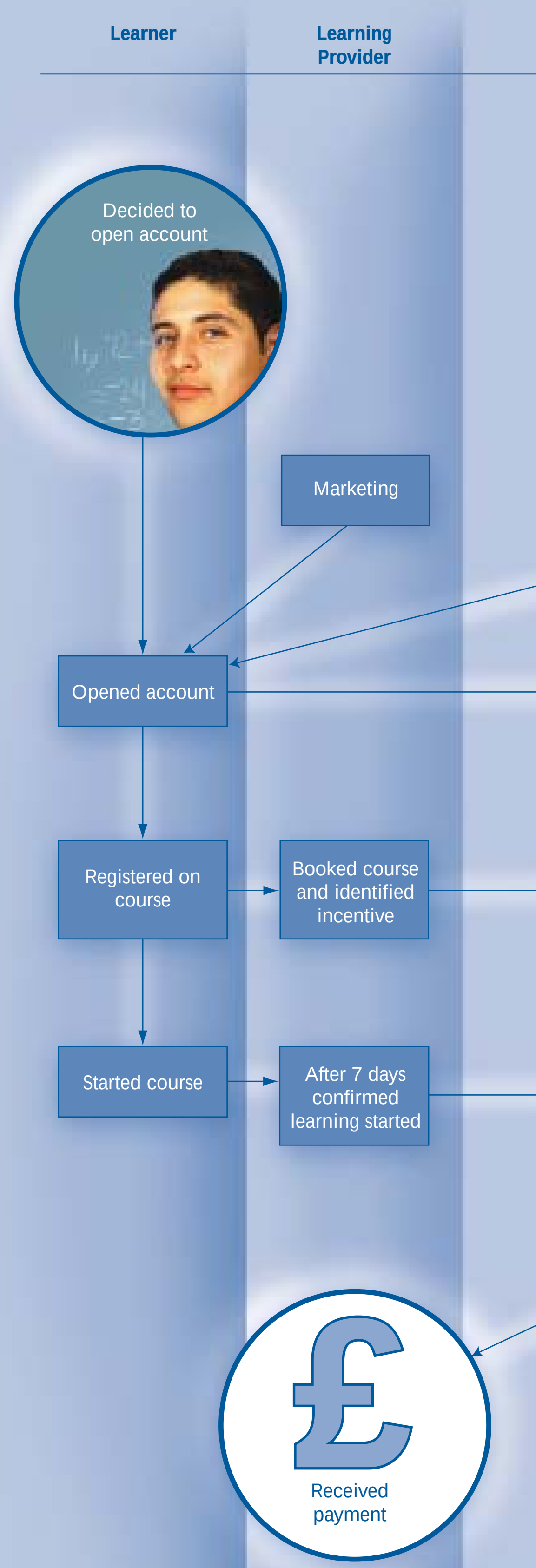
5 Individual Learning Accounts represented innovative policy-making, which succeeded in attracting considerable new interest in learning. The emphasis on information technology (IT) in the programme also provided a step towards increased "IT literacy" amongst the population, enabling future electronic delivery of services. The scheme had to be withdrawn not because of its innovative nature but because of problems arising from a variety of factors including:

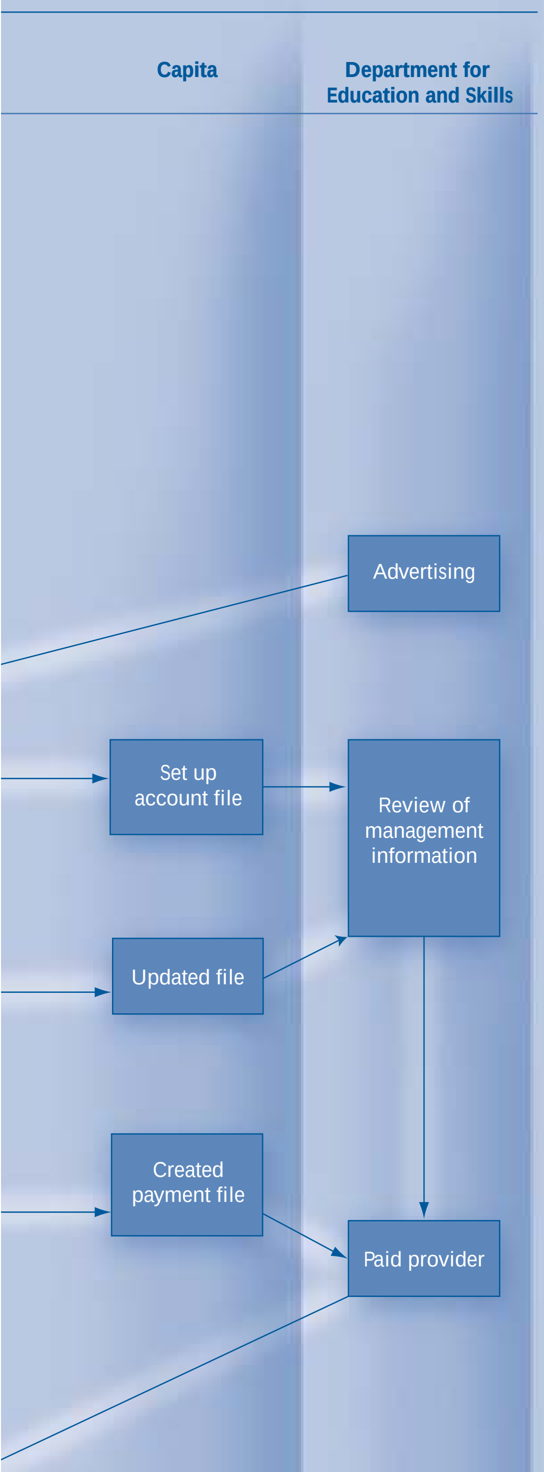
- **pressure to implement the scheme quickly and inadequate planning** The scheme was implemented in response to a manifesto commitment over three years earlier. Two years spent on developing proposals which proved unpopular with the public and potential providers meant that the timetable for drawing up the specification, tendering and piloting the national scheme was too tight. No business model was drawn up evaluating costs and benefits and security requirements were not specified in the contract;
- **risks in the design and implementation of the scheme which were not actively managed** The value of individual transactions was low, and initially the Department considered that the risks of fraud were low. In deciding whether or not to accredit providers, the Department should have taken account of its recent experience with distance learning (franchised provision) in the further education sector. The Department did not respond fully to risks identified by consultants in the Project Health Check, nor to bidders' concerns about the very tight timetable for getting the scheme set up and running;
- **the relationship with Capita** The Department regarded its relationship with Capita as a partnership, the risks in effect always remained with the Department. The relationship bore little resemblance to a partnership - Capita was not involved in the project board and the Department left Capita to implement the system. In adopting a public-private partnership approach, the Department sought to comply with best practice at the time. For the successor scheme, it is seeking to adopt appropriate aspects of Office of Government Commerce guidance on ICT[4] procurement;
- **inadequate monitoring** The Department should have monitored more closely the information supplied by Capita and the escalating demand for accounts, especially given the innovative nature of the scheme and increasing numbers of complaints. Capita was not required to undertake any spot checks on eligibility of learning nor any basic validity checks to ensure bona fides of account holders. Lack of exception reporting meant that the Department was unaware that 13 providers had registered over 10,000 accounts and 20 had received payments in excess of £1.5million;

6 The Department took prompt action to close the scheme when it ascertained the scale of potential fraud. Almost all providers through whom learning was started prior to closure of the scheme have now been paid. The Department is checking claims from over 560 providers (as at 1 August 2002) and is investigating fully a relatively low percentage of providers with which it has concerns - some 133 providers who have claimed £67 million. It is likely to be up to two years before this work is completed and the full scale of fraud is known.

4 *Information and communication technology.*

How individual learning accounts worked





Background

7 The Department set up Individual Learning Accounts in England[5] in response to the Government's 1997 Manifesto pledge to encourage people to invest in and take more responsibility for their learning throughout their working lives. Individual Learning Accounts were to be available to everyone, including the self-employed, and were to be used to pay for learning of the learner's choice. At the same time, the Government was keen to target people with particular learning or skill needs; for example, young people without qualifications and in low-skill jobs, employees in small firms and those seeking to return to work.

8 In 1997, the Department sought the involvement of financial institutions in setting up accounts into which individuals could bank and save money for learning. After two years of research and testing of different forms of accounts, the Department concluded that the savings to learn concept was unpopular with individuals, providers and financial institutions. Instead, the Government adopted a system of subsidies, whilst retaining the name "individual learning accounts". In practice they were "virtual accounts" for recording the discounts claimed by each individual, and were subject to an upper limit on the total discounts claimable. The scheme was to be funded from £127.5 million[6] released from the wind-down of the Training and Enterprise Councils (TECs) together with additional funding of £23 million (subsequently increased to £40 million) and £46 million in 2000-01 and 2001-02 respectively.

9 To encourage innovation, the Department adopted a public-private partnership approach for the design and implementation of the scheme. But, by January 2000, after seeking competitive tenders, the Department was left with only one bidder. In June 2000 the Department signed a contract with Capita to develop and operate the scheme. Capita was to operate a call centre for enquiries about accounts as well as an administrative centre for registering learners and providers, processing new accounts, maintaining records of learning started and notifying the Department of amounts owing to providers.

10 Providers were free to market their services to prospective customers. Learners could also find out about learning opportunities from other sources such as libraries, , and UKonline centres[7]. Anyone wishing to open an account had to apply to the Individual Learning Account Centre (the Centre) but had to register direct with the provider when they had identified the learning they wished to undertake. When registering for learning, the account holder then gave his unique account number to the provider and was required to pay the required minimum contribution to the costs. Learners could register for more than one learning episode[8] but had to pay the minimum contribution for each one.

11 Learners could book their learning episodes up to six months in advance. Providers were responsible for entering the proposed learning on the ILA database and the amount of the learner personal contribution, but could not make a claim for the learning episode until they were able to confirm that the learner had started the learning. Capita compiled weekly and monthly payment files. The Department was responsible for authorising and making payments.

5 7 November 2000. Subsequently the department's contract with Capita was amended in recognition of the signing of related contracts between Capita and Scottish Ministers and the Northern Ireland Department for Employment and Learning.

6 The total UK figure was £150 million, of which the England share was £127.5 million. In practice the England share of the proceeds was £112.6 million, of which some £29 million is expected to be received in 2002-03 or 2003-04 as the TECs' accounts are wound up.

7 See Figure 2 overleaf.

8 Course, module or unit of learning.

12 The balance between the individual's and the Government's contributions depended upon the learning to be undertaken. There were three incentive schemes (**Figure 1** and Appendix 4).

1 **Financial incentive schemes available under the national ILA scheme**

Three financial incentives were available from September 2000:

- an initial incentive of £150 towards the cost of eligible learning for the first million account users, with a small contribution of at least £25 from the account holder;
- a discount of 20 per cent on the cost of a broad range of learning capped at £100[9]; and
- a discount of 80 per cent on the cost of a limited list of basic IT and mathematics courses[10], limited to a total of £200 discount per account from October 2000.

NOTE

Different arrangements applied to those transferring from individual learning accounts set up under the Training and Enterprise Councils.

Source: Department for Education and Skills

13 The initiative was one of several designed to encourage lifelong learning **(Figure 2)**.

2 **Initiatives to encourage lifelong learning**

	2000-01 expenditure	Description of scheme
UfI	£66.0 million	Using new technologies to bring new opportunities to adults to enhance their skills and education
learndirect	£12.0 million	National learning advice service providing information and advice on learning opportunities
Career Development Loans	£14.2 million	Deferred repayment bank loans with low interest rates to help individuals to pay for vocational education or training
UKonline centres	£206.0 million	Centres contributing to the Prime Minister's pledge to ensure that 'everyone who wants it has access to the Internet by 2005'. They offer an introduction to the Internet and e-mail, with learner support to help new users
Union Learning Fund	£8.1 million plus £1million for basic skills	Promotes activity by trade unions to increase the take up of learning in the workplace

Source: Department for Education and Skills

14 The Government wanted to encourage more flexible delivery of learning through a wider range of providers and in particular, those operating in smaller niche markets and those attracting new, non-traditional learners. It envisaged that greater efficiency would result - inefficient or ineffective providers would make room for new ones. The Department required providers to be registered with the ILA Centre and to produce evidence of public liability insurance, but it did not intend registration to be a guarantee of quality of provision. The Department decided against requiring providers to be subject to quality assurance. By November 2001, there were 8,910 registered ILA learning providers, some of which were new ventures, with no previous involvement in publicly funded education or training. There was no contractual relationship between the Department or Capita and the providers.

9 *Appendix 4*
10 *Appendix 4*

15 The Department was responsible for formulating the policy, devising the framework for its implementation and overall design and monitoring of the scheme. The Department established a Project Board to manage the policy, the design and implementation, and oversee developments. It sought advice and project management assistance from Oakleigh Consulting and from KPMG on designing and implementing the policy.

16 The Department's commitment was for a million people undertaking learning over two years. The final budget for England for the period was £199 million[11]. Actual expenditure, as at June 2002, amounted to £273.4 million.

Main findings

17 We examined three issues:

a how far individual learning accounts met the policy objectives;

b how well the Department managed risks in design and implementation of the scheme;

c how well the Department handled the closure and wind-down of the scheme.

a) How far Individual Learning Accounts met the policy objectives (Part 1)

18 The Department had strategic aims but, beyond commitment to one million account holders, the objectives were operational and were more about how the scheme would work rather than what it should achieve. No precise objectives were set for the overriding desired outcome of getting more people into learning (paragraph 1.2).

19 Some 2.6 million accounts were opened, but only 58 per cent had been used by the time the scheme closed. Some had been emptied by unscrupulous providers, but until investigations by the police and the Department's Special Investigations and Compliance Units are complete, the Department is unable to determine how many of them there are affected. The Department will have clearer view when it gets the results[12] of its planned survey of users registered with providers with whom it has concerns (paragraph 1.5).

20 Although the Government made the scheme universal[13], the Department targeted its marketing to specific groups **(Figure 3 overleaf)**. Quantified targets were not set for each group, but were drawn up for the pilot schemes which were established subsequently to attract specific groups of people. The Small Firms Learning Account pilot had targets for the number of firms and the number of employees involved. Each group participating in the Community Group pilots had to identify their own targets in advance. Similarly, individual Union Learning Fund projects also set their own targets.

11 Includes £112.6 million from wind-down of the TECs - see Footnote 5 on page 3.

12 The Compliance Unit sample size is about 30,000 and the Special Investigation Unit sample is 20,000. Analysis of results of both is expected by mid-November 2002.

13 Open to everyone aged 19 or over, meeting the UK residency requirements as set out in the ILA Regulations, SI 2000 No. 2146 Individual Learning Accounts (England) Regulations 2000.

3 Target groups

- young people between 19 and 30 with low qualifications;
- self-employed people;
- women returners to work;
- non-professional school staff; and,
- ethnic minorities.

Source: Department for Education and Skills

21 Comparison of target and actual beneficiaries is complicated by weaknesses in management information. Our analysis of available data and the Department's research showed:

- the scheme encouraged people to undertake learning. Over half of the learning booked for which data is available was entry level skills[14] or Level 1 qualifications[15] (paragraph 1.7);

- the scheme successfully stimulated information technology learning activity - about 65 per cent was ICT[16] (paragraph 1.8);

- a third of learners were aged between 19 and 30, and over a half were aged between 31 and 50. "Low qualifications" were never defined and data on highest qualifications and other personal data were recorded and collated where learners (60 per cent) had chosen to complete the relevant voluntary field on the form. Research[17] evidence suggests that nine per cent of account users were young people with no qualifications, but the majority of learners had level 2 qualifications (GCSEs at A*-C or equivalent NVQs) and a quarter were graduates[18] (paragraph 1.11-1.12);

- the Department sought to collect data from learners to enable it to assess the extent to which people from other target groups benefited from the scheme. However the data set was incomplete as some learners chose not to complete some voluntary fields on the application form. Research[19] evidence suggests that some of the target groups have benefited (paragraph 1.13-1.16);

- The Department had planned further initiatives on targeted groups starting in summer/autumn 2001, but these initiatives were put on hold because they might have added a lot of extra expenditure at a time when it became clear that the budget for the scheme would be exceeded. The Department also cancelled a planned initiative to promote ILAs to employers with a view to expanding ILAs to more learners (paragraph 1.17-1.18).

14 Numeracy and Information and Communication Technology.
15 Foundation skills.
16 Information and Communications Technology.
17 York Consulting.
18 Capita survey of 600 learners, February to May 2002.
19 York Consulting.

b) How well the Department managed risks in design and implementation (Part 2)

i) Policy making

22 Our analysis of the scheme design **(Report Card 1)** compares the Department's actions against current good practice guidance, rather than that available at the time. We take account of the key factors, as identified in our recent reports, that government organisations should consider to prevent policy not delivering its objectives. Relevant extracts from our reports are included in Appendix 2. Our overall conclusion was that the Department had introduced innovative ideas but that in making decisions on whether to subject providers to quality assurance, the Department should have heeded recent experience of distance learning (franchised provision) and its susceptibility to fraud.

Report Card 1: The Department's performance measured against characteristics of modern policy-making

Good practice[20]	Comments
Departments should **learn lessons** - they should draw on existing knowledge and experience, taking account of internal and external views	The Department piloted options through the Training and Enterprise Councils (TECs) and developed the £150 incentive to help stimulate demand. The Department recognised the scope for fraud but initially considered it low risk. In deciding whether or not providers should be subject to any form of quality assurance, the Department should have taken account of its experience with overclaims in respect of distance learning (franchised provision) at Halton College (paragraph 2.3 to 2.9). The Department appears not to have consulted other government departments on how to protect its systems from fraud (paragraph 2.10).
Policies should be **joined-up** - relationships to other policies should be considered and managed	Individual Learning Accounts was one of a number of initiatives to promote lifelong learning (paragraph 13). The Department sought to integrate the scheme with *learndirect*, but the information sets held within the databases were not compatible (paragraph 2.31-2.32).
Policies should be **innovative and creative**, but identification and management of risks should be included within the design	The Department generated very original ideas about client accounts and expanding the provider base (paragraphs 2.3-2.6). The Department sought risk assessment advice from KPMG and commissioned a project health check from Oakleigh Consulting, only some of which were addressed.
Policies should be **forward looking** - options should be developed and assessed	The Department had strategic aims but beyond a commitment to 1 million account holders by April 2002, operational objectives were more about how the scheme would work, rather than what it would achieve (paragraph 1.2). Options for national scheme were piloted in the TECs. The Department had commissioned KPMG to do some modelling but did not prepare detailed business process models or financial plans (paragraph 2.16).
Policies should be **outward-looking** - it should be clear what the policy is trying to achieve	The Department prepared a rationale and objectives statement in the summer of 2000 setting out the aims of the scheme. It sought to encourage more and a wider range of types of training providers for a wide range of clients (paragraphs 2.5 to 2.6).
Policies should **use evidence** - through understanding the needs and characteristic of the client group and analysing the likely behaviour of the client group	The Department commissioned studies during development stage to assess learner attitudes, and made limited use of evidence from pilot schemes to inform policy design (paragraphs 2.3 to 2.6).
Policies should be **inclusive** - the policy should have been tested prior to implementation to see how it would work in practice	Options for a national scheme were tested through pilots in the TECs, but there were significant differences between the pilots and the national scheme as implemented (paragraph 2.4).
Policies should be **evaluated and reviewed** - there should be early warning indicators to help identify where progress with implementation is not as intended	The Department's rationale and objectives statement included proposals for evaluation of the scheme, including early satisfaction surveys, a follow-up study of a cohort of account holders and analytical study of impacts (paragraph 2.5). The Department capped the 80 per cent discount scheme as soon as it was aware of problems (paragraph 2.41). The Department monitored the number of accounts opened, but it was not clear until Summer 2001 that fraud and abuse was fuelling demand for accounts. The number of complaints was relatively low compared to the number of open and active accounts, but earlier and more thorough analysis of them could have alerted the Department to emerging problems (paragraphs 2.46-2.47). The Department acted swiftly to close the scheme when it became aware of the potential level of fraud (paragraph 2.42-2.50 and Part 3).

20 *Extracted from recent National Audit Office reports*

ii) Risk management

23 On effective risk management, including risks in implementing information technology projects **(Report Card 2)**, we refer to our findings on other procurement reports (Appendix 2). Our overall conclusion was that poor risk management and an unclear relationship with Capita contributed to the closure of an innovative project due to allegations of potentially serious fraud and abuse.

iii) Project management and performance

24 Our overall conclusion was that the system was implemented within a challenging timescale, but that pressure to do so resulted in corners being cut **(Report card 3)**.

Report Card 2: The Department's performance measured against good practice on risk management

Good practice	Comments
Departments should prepare a **realistic business case:** ■ wide range of business volumes planned for ■ take account of user's views ■ not too complex ■ robust forecasts	Users' views had been sought before implementation, and KPMG carried out a modelling exercise. Capita also drew up business plans which included the possibility of higher business volumes. The Department appeared to take little notice of them, because it expected to have difficulty attracting learners (paragraphs 2.16 to 2.17).
Department should consider **risk sharing with partners:** ■ clear partitioning of risks ■ top management of both organisations involved in management	The Department regarded Capita as a partner but in common with practice at the time, did not involve Capita staff in the Project Board. To do so would have avoided many problems in this case (paragraph 2.23). We agree with the Education and Skills Select Committee that despite the outsourcing of service delivery, the form of the contract meant that the risks in effect always remained with the Department (paragraph 2.25).
Departments need to balance **risk management and innovation:** ■ formal risk analysis ■ risk monitoring ■ strategy for fraud	The design of the project was not informed by a formal risk analysis, although a risk register was set up and maintained prior to the scheme starting. There was no counter-fraud strategy (paragraph 2.15). Pre-launch, many risks involved in running the scheme were evaluated as low. Insufficient action was taken on emerging issues (paragraphs 2.14- 2.15).
Departments need to do **contingency planning:** ■ assuring for reasonable service standards and costs ■ adequate capacity for possible outcomes ■ full information to the public	The learning accounts were made available quickly. The Department decided against implementing quality assurance systems, but expected market forces to ensure that inefficient or ineffective providers would make room for new ones (paragraph 14). Although providers considered the sudden closure of the scheme an about turn, it was just a fortnight earlier than planned and the Department always intended implementing a successor (paragraphs 3.5 & 3.6-3.9). The Department acted swiftly to safeguard public funds as soon as it realised the potential for fraud if the scheme was not closed.
Departments should **involve senior management:** ■ clear senior officer ■ top management involved and committed	After March 2000, there was a clearly identified Senior Responsible Owner in charge of the whole project. Senior management had a close interest in the success of the project (paragraph 2.11).
Departments should ensure that the project is **adequately staffed:** ■ appropriate number of staff ■ suitably qualified staff	The Department's project team did not have sufficient resources with appropriate skills for managing and implementing such a large project. KPMG and Oakleigh Consulting both raised concerns about the adequacy of resourcing particularly in relation to contract management during the lifetime of the scheme. The Department brought in more resources as the need for investigative resources on provider compliance became apparent (paragraph 2.13).

Report Card 3: The Department's performance on project management and monitoring

Good practice	Comments
Departments should use **rigorous tendering procedures** ■ Compliance with requirement to advertise the project in the Official Journal of the European Communities ■ Evaluation of competing bids	Appropriate European Community tendering procedures were used following withdrawal of all but one bidder, the Department considered interim arrangements which might allow bidders longer to set up their systems, as well as alternatives to private sector delivery. The Department decided to proceed with a single bidder, and developed contingency measures should the bidder withdraw, fail to demonstrate good value for money or there was a delay in implementation. KPMG carried out a public sector comparator against which to assess reasonableness of Capita bid (paragraphs 2.18-2.22).
Departments should ensure that they have **specialist input as well as senior management commitment to information technology aspects of policy development, including security** ■ Development of specification ■ Evaluation of bids which should include detailed plans ■ Ensure projects are not unreasonably large ■ Post-implementation review	The contract required Capita to comply with industry standards, but the Department did not specify clearly its information technology requirements, and should have employed information technology specialists who could have ensured that the system met the Department's requirements (paragraphs 2.36-2.39). The Department did not to act on KPMG's recommendation that the robustness of information technology security arrangements should be fully tested (paragraph 2.37). The Department, KPMG and Capita underestimated the potential for abuse and the ramifications of it. There were no processes in place to identify suspect access patterns and some providers exploited the system to their financial advantage (paragraphs 2.49 and 3.8).
Departments should seek the opinion of an independent **risk scrutineer or commission an independent** project health check to report to senior management	The project health check resulted in some changes in project management, but other conclusions were not followed up (paragraphs 2.13).
Departments should introduce **good financial controls** ■ Early advice from Internal Audit on financial controls ■ Internal Audit inspection of new scheme to confirm that financial controls are working properly	Financial controls were inadequate, both at the Department and Capita and some which were planned were never implemented. Capita was not required under the contract to carry out any spot checks on eligibility of learning nor any basic validity checks to ensure the bona fides of account holders (paragraphs 2.33 and 2.35). Although Capita produced system checks for duplicates, it was not required to carry out any such checks, nor any data validation checks as outlined in its proposal (paragraph 2.27 and Figure 10). The Department's Internal Audit postponed its planned audit of the system from April to October 2001 because of the need to investigate complaints. Early systems audit - although it would not necessarily have identified malpractice - may have highlighted weaknesses in the controls before unscrupulous providers did (paragraphs 2.52-2.53).
Department should operate **good contract management**	The Department was under pressure to implement the scheme in autumn 2000. The Department employed commercial lawyers to draft a bespoke contract based on one developed by the former CCTA[21] but with consultants' input on call centre technology issues. Records of agreed variations to contract were inadequate (paragraph 2.29).
Departments should obtain **good management information** ■ timely reports ■ exception reports	Capita regularly provided the Department with a range of management information on service provision (paragraph 2.51). The Department did not have the resources to study those reports. The lack of exception reports meant the Department was unaware of very large payments to some providers (20 providers had received £1.5 million) (paragraphs 2.50-2.51).
Departments should **respond swiftly to emerging problems**	The scheme was more popular than expected. The Department acted quickly to impose cap on 80 per cent discount scheme (in first 6 weeks). The Department did not act to ease demand until realised budget would be at least £20 million overspent. Overspend exacerbated by decision to allow providers to complete bulk application forms on learners' behalf (paragraphs 2.41-44).
Departments should **monitor complaints** ■ clear responsibility for handling ■ analysis for common themes ■ adequate resources	Capita had responsibility for receiving and resolving complaints, except those about non-compliance with the programme rules. Capita maintained data on numbers of complaints but the nature of them was not analysed until May 2001. (The number received was less than one per cent of all accounts opened) (paragraphs 2.45-2.46).

21 *Central Computer and Telecommunications Agency*

c) How well the Department handled the withdrawal, closure and wind-down of the scheme (Part 3)

25 Following advice from the police, the Department shut down the scheme with immediate effect on the 23rd of November 2001 due to allegations of potentially serious fraud and abuse. Registered learning providers had used their access to the ILA database to obtain details of accounts for which they were not authorised. To protect public funds, the Department froze all payments to providers until validation arrangements could be put in place. The decision meant that some £15 million was frozen temporarily as the IT system was shut down. Some providers told us, and the Education and Skills Select Committee, that this left them very short of funds.

26 The Department resumed some payments to providers on 21 December 2001, and some 95 per cent of providers' claims had been met by June 2002. As at 1 August 2002, over 560 learning providers are being investigated by the Department's Compliance Unit. A further 133 cases are, or have been, examined by the Special Investigations Unit. Some 99 have been transferred to the police, and one has resulted in successful prosecution. Due to the extent of the scheme and the volume of the complaints/police investigations it could be two years before the level of fraud or impropriety is fully known (paragraph 3.15).

27 The Department is committed to introducing a replacement ILA scheme as soon as possible. The intention is to make the scheme equally attractive to potential learners but with better expenditure controls and less potential for abuse. The Department has agreed in principle, to work with Capita in developing arrangements for a successor scheme. The decision on whether to work with Capita is however subject to satisfactory progress and the outcome of negotiations with them. The Department will not finalise contractual terms with the partner, until it is satisfied that the risks involved in operating the new scheme have been minimised. The Department's conclusions so far on the lessons that need to be taken into account in developing the new one include:

- the system needs stronger quality assurance mechanisms to prevent unscrupulous providers benefiting from the scheme;
- the Department needs better intelligence on unscrupulous providers;
- the Department should derive a full business model to test how abuse could occur;
- stronger IT security arrangements for a successor scheme;
- better management of public/private contracts is necessary for the successor programme.

28 For development of the successor scheme, the Department is following advice from the Office of Government Commerce (OGC), under which procurement projects are subject to review at key stages. The Department has designated the project as "high risk" based on the OGC assessment criteria and subject to external assessment. The first reviews (business modelling and procurement strategy) were underway in July 2002.

Recommendations

i) Departments wishing to implement innovative demand-led projects, for which there is very little or no relevant experience, should prepare detailed business process models and sensitivity analyses for a wide range of scenarios. They should also develop contingency plans in case the project does not proceed as expected, or expenditure is significantly higher or lower than budget;

ii) where they intend working with the private sector on a partnership basis, Departments should draw up an agreement of common purpose or "partnering agreement"[22] which:

- determines the aims, objectives and common goals of the relationship;
- identifies the benefits to both the department and the supplier;

iii) where all or almost all bidders drop out of competitive tendering for any innovative project, departments should revisit the design of the scheme and consider re-tendering having taken account of the concerns of bidders as well as any implications for delays to the timetable to accommodate a further tendering stage;

iv) in the absence of more than one bid, departments should prepare a "should cost model". in addition to a public sector comparator. This represents a better simulation of competition and the private sector approach;

v) departments should ensure that risk registers are comprehensive and take account of recent relevant experience. They should be actively managed and counter-measures considered and implemented where appropriate and departments should take action to address those risks, particularly those relating to fraud;

vi) where they are seeking to rely on information technology, departments should obtain detailed technical advice from IT specialists, both in the preparation of specifications and assessing the feasibility of tenderers' proposals and the intended security systems;

vii) departments should take an active role in contract management, recording fully any agreed changes or variations to the contract or its interpretation;

viii) departments should monitor carefully any innovative programmes to ensure that they are meeting their objectives as well as commissioning exception reports to highlight any unusual practices which might be indicative of fraud;

ix) Internal Audit should be involved at project design and implementation stage to ensure adequacy of the financial controls. Early review of new systems should be carried out to ensure that they are working as expected;

x) departments should review any current initiatives that rely on information technology to ensure that they have adequate security controls protecting them against vulnerability to fraud;

xi) the Department for Education and Skills should give priority to reviewing the provisions for distance learning or "e-learning", taking account of the inherent difficulties of verifying the existence of learners who do not attend classrooms and whether any learning activity has taken place.

22 *Best Practice on Managing Partnering Relationships guidance issued by the Office of Government Contracting.*

Part 1

How far did the scheme meet its objectives?

1.1 This part of the report addresses the clarity of the Department's objectives for the scheme and the extent to which the scheme was successful in targeting specific groups.

Clarity of objectives

1.2 The overall aim was to contribute to the government's objective of developing in everyone a commitment to lifelong learning. Strategic aims were in place **(Figure 4)**, but the accompanying operational objectives were more about how the scheme would work rather than what it should achieve. There were no precise objectives for the overriding outcome of getting more people into learning. The only quantifiable targets were those relating to the number of accounts to be opened by March 2001 (500,000) and by March 2002 (one million).

1.3 The Department concentrated on encouraging people into learning and made the incentives payable on individuals' registration and commencement of learning rather than achieving a qualification.

Whether targets were met

1.4 The absence of measurable or quantifiable objectives beyond the commitment to one million account holders, together with limitations in the management information, complicated our assessment of whether the Department met its policy objectives. In our review of the data available and results of the Department's qualitative research, we concentrated on:

- the number of accounts opened;
- the number of providers;
- the level and type of learning booked;
- target groups;
- integration with other lifelong learning initiatives;
- levels of personal investment in learning; and,
- user satisfaction.

4 Strategic and operational objectives, and performance targets

Strategic objectives

- To contribute to a better-equipped work-force for tomorrow's world
- To encourage people to have a personal stake in lifelong learning with greater control over their personal development
- To increase levels of private (individual and employer) investment in learning
- To increase levels of participation and achievement in learning activities and contribute to the National Learning Targets, particularly amongst targeted groups where levels of activity are traditionally low
- To repay public investment in ILAs through the benefits of increased earnings associated with increased learning
- To contribute to raising individual expectations of the benefits which learning can create

Operational objectives

- To establish a clear national framework for the operation on ILAs with a Customer Service Provider delivering a high quality service
- To ensure that ILAs are properly integrated with other lifelong learning initiatives (e.g. Ufl Ltd, Learndirect, Union Learning Fund)
- To use discounts on the cost of learning as incentives to encourage individuals to register for ILAs, particularly from the target groups: ethnic minorities, labour market returners, 21-30 year olds with low/no qualifications, non teaching school staff
- To ensure that users find ILAs easy to access and use and are satisfied with the process and the learning provided
- To work with intermediaries (unions, employers, information, advice and guidance practitioners) to ensure that ILAs are in continuous use to buy repeat learning and that the number of dormant accounts is minimised

Source: Department for Education and Skills (Rationale and Objectives statement)

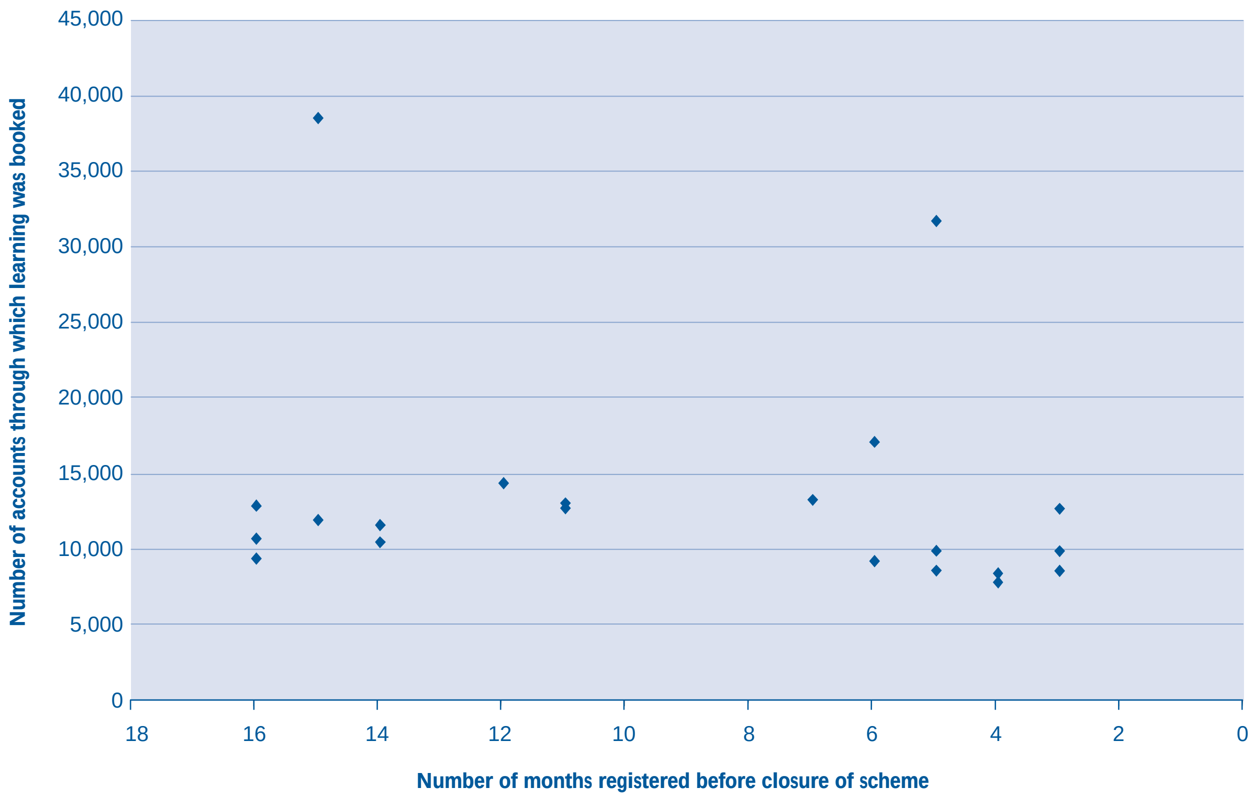
Numbers of accounts opened

1.5 The popularity of ILAs took the Department by surprise. The target[23] for the whole scheme was exceeded within eight months (Appendix 3). Although in total more than 2.6 million accounts were opened, only 1.5 million had learning registered as at 31 July 2002. There is evidence that not all of these were bona fide learners:

- fraud investigations and compliance visits to learning providers during 2001 and subsequently have shown that thirteen providers each registered over 10,000 account holders **(Figure 5)**. This represents a very large number of learners recruited over a very short time - more than the number of part-time students studying at 80 per cent of all further education colleges. Two providers had over 30,000 learners (Figure 5);
- complaints from account holders and subsequent investigations into some learning providers indicates that a significant number of accounts were opened and incentives claimed without the knowledge or agreement of the account holder. The Department is seeking to determine the extent of this problem through Police, its own Special Investigation Unit and Compliance Team investigations, reviewing complaints and database records. To support this work, the Department is undertaking a survey of 50,000 learners registered with certain providers, but the results will not be known until November 2002[24]. This is inherently difficult to determine as some account holders may never have known that an account in their name had been opened or used;
- the Department's letters to all account holders in October 2001 advising them of the suspension of the scheme resulted in 60,000 items of returned mail. This represents less than one per cent (less than the Department expected for such a large mailing) of all account holders. Some represent genuine changes of address, but others may be people who are not bona fide learners. The Department is investigating 43[25] individual providers where the volume of returned mail looks unusually high; and

5 Largest providers in terms of value of ILA claims

Eleven providers had booked learning through very large numbers of accounts in only seven months or less.



Source: Department for Education and Skills

23 *The England share of the 1 million accounts was 850,000.*

24 *The Compliance Unit sample size is about 30,000 and the Special Investigation Unit sample is 20,000. Analysis of results of both is expected by mid-November 2002.*

25 *Cases where 50 or more items have been returned. In most cases, the volume of returned mail is not the prime reason for investigation.*

- research commissioned by the Department[26] indicated that over a quarter of learners registered as having started their training had not done any. (Two fifths of them, when contacted, said they were awaiting a course start date).

Number of learning providers

1.6 The Department has been successful in bringing in new providers to the market, thus extending the choice of learning and learning environment for learners and enhancing options for access to education **(Figure 6)**. In September 2000 some 2,241 providers were registered but this grew to 8,910 providers by the time it closed. Less than a fifth were registered as public sector providers.

Level and type of learning booked

1.7 The scheme appears to have been successful in funding entry-level courses specified in the definition of eligible learning (Appendix 4), and information technology in particular. No data is available on the level of learning booked for 45 per cent of all learning episodes, but over half of that for which data is provided are level 1 qualifications or entry-level foundation skills.

1.8 In so far as data is available, information technology courses represent the vast majority of all training provided. Over four fifths of learning under the 80 per cent incentive and about a third of all learning under the 20% incentive was for ICT.

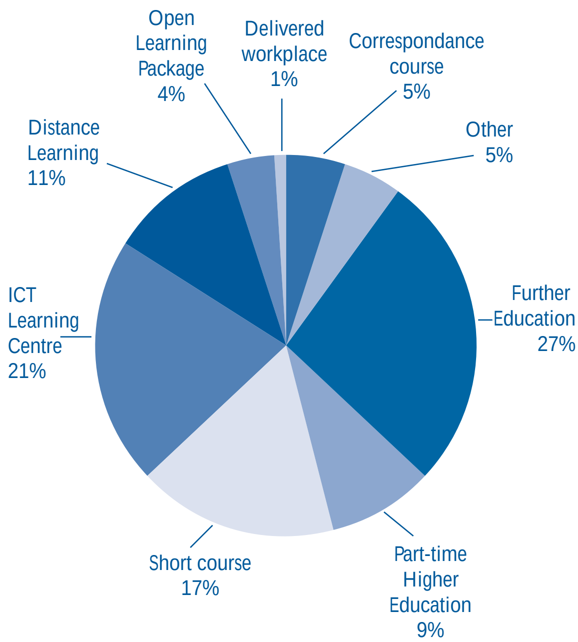
Target groups

1.9 The Department does not have comprehensive data showing to what extent the scheme reached target groups[27]. Following legal advice, Capita collected only limited data in compulsory fields on the application form, for example, on sex, prior qualifications etc. and the Department did not identify first the size of each target group. However the Department collected some data on a sample basis through ILA account holder surveys in Spring 2001, September 2001[28] and May 2002[29] and in respect of evaluation of community pilots.

1.10 *Young people (19 - 30 year olds) with low qualifications*: Measuring success by age and level of prior qualifications is impossible from the management information collected. Data on age of individuals is available but the Department did not define "low qualifications". In addition, although space was included on the form for them to record prior qualifications, learners were not required to do so.

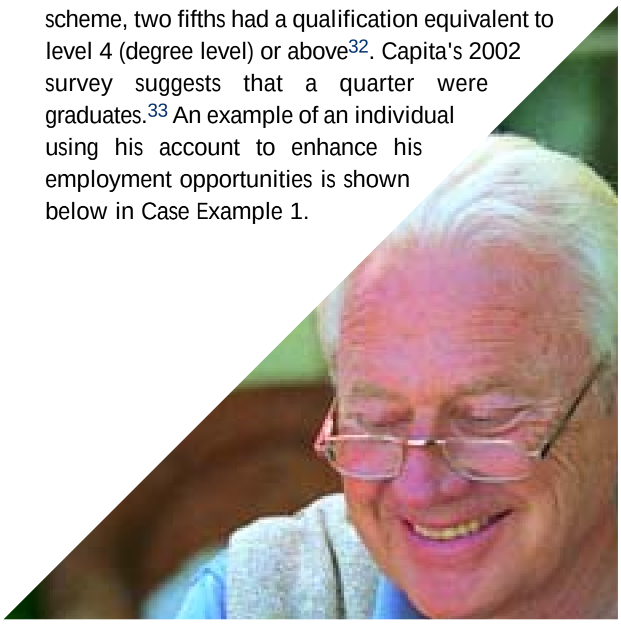
6 Settings in which learning was delivered

Learning Methods



Source: Department for Education and Skills

1.11 Although one third of ILA account holders at 31 October 2001 were young people, the main beneficiaries of the scheme were older. About half were aged 30 to 50, and about a sixth were 50+. York Consulting's research based on samples of 300 learners suggests 16 per cent of all learners had no previous qualifications[30] and that 19-30 year olds with no qualifications represent about nine per cent of learners who opened and used their accounts on or after 1 May 2001[31]. Because of the universal nature of the scheme, two fifths had a qualification equivalent to level 4 (degree level) or above[32]. Capita's 2002 survey suggests that a quarter were graduates.[33] An example of an individual using his account to enhance his employment opportunities is shown below in Case Example 1.



26 *York Consulting, January 2002 report. Based on survey of 659 account holders registered as having started their learning.*
27 *See Figure 2 on page 6.*
28 *York Consulting.*
29 *Capita survey of 600 learners, February-May 2002.*
30 *September 2001 report.*
31 *January 2002 report.*
32 *York Consulting, January 2002 report.*
33 *Capita, survey of 500 learners, February-May 2002.*

CASE EXAMPLE 1: ENHANCING EMPLOYMENT OPPORTUNITIES

A 33-year-old painter & decorator found out about Individual Learning Accounts through his local job centre. He was unemployed and wanted a new job which had a more reliable work flow.

He said "I want to change to a more reliable trade so I'm beginning a Heavy Goods Vehicle Driving course in May so that I have new qualifications to offer to potential employers. "

He found it easy to sign up for an Individual Learning Account and says: "I'd recommend an Individual Learning Account to anyone. I'll use mine again if I do more courses in future."

CASE EXAMPLE 2: PREPARING FOR RETURN TO WORK

A housewife and mother of two young children, found out about Individual Learning Accounts from a friend who had already taken one out. She had previously worked as a mobile hairdresser before she and her husband started their family and was looking at what she wanted to do when the children are old enough for her to go back to work.

She said 'I want to study a course that will train me as a classroom assistant at a primary school, or maybe a nursery nurse. Using an Individual Learning Account I can save money on the cost of the course, which is a big help if you have a young family to look after.

1.12 Learners could choose with whom to undertake their learning, but those whom the Department wanted to attract through its targeted marketing were probably amongst those least likely to be able to compare different providers. This was exacerbated by the Department's decision to concentrate marketing of ILAs via learning providers (a decision informed by evaluation of early ILA schemes run by TECs[34]). York Consulting's survey[35] indicated that 45 per cent of account holders first heard about ILA from learning providers.

1.13 *Self-employed:* Some data on employment status was available for most account holders and indicates that during the period to 31 October 8 per cent were self-employed (reflecting the percentage in the whole economy). Research by York Consulting found that the proportion of self-employed people using their accounts increased from 5 per cent to 7 per cent between April/May 2001 and January 2002.

1.14 *Women returners to work:* The Department did not define this group, and the data field was not compulsory on the enrolment form. As a result the data was not provided by over half of all account holders. Of the 205,972 account holders who described themselves as 'returners to work' (18 per cent of those providing information), more than half were women. Research[36] commissioned by the Department indicates that returners to the labour market represent about three per cent of the population. Examples of returners to work are shown in Case examples 2 and 3 below.

1.15 *Non-professional school staff:* Data is incomplete as this was not a compulsory data field, with over one quarter of account holders not indicating whether they were non-teaching school staff. York Consulting's research based on sample of 300 learners who opened accounts on or after 1 May 2001 suggests that about four per cent were non-teaching school staff.

34 Training and Enterprise Councils
35 January 2001, survey of redeemers and non-redeemers
36 York Consulting

CASE EXAMPLE 3: PREPARING FOR RETURN TO WORK

A 36 year old a mother of two young children, works part time in a busy newsagents. She heard about Individual Learning Accounts and took one out in order to help her manage the cost of learning new skills to enable her to return to work when the children were older.

She said: "I am studying an introductory course in IT to help me update my skills. I want to get a decent full time job eventually, and my Individual Learning Account helps me manage the way I work for that."

CASE EXAMPLE 4: USER SATISFACTION

A 21-year-old sales assistant from Crawley found out about Individual Learning Accounts from the web site of a local college. Taking this as a good sign, he continued to look around the web for courses and learning providers that would help him study for A-levels in maths and physics.

He said "I found a web site that offers discounted courses, but they also accepted the Individual Learning Account discounts on top of that. It has been a great way to save money on the cost of your course."

He was keen to keep using his Individual Learning Account and keep learning more.

1.16 *Ethnic minorities:* Some 29 per cent of account holders (733,981) did not provide information on ethnic origin. Of those that did just over 20 per cent described themselves as non-white. York Consulting's follow-up survey found that (in line with the economy as a whole) 89 per cent of respondents described themselves as white and 2 per cent refused to answer the question. Evaluations of the Community Pilots indicate a much higher percentage of ethnic minorities were attracted to ILAs, suggesting that using such intermediaries is an effective way of engaging target groups.

Integration with other lifelong learning initiatives and work with intermediaries

1.17 The Department's early attempt to integrate the scheme with other lifelong learning initiatives was frustrated by the incompatibility of the information set held within the *learndirect* learning opportunities database of providers (paragraph 2.36). In the summer of 2001, however, it sought to improve targeting of ILAs and better integration with other initiatives, particularly in conjunction with Career Development Loans, Union Learning Funds and through employers. The Department expected that these initiatives could attract a substantial number of account holders and additional expenditure at a time when it became clear that the budget for the scheme would be exceeded. The early closure of the scheme meant that all but the Union Learning Fund work were put on hold. In addition, the Small Firm Learning Account, set up in April 2001 was refocused following the withdrawal of the national ILA scheme and re-launched as the Small Firm Development Account early in 2002. It had engaged 352 firms in three months with 1242 employees opening accounts during the period of the project. The new pilot will be formally evaluated in due course.

1.18 The Department also sought to promote ILAs in the local community by providing funding to community organisations in six different locations in January 2001. These pilot schemes, which were evaluated to assess the take-up of ILAs by people with low skills or qualifications[37], showed that one quarter of account holders were unqualified, compared to 16 per cent in the national scheme. Three quarters of those who used their accounts said that they would not otherwise have been able to pay for their courses, compared to half of those in the national scheme. Encouraging people to sign up, however, took longer and was more resource intensive than expected, with 3,279 people opening accounts before scheme closure against a target of 11,100 by end December 2001 set by the community groups.

Levels of personal investment in learning

1.19 One of the key elements of the scheme was the concept of personal investment in learning. In September 2001, York Consulting found that almost half of the learners surveyed had paid less than £50 towards their course cost. This is mostly explained by the £150 incentive scheme which required learners to pay a £25 minimum personal contribution. Contrary to the intentions of the scheme, however, 16 per cent of learners said that they had made no financial contribution. This supports evidence from various investigations into sharp practice by learning providers (Part 3).

Learner satisfaction

1.20 The Department commissioned research from York Consulting at two stages during the running of the ILA scheme in order to assess some of the less quantifiable outcomes[38]. In addition, at the Department's request, in May 2002 Capita conducted a telephone survey of 600 learners. York Consulting found that the percentages expressing satisfaction with the services provided by the ILA Centre were 89 per cent or above. Over ninety per cent said their learning had met or exceeded expectations[39]. Some 84 per cent felt that their learning had improved their knowledge and skills[40]. In line with the earlier surveys, Capita found similar percentages of people thought their learning had met or exceeded expectations. (Other findings from the survey are shown in **Figure 7**). Case example 4 shows how an account holder benefited from the scheme.

7 User satisfaction with accounts

	York Consulting (February - May 2001) per cent	Follow-up York Consulting (September 2001) per cent	Capita (May 2002) Per cent
Little/no prior knowledge of the subject	51	*	57
Total cost of learning - £100 - £500	60	60	50
Could not have paid for learning without account	50	38	48
Increased learning options	85	72	73

Source: Department for Education and Skills

37 SQW and NOP Research Group, 'Evaluation of ILAs - Community Projects', published in June 2002.
38 York Consulting, January 2002 report. Based on survey of 659 account holders registered as having started their learning.
39 York Consulting, March-May 2001 research but not published in September 2001 report.
40 York Consulting, August-September 2001 research, published in January 2002.

Part 2

How well did the Department manage the risks involved in designing and implementing Individual Learning Accounts?

2.1 The Department recognised that implementing Individual Learning Accounts would necessitate innovative and creative policy making, and a good understanding of what initiatives were likely to encourage people to improve their skills. In this part of our report we look at how the Department designed and implemented the scheme, assessing it against current good practice guidance, rather than that available at the time. We also take account of key findings in our recent reports on Modern Policy Making[41] and our work on Risk Management (Appendix 2).

Needs of the client group

2.2 Throughout 1997 and 1998, the Department carried out extensive marketing, consulting with potential learners, learning providers and other stakeholders, including financial institutions. This showed that savings or loan accounts were unpopular. Individuals were reluctant to "save to learn", while providers preferred not to involve financial institutions or secure loans. Larger private sector employers were willing to contribute, but financial institutions were reluctant to offer such accounts because of the need to maintain high volumes of low-value balances.

2.3 Between July 1998 and February 1999, the Department established fifteen projects operated by 26 Training and Enterprise Councils (TECs) to test options for a national ILA scheme. They were administered differently, but all featured a £150 incentive payment that depended on learners investing £25 of their own money. Most providers involved were already known to the TECs, and were required to operate to defined minimum standards. Several TECs operated rigorous controls, both for learners and providers. Some used applicants' names and National Insurance numbers to check that they were not already receiving Government support for learning. Checks on providers included review of prospectuses to ensure that they were not artificially inflating their prices due to the ILA scheme.

2.4 SWA Consulting, in their evaluation of the pilot schemes in August 1999, found some success in reaching non-traditional learners - almost half had not participated in learning for three years. But they also expressed concern that the use of discounts could skew the market by encouraging people to take courses that offered large discounts rather than the most appropriate learning.

2.5 The Department prepared a rationale and objectives statement in Summer 2000 which highlighted the need for better transferable skills which would enhance employability. Employers alone were unlikely to fund all the necessary training so in devising the ILA scheme, the onus was to be on individuals to manage, plan and invest in their own learning. The Department intended measuring the success of the scheme through early satisfaction surveys, a follow-up study of a cohort of account holders over three years, and an analytical study of the impact of accounts.

2.6 The Department adopted the 20 per cent discount scheme (which had been piloted in the Training and Enterprise Councils) which gave individuals an incentive to manage, plan and invest in their own learning, while retaining a personal stake through individual contributions. The Department decided that a wide range of learning would be eligible, subject to certain exclusions. The Department implemented the manifesto pledge to kick-start the scheme with a one-off incentive of £150 for the first million account people to use their accounts.

2.7 In his March 1999 Budget the Chancellor of the Exchequer announced an extension to the scheme to include an 80 per cent discount scheme for basic information technology and mathematics learning. No research was carried out on how it might work in practice.

41 *Modern Policy Making: Ensuring Policies deliver Value for Money, HC 289, Session 2001-02, November 2001.*

Lessons learned from prior experience of the sector

2.8 ILAs were designed primarily to engage learners in short-term, one-off learning experiences. The value of the transactions was low and, although the Department recognised the scope for fraud, initially it considered the risk of fraud was low. In August 2001, the risk of fraud was upgraded to high. Its decision to keep the scheme administratively simple for learners and providers, and not to impose quality controls had the advantage of minimising the resources necessary for quality checks. The decision not to accredit providers nor carry out any spot checks of provision contrasts strongly to the controls over colleges' student funding claims following our report on Halton College[42] which had highlighted the vulnerability to fraud of franchised or distance provision.

2.9 The Further Education Funding Council was particularly concerned about the lack of quality assurance and checks on providers in the proposed scheme. In June 2000, the Council raised concerns that learning providers who had capitalised on franchising could go on to exploit ILAs if quality assurance and audit arrangements were inadequate. The Council told us that it offered to help identify discredited franchise providers who it suspected might seek to exploit the ILA scheme.

2.10 We share the concerns of the Education and Skills Select Committee[43] that the Department did not liase with other departments and the Audit Commission to share expertise on anti-fraud measures.

Action taken following Project Health Check

2.11 The Department adopted good practice in establishing a Project Board in October 1999 consisting of policy staff, representatives from Internal Audit and KPMG. From March 2000, it was chaired by a senior member of the Department's staff, and ministers were kept informed of progress. The Board's role was to finalise the National Framework and drive its implementation.

2.12 The Department contracted with KPMG to provide expert advice on policy development, contract development and programme management. KPMG's report, produced in October 1999, set out a model of how ILAs could be administered. The Department relied heavily on KPMG for demand forecasting, preparation of the statement of requirement, tender documentation and review of the bids as well as for technical and negotiation support.

2.13 Internal Audit was represented on the Programme Board and provided advice on systems of control. In common with usual practice for major projects, Internal Audit requested a Project Health Check by independent consultants in March 2000. Oakleigh Consulting's report highlighted:

- difficulty in estimating demand and timings, demand models out of date, and the significant risk of early peaking/overload;
- value for money risks, including impact of minimal risk transfer to bidder and lack of clarity of role of Capita;
- lack of senior management involvement in Project Board; primary focus of Board on managing KPMG; no management by exception and no change control procedures; Department short of people with relevant skills;
- inadequate definition of KPMG role (whether partners or advisors); limited understanding of risks; emphasis on KPMG to deliver;
- inadequacies in project planning including lack of critical path and difficulty in tracking achievement/progress against plan;
- no quality assurance products or formal sign-off procedures;
- incompleteness of the Department's risk register which was too short with no owners, contingencies or trend analysis and almost all risks now identified as high priority;
- inadequate contingency planning.

As a result of this health check a number of issues were actioned and improved, including project planning documentation and presentation of the risk register.

Risk management

2.14 In June 2000, the Department created a risk register to help catalogue, assess and manage the key risks in areas such as policy (e.g. not helping the right people) and project management (e.g. insufficient resources to staff the project). It was not compiled on a systematic basis and there was no attempt to identify weaknesses by examining step by step how the scheme would work in practice.

2.15 The Department's assessments of risk were influenced by the fact that the scheme would consist of low-value transactions. Initially[44], this led to an overriding presumption that it would be difficult encouraging sufficient take-up of accounts. By August 2001, the Department had reassessed high demand was a high risk on the risk register. The risk register was

42 *Investigation of Alleged Irregularities at Halton College, National Audit Office, HC 357, Parliamentary Session 1998/99.*
43 *Third Report, Session 2001-02, HC 561.*
44 *August 2000.*

reviewed monthly but not all issues raised were actively pursued to ensure that risks were minimised. Capita told us that it did not carry out a formalised risk assessment but built on work undertaken by KPMG and Oakleigh Consulting. Some tenderers warned the Department of scope for abuse of the system **(Figure 8)**.

Business case and demand modelling

2.16 The Department commissioned a detailed demand modelling exercise in Spring 2000. The report, received in July 2000, estimated that 1.3 million accounts would be opened in the first year, rising to 1.9 million accounts by 2005. There was no estimate of the take-up of accounts, no sensitivity analysis, nor evidence that the report led to the development of contingency arrangements, despite predicting that demand could exceed the target of one million accounts. The Department did not prepare a formal business model for the project. A detailed business model would have assisted decision-makers in evaluating options and risks and the associated costs and benefits.

2.17 Capita drew up its own business plans which include the possibility of higher volumes. Projected volumes changed over time, as did the Department's assessment of risk of over or under achieving. The risk that the demand estimate was too low was rated as high in August 2000, and medium from October 2000 and high in August 2001.

8 Risks associated with the scheme raised by tenderers and other stakeholders

Risk raised in response to Invitation to Tender	Text in Invitation to Tender	Rating in Risk Register	Action taken to minimise risk
Need to secure Web-based data from unauthorised access and to identify the security requirements of the policy before security mechanisms can be specified.	The contractor must provide a full succinct statement of the security mechanisms to control access to data of a personal or financial nature.	No specific rating in risk register.	Capita seen as responsible for maintaining IT security.
Need to make the overall design robust with minimal chance of fraud and collusion between providers and learners.	The contractor shall explain how they will prevent, detect and deal with external fraudulent incentive claims. These may include duplicate accounts, fake accounts, incorrect incentive type applications and multiple claims.	Deliberate fraud was rated as low impact and low probability in August 2000, medium probability in October 2000 and high in August 2001. Also in August 2001, a new risk of learning providers not complying with the rules was added to the risk register.	Capita proposed validating individuals based on use of National Insurance numbers, but this was rejected by the Department in the light of data protection legislation. The Department also decided against requiring applicants to submit birth certificates or utility bills, in preference for self-certification. Capita was not required to undertake any spot checks. At the Department's request, to inform investigations, Capita produced historic data showing that applicants used duplicate addresses.
Need for clear guidance on what learning would be eligible for support under the ILA scheme.	The contractor will provide information to members on previously identified courses.	No specific rating in risk register.	Learning providers were responsible for deciding on eligibility of courses, based on Departmental guidance. No spot checks to ensure that guidance was followed.
Need to consider carefully the procedures for accepting or declining learning providers who wanted to register with the ILA scheme.	Key activities for the contractor will include performing relevant accreditation checks when processing learning provider registrations.	Risk of poor quality learning experience rated as low impact and probability between August 2000 and August 2001.	Learning providers had to meet minimal requirements i.e. supply bank and insurance details, and statement of compliance with health & safety regulations.

Source: National Audit Office

Tendering

2.18 The Department was keen to encourage innovation throughout the design and implementation of the scheme. Following an industry briefing day in October 1999[45] nine consortia submitted completed pre-qualification questionnaires. The specification[46] made clear that the assignment was to be a risk-sharing partnership and that shortlisted suppliers would be required to design their own solutions based on the evolving policy.

2.19 In December 1999, following KPMG's detailed assessment of each of the "expressions of interest", the Department invited six bidders to submit tenders. Two consortia were eliminated from the competition because of concerns about the size of the companies and their understanding of the innovative nature of the scheme.

2.20 Four of the six bidders withdrew, and the two remaining ones, Capita and Logica formed a consortium which submitted a bid, in February 2000. (Logica subsequently withdrew from the Capita proposal and Capita engaged Maestek to design software.) Several of those who withdrew were interested in developing the service, but the main concern was that the limited time available between the award of the contract (April) and the date by which a full service would be required (1 September). Some also considered that other organisations were better able, commercially, to offer the service required by the Department **(Figure 9)**.

9 Reasons for withdrawing from tendering

- Aggressive and unrealistic timescales
- Very challenging timescale together with much still to firm up in the initiative
- Extremely challenging timetable together and a lot to deliver with other bidders in much better position with regard to infrastructure (call centres, IT systems)
- Uncompromising PPP approach which made measurement of business benefits difficult

Source: Department for Education and Skills

2.21 The Department recognised that there was a risk in proceeding with only one bidder, and considered the following options:

- trying to bring back withdrawn bidders. After discussions with bidders, the Department concluded that to pursue this course would be expensive (both in time and money) and could jeopardise the commitment of the remaining bidder. Feedback from bidders suggested that bidders were not convinced they could offer any better value for money;
- the Further Education Funding Council providing an interim service from April, to allow a longer setting-up time for the private sector partner. The Department, however, would have had to provide additional support for the account opening and account management functions. Other disadvantages included individuals being unable to manage their own learning and exclusion of private sector involvement;
- asking TECs to continue to open accounts during the next financial year. TECs, however, were due to be closed in March 2001 and were thought more likely to be focused on winding down their businesses;
- developing the capacity of the Learning and Skills Council's management and information systems so that it could run the learning accounts infrastructure from April 2001 or building the learning accounts infrastructure onto the system being set up the UfI Ltd. Both of these options were not viable - the Council was to be established in March 2001 and UfI was in its infancy, and there were too many risks in involving either with the additional responsibilities of ILAs.

2.22 The Department concluded that securing a contract with Capita/Logica would represent the best value for money, and developed contingency measures should the bidder withdraw, fail to demonstrate value for money or there was a delay in implementation. KPMG prepared a public sector comparator showing the likely processes, resources and cash flow that would be required to operate the Centre. Data in the comparator were also used as benchmarks for assessing the reasonableness of the Capita bid. KPMG estimated that the net cost of operating the Centre would be £60 million at September 2000 prices. The contract signed with Capita[47] had an estimated value of £55 million[48] which was below the public sector comparator prepared by KPMG.

Capita's role

2.23 The Department envisaged Capita being a partner to the development of the project. The Department told us that the contract document, which was based on a standard developed by CCTA[49], represented the most up-to-date Private Finance Initiative/Public Private Partnership contract in use at the time. Capita told us that it made requests to join the Project Board but these were not accepted. The Department excluded Capita from membership of the Project Board because its presence would restrict open discussions of policy. In our view, this was a major factor that resulted in Capita having to act as a contractor bound by the terms and conditions of the contract, executing decisions made by the Department, rather than working together to develop and operate the scheme as it would have preferred to do. Our report on Cancellation of the Benefits Payment Card

45 *One month after announcement of the project in the Official Journal of the European Communities.*
46 *"Statement of requirement".*
47 *Logica withdrew between submission of the proposal and final contract.*
48 *A further contract was signed on 7 November 2000 in respect of services in Scotland and Northern Ireland.*
49 *Central Computer and Telecommunications Agency.*

project[50] drew attention to the need for both departments and their consultants to be open about risks, including sharing risk management documentation. This approach could, in our view, have reduced many of the problems that occurred in this case.

2.24 The Department retained responsibility for the overall policy, including defining eligibility for incentive payments authorising and arranging payments[51] to learning providers. It also retained the duty to investigate any instances of suspected fraud.

2.25 We agree with the Education and Skills Select Committee[52] that despite the outsourcing of service delivery, the risks in effect always remained with the Department. The opportunity to use private sector expertise in policy design fell between the two stools of policy (retained in-house by the Department) and delivery (narrowly defined by the contract as performing service operations to a required standard). The Department is planning improved partnership management and governance arrangements for the successor scheme and more widely.

Contract management

2.26 The Department was under pressure to agree the contract with Capita and launch the scheme as soon as possible. Capita accepted the timetable risk and therefore, had less than two months to set up the call centre and about five months (from being told it was the preferred bidder in April 2000) in which to implement the remainder of its proposals. KPMG had been involved initially in the post-tender negotiations, but, as expected, its role diminished as contract issues were taken forward by the Department's legal advisers.

2.27 In the specification, the Department did not detail its security requirements. Capita's bid proposed controls for security and other matters but our review showed that some of them were not implemented **(Figure 10)**.

2.28 Cap Gemini Ernst & Young, was engaged by the Department in December 2001 to carry out a system baseline report alongside its work on system security requirements. They concluded that there was no single up-to-date definition of the system and that the contract did not allow the Department sufficient control or input to the specification underlying the ILA service. They recommended that in future, the Department should take a more proactive role in contract management; maintain full records of progress; and ensure that technical developments are properly considered. Oakleigh Consulting Limited, also appointed by the Department in December 2001 to "baseline" the contract[53], concluded that there was agreement between the Department and Capita on almost all contract variations since November 2000, but there were six variations which had not been agreed. The formal change control process had not been used properly and the ownership of the change process was unclear. Further discussions between the Department and Capita resulted, on 1 May 2002, in a jointly agreed "baselined" contract.

10 Controls referred to in the Capita contract but not implemented

Proposed control	Reason for variation
Validity of data e.g. name, address, postcode, date of birth and gender for duplicate checks	Capita's Business Rules handbook says that the Department must confirm the level of fraud checking before controls are implemented on individual accounts. In July 2001, the Department agreed that this type of work would be a lower priority than investigating other problems such as false branding and non-provision of training.
Mandatory management information The contract requires Capita to collect mandatory information including name, address, gender and date of birth. However, our review of management information (paragraph 1.9) shows that this data was not always recorded.	The Department had legal advice that it was not possible to require applicants to provide details of personal data (eg. ethnicity) on the forms for the purposes of management information.
Access to details on database The contract states that only account holders will have access to their own details as held on the ILA database. However, learning providers, with legitimate access to individual accounts for which they had a signed enrolment statement authorising access to that account only, were able to search for unclaimed incentives from accounts which they were not authorised to access (paragraph 3.8).	The contract envisaged that individuals would have web-based access to their account details. The Department was not aware that authorised providers could abuse their access rights to gain access to the records of account holders for which they had no authorisation. The Department considered that the requirement for Capita to comply with the Data Protection Act meant that Capita would have systems in place to prevent unauthorised access to individual account holder records.

50 *HC857, 1999-2000.*
51 *Appendix 4.*
52 *Third Report, 2001-02, HC 561-I.*
53 *Review the contract, ascertain any formal and informal changes since the original and determine the extent to which the current contract equates to the documentation.*

2.29 Other controls were planned but were not implemented due to the suspension of the scheme. For example, the Department originally intended issuing individual account statements in June 2001 (a year after the first accounts were opened). The Department subsequently decided to send them out in September 2001, but then postponed their issue again. The Department was also in discussion with an external company to provide a checking service to ensure providers were claiming the correct discount for the learning they offered. A more rigorous system of provider registration was also under development, including:

- a check of new learning provider registrations to establish whether a match existed between key details provided against those already held on the system;
- greater data mining, for example, a planned trawl of common learning provider addresses;
- the formation of a Compliance Steering Group, set up specifically to tackle the issue of non-compliant learning providers;
- a full systems audit of Capita systems in January (postponed from October 2001);
- Annual Learner Statements from Autumn 2001 (the proposal was to send out statements on the anniversary of account opening).

Misunderstandings between Capita and the Department

2.30 Capita's role under the contract is set out in Appendix 5. It included developing a call-centre (including recruitment and training of staff), developing and testing IT systems and security and devising management information to help monitor the programme.

2.31 Capita explained to us that the link with *learndirect* and the extent to which providers were accredited was critical to the systems it devised. Capita advised us that it believed at least in the early stages, that all providers would be accredited[54] or registered with the Further Education Funding Council, Training and Enterprise Councils, or awarding bodies, and pre-registered their courses with *learndirect* learning opportunities database. Capita devised its systems accordingly. Capita was aware, however, that when the scheme was launched the links with the *learndirect* learning opportunities database (which were intended to facilitate the interface between the two schemes rather than form any method of accreditation) were not in place.

2.32 The Department hoped to integrate the technical systems used by *learndirect* - the national information and advice line - and the ILA scheme, so that callers could be transferred easily between call centres. However, the *learndirect* learning opportunities database was not used because of incompatibility between records held[55] and the Department dropped the requirement for providers to be registered with *learndirect* opportunities database. In evidence to the Education and Skills Select Committee, Capita accepted that it should have raised its concerns more vociferously, and to senior staff at the Department and Ministers, when it became clear to them that the Department did not intend accrediting providers.

2.33 The specification included the requirement for the appointed contractor to carry out checks on the eligibility of the learner and the eligibility of learning for support under the scheme. The agreed contract recognised that the *learndirect* database was still under development and made interim provision for providers to self-certify that the learning was eligible for funding.

2.34 The interim provisions were never updated, leaving the system vulnerable to ineligible claims. Capita was not required under the contract to undertake spot checks on eligibility. The Department's qualitative research[56] found that there was a significant level of misunderstanding and confusion amongst providers as to what courses were eligible for £150 incentive/20 per cent discount incentive.

2.35 Our analysis of three month's records indicates that some learning episodes funded were ineligible under the 20 per cent scheme. Examples are shown in **Figure 11**. We also found a large number of examples where course titles were meaningless or incomplete. The Department's own research also found examples of ineligible courses being funded.[57] It also found that more than 5 per cent of course bookings under the 20 per cent incentive were either for ineligible courses or there was insufficient detail to classify.[58]

Security and the need for information technology specialists

2.36 In our report on the "Cancellation of the Benefits Payment Card Project[59], we drew attention to the need for departments to understand fully the quality and quantity of resources available which will be committed by the supplier to deliver the agreed services. KPMG's evaluation of Capita's proposals concluded that the bid was viable but that some further clarification was required. It was unclear whether Capita had fully

54 subject to some prior quality controls checks.
55 the learndirect system held records on all learning including leisure and HE course, which were excluded from ILA funding.
56 York Consulting, January 2002 report.
57 York Consulting, January 2002.
58 Department for Education and Skills.
59 1999-2000, HC 857.

11 Examples of ineligible courses funded

Course title	No of learning episodes	Cost to Government
Creative writing*	712	£77,024
Learn to Draw and Paint	407	£16,985
Season Ticket	7	£721
National Powerboat Certificate	139	£18,733
Exercise to Music*	114	£15,852
Painting 1*	83	£15,971
Transcendental meditation	10	£1,085
Chronic Cats 2001	4	£228
North star crystals	92	£8,991
Summer Glastonbury 2001	10	£1,390

NOTE

Courses marked * would only be eligible if they were vocational, e.g. if relevant to the career of the learner and enhance the individual's employability.

Source: National Audit Office review of 4 months data supplied by Department for Education and Skills.

understood the potential for fraud. Capita's bid, however, acknowledged the need for "rigorous security procedures to ensure data programs and documents are secure from unauthorised access.." and the importance of "making the overall design robust with minimal chance of fraud/collusion". Capita, however, did not pursue these points - but it made clear to us that its investigations revealed there is no specific evidence of unauthorised access to the ILA system by external third parties. However, a small number of learning providers made inappropriate use of the system.

2.37 In their report of July 2000, based on their work between January and March 2002, KPMG identified the need to test the robustness of the Capita's security arrangements and proposed learning provider password security arrangements. There is no record of the Department undertaking those tests or commissioning either KPMG or anyone else to do so.

2.38 KPMG recommended in July 2000 that in future the Department should be responsible for specifying security requirements and for managing and testing them. If the Department does not have the expertise in-house, it should appoint consultants to act on its behalf.

2.39 Cap Gemini Ernst & Young[60], in their February 2002 review for the Department on Capita's system security found that:

- the original contract did not include clear mandates or stipulations regarding the assessment of the security requirement or ongoing security management. There were no ILA-specific security policies or procedures;
- existing Government guidelines regarding security risk analysis were not followed;
- security management was incorporated into existing security management functions within Capita rather than separately within the ILA management structure. With hindsight this could be considered to be unsuitable;
- no structured mechanisms and procedures were established to identify trends and patterns of access and usage of the system that might have indicated possible instances of misuse;
- no procedures were established to ensure adherence to the requirements of the security policy.

Performance and emerging problems

2.40 The Department received regularly from Capita information on the numbers of accounts opened, expenditure, numbers of complaints and performance against agreed Capita's service targets (e.g. processing times for applications etc). Capita also provided quarterly reviews of its performance, highlighting any issues that it wished to bring to the attention.

60 June 2002 synopsis reports on system security and the contractual requirements for information technology provision.

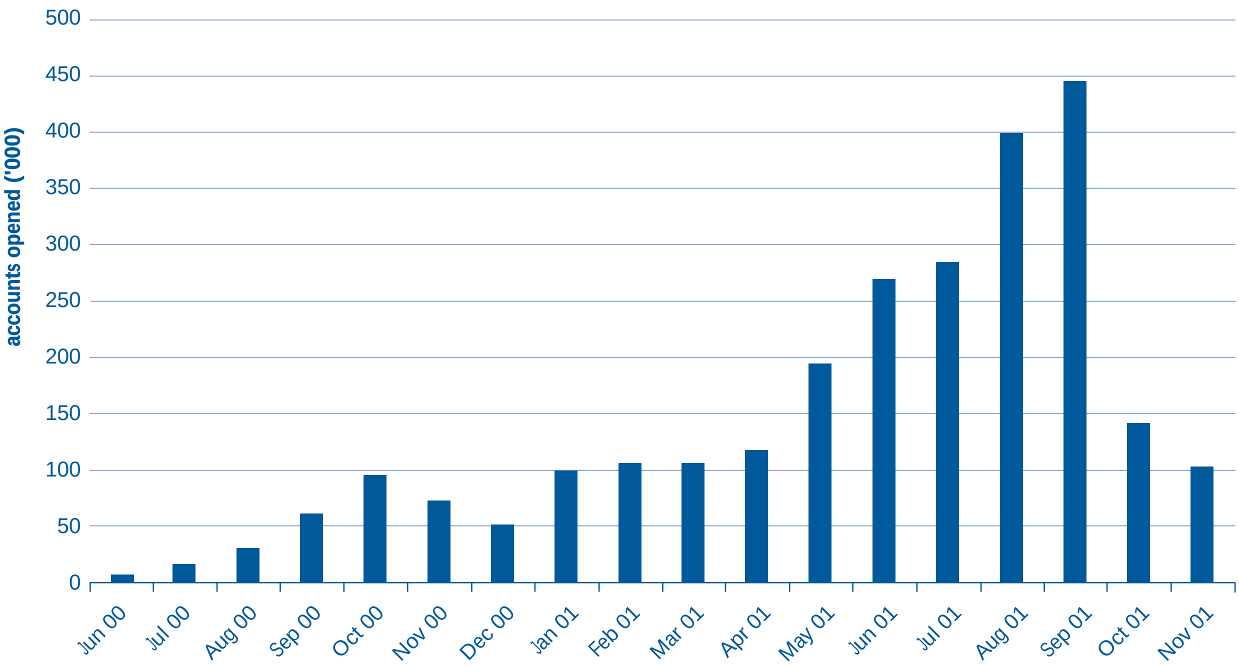
2.41 The Department reacted promptly to emerging concerns from providers, to which it was alerted by Capita before the scheme was formally launched. Capita had informed the Department that almost all learning registered during the interim period from June 2000 was in respect of the 80 per cent scheme for which there was no cap on incentives. Some providers complained that competitors were overcharging for learning material or packaging modules to claim higher incentives. The Department wrote to all providers in August 2000 informing them that a £200 cap would apply to all claims under the 80 per cent discount scheme registered on or after 1 October. A limit of £100 had been set at the outset for the 20 per cent discount.

2.42 The popularity of ILAs took the Department by surprise. Based on low take-up of accounts operated under the Training and Enterprise Councils in 1998 and 1999, it had expected difficulty attracting a million account holders. By the end of April 2001, 781,000 accounts had been opened in England, of which 340,000 were active **(Figure 12)**. The Department, which should have been clear that the commitment to one million accounts would be reached much earlier than expected, was considering a marketing strategy which included encouraging take-up amongst non-active account holders.

2.43 The commitment to one million accounts was exceeded in May 2001, only eight months after the scheme started, although only half were active (i.e. learning had been registered and/or started) **(Figure 13)**. The Department ended the £150 incentive scheme in July 2001. The Department calculated a cut-off date based on daily take-up data and informed providers that they would get a week's notice of when the £150 incentive would cease. The announcement on 13 July led to a surge in accounts opened and the average weekly expenditure on £150 discounts more than doubled during the month.

2.44 Capita, on behalf of the Department, issued blank application forms to providers, enabling them to market ILAs during their peak enrolment period. This enabled them to complete forms on behalf of applicants and was intended to help reach learners as not all potential client groups would have had email/internet/phone access. However, it exacerbated the demand for accounts. Providers were required to check the eligibility of the individual, but did not have to provide evidence of the validity of the name and address. In total, Capita issued some 8.3 million forms to providers. The Department withdrew the facility with effect from 28 September, after which time learners had to apply for an account in person, via the Centre or website.

12 Accounts opened per month (England)



NOTE

Accounts could be opened from June 2000, although the scheme was not formally launched until September 2000. Demand for accounts tapered after introduction of the cap on the 80 per cent scheme, but increased rapidly from May 2001.

Source: Individual Learning Accounts Centre

Analysis of complaints

2.45 The Department monitored the overall number of complaints **(Figure 14 overleaf)**, which were mainly customer service issues and providers complaints, but it required Capita to deal with them. In response to a Ministerial commitment to introduce an independent complaints and appeals service, the Department commissioned a review of the complaints procedure from PriceWaterhouseCoopers. The report, completed in March 2001, found that:

- complaints were not handled systematically;
- information on the nature of complaints being received was not shared among those involved in delivering ILAs;
- there was no systematic way for lessons to be learnt and actions to be taken that might prevent similar complaints arising in future.

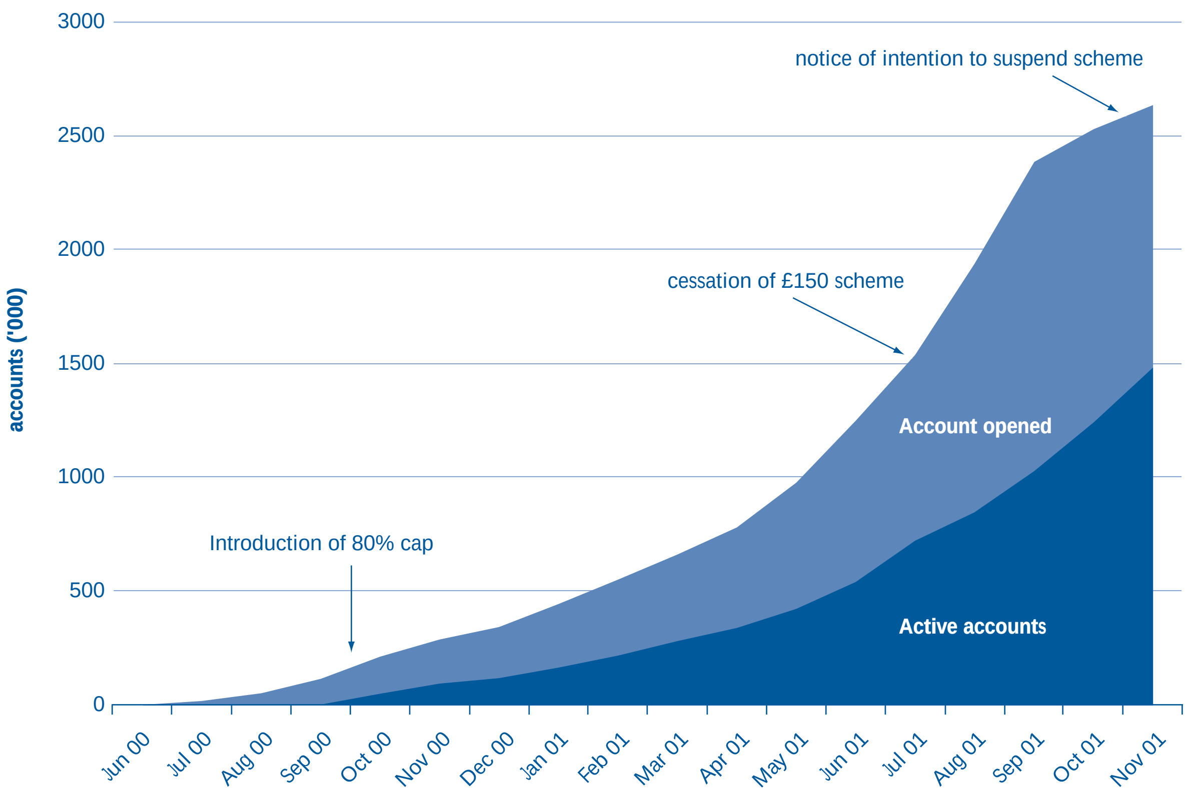
2.46 In May 2001, at the Department's request, Capita started analysing complaints for patterns in provider behaviour, rather than treating each in isolation. This analysis, as at July 2002 is shown in **Figure 15 overleaf**. Examples of some of the complaints we have seen are set out in **Case Studies 5 to 7**.

2.47 The Department wrote to all providers in May 2001 requiring them to return by 30 June a new Learning Provider Agreement which required them to inform prospective learners about the extent of their accreditation, amongst other requirements. The Department did not investigate immediately why about 5 per cent (some 485 concerns) did not return their agreements although subsequent analysis showed the majority were dormant providers. Eight had received over £100,000 through the scheme, and a further 19 had received over £20,000. Some 133 who failed to re-register had already received funding from the scheme. Two are still under investigation for potential fraud.

Anomalous patterns of activity

2.48 The Department suspended registration of new learning providers with effect from 28 September, pending the introduction of more rigorous background checks. There was anecdotal evidence that some of the providers subject to the largest numbers of complaints were those who had only recently been registered. Our analysis shows that of the 47 suspended providers, 25 had registered in March 2001 or later. Similarities in names of directors, addresses and postcodes led the Department to believe that some new providers were a risk to the system. There was also a risk that suspended

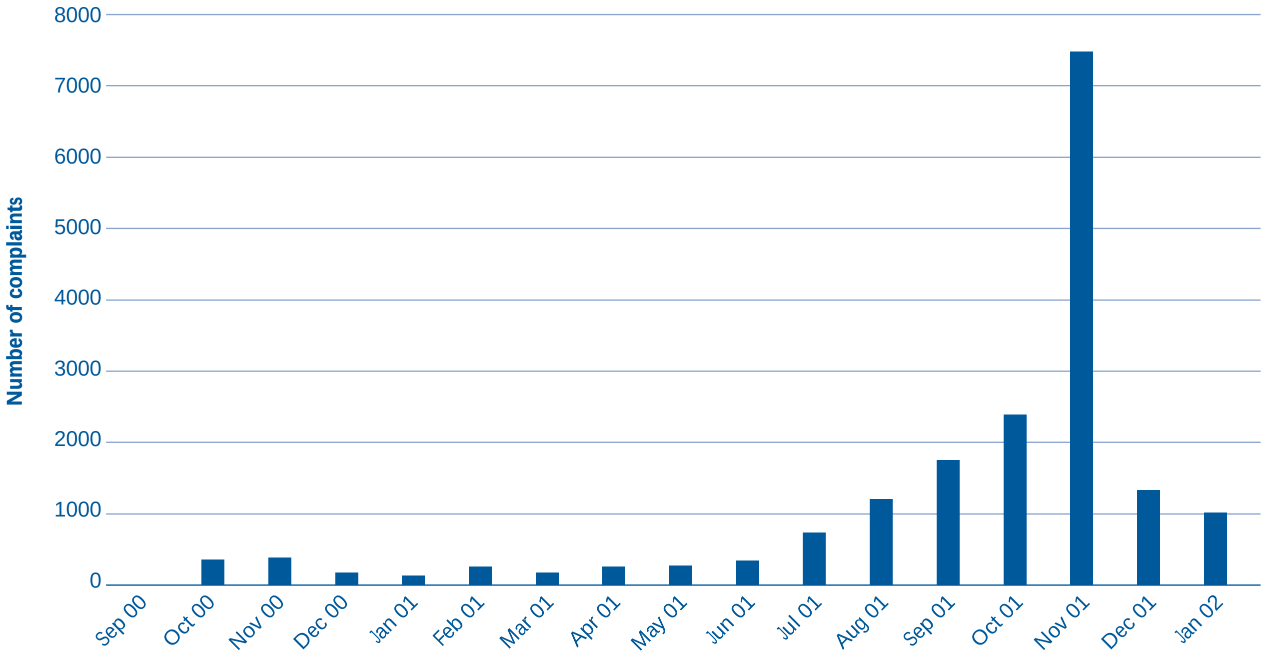
13 Cumulative number of accounts opened (England)



Source: Individual Learning Accounts Centre

14 Complaints received by month

Complaints grew dramatically throughout the summer when the Department decided to suspend the scheme. The total number of complaints received by November 2001, 15,928, represents about 0.6 per cent of account holders.



Source: Department for Education and Skills

15 Analysis of complaints received from learners

Category	Description	No. of cases*	%
Non-consent			
Misused accounts	Funding has been removed from the ILA without the account holder's consent and usually the account holder has no knowledge of the learning provider accessing the funds.	5,022	67
Non-compliance			
Free learning	Contribution not sought from the account holder e.g. on a course value £250 account holder should personally contribute £50.	450	6
No learning	Account holder authorises access to the ILA but subsequently received no learning.	1,049	14
Other	Cash or other incentives offered to enrol on course. Learning delivered is outside the specific list of eligible learning.	974	13
Other complaints under investigation with Special Investigations Unit or the police			
Inappropriate access to ILA database	Registered Learning Providers accessing account holder details on the ILA database and using this information to book learning and claim funds or selling such information to other providers.	1	-
Ghost learners	Fictitious account holders created often using a common address.	19	-

NOTE

* The breakdowns of the non-compliance total are estimates as enquiries are still being pursued.

Source: Department for Education and Skills

CASE EXAMPLE 5

Aggressive marketing

One distance learning provider mailed details of its training courses to several million addresses in the UK. The provider claimed falsely that the examining board City & Guilds had accredited the training, and that the courses would lead to recognised qualifications. Learners also complained of poor standard of materials. In practice the provider had completed only the first part of the accreditation process and was not entitled to claim that its courses were accredited. City & Guilds issued a press statement to that effect in May 2001 and in July 2001 the Department suspended the company from the scheme. It subsequently concluded that the suspension should be lifted because, technically, the company had not breached the rules. In total, the provider received £5.9 million under the ILA scheme.

providers were re-registering under different names, although this was very difficult to check. The Department is aware of at least two suspended providers who had links to other registered providers.

2.49 Capita kept logs of activity on the system, but did not have controls to prevent or detect unusual behaviour as it occurred. For example, from Capita's system it was possible to identify multiple accounts opened at any one address, but there were no controls in place preventing multiple registrations pending further enquiries. Such a control would have reduced the likelihood of fictitious accounts being opened. Capita told us that it had requested the Department to consider such a control as a matter of priority.

CASE EXAMPLE 6

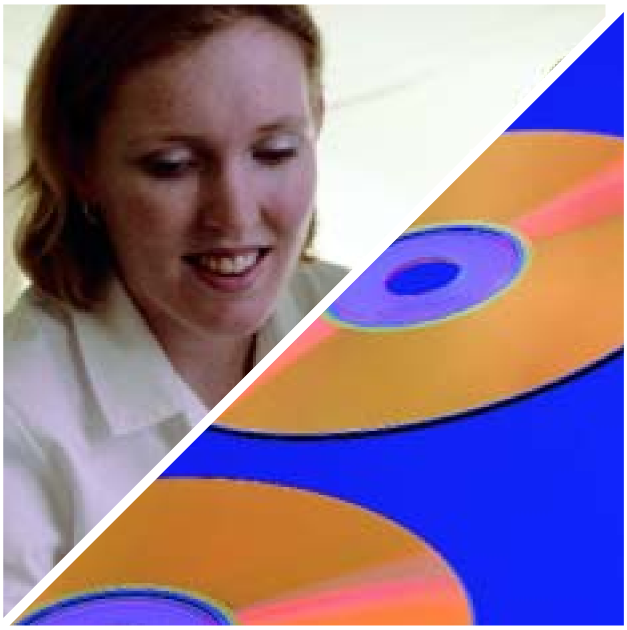
Aggressive marketing

A woman was approached in the street by an agent representing a learning provider. She was offered a free computing course which she was not interested in because she did not own a computer and had no plans to do so. She was persuaded to give her name and address so that the provider could send her more information. One week later she received an ILA membership card. When she rang the provider to ask why she had been sent the card, they told her that she must give them her account number or she would be charged £25. She gave her number, but said that she was not interested in the course. She subsequently received some books about computers in the post, and found that the provider had claimed a £200 incentive from her account.

Financial controls

2.50 Capita provided the Department with weekly information setting out providers' entitlement to payment. The Department was responsible for authorising payment. We found no evidence of monitoring of the number of accounts accessed by individual providers. The Department did not require any automatic checks to identify transactions above a certain value for additional authorisation.

2.51 Although Capita provided detailed management information on activity, there was no exception-based reporting which could have drawn attention to the spiralling claims of some providers. Our analysis shows that over 10,000 account holders registered learning with thirteen providers. Twenty providers had claimed over £1.5 million through the scheme; two had claimed £6 million (Figure 5 on page 16).



CASE EXAMPLE 7

Misleading advertising

A woman attending a hospital fund-raising event was approached by an agent acting for a learning provider. She was asked if she wanted to open an ILA, and told that if she did so, the hospital would receive a small donation. The woman already had an ILA, and asked the agent if this would prevent her from applying for another one. The agent told her to apply in any case to the ILA Centre in order to ensure that the hospital received its funds. She was also told that she would receive a promotional CD-ROM about the European Computer Driving Licence. She never received the CD-ROM, but later discovered that she had been enrolled on a European Computer Driving Licence course by a learning provider whose name she did not recognise.

Internal Audit

2.52 In line with Departmental procedures, Internal Audit was involved in the project board overseeing the development of the project and was instrumental in requesting a project health check (paragraph 2.13). In December 2000, the Department became concerned about the activities of two providers and Internal Audit carried out visits to them jointly with Special Investigations Unit to in February 2001. The findings were that although both had acted outside the spirit of the ILA scheme, neither had breached the rules of the programme. These providers remain under review by the Special Investigations Unit and the Department has carried out a large mailshot exercise to canvass learners for comments.

2.53 The Department, supported by Internal Audit, planned an overview audit of Capita systems in April 2001. This was intended to give a broad view of the robustness of payment and management information systems. However, the work was not progressed and was postponed until October 2001 because of the need to investigate complaints. The Department diverted resources to Special Investigations Unit to tackle serious abuses of the system by learning providers. Although an early systems audit would not necessarily have identified malpractice, it may have highlighted weaknesses in the controls before unscrupulous providers did.

Part 3

How well did the Department handle the suspension and wind-down of the scheme?

3.1 This part sets out the basis of the Department decision to announce withdrawal of the scheme in October 2001 and then, a month later in line with police advice, to close it with immediate effect. We also address action being taken against some providers, concerns about the impact of withdrawal and the Department's approach to designing a replacement scheme.

Decision to suspend the scheme

3.2 During the summer of 2001, the Department became increasingly aware of the likely overspends on the scheme (paragraphs 2.44-2.50) and the growing number of complaints about usage of ILAs. Between May and September expenditure had doubled to £180 million representing expansion of the scheme beyond all expectations. It also "raised further concerns about the way the programme had been promoted and sold particularly in the light of growing evidence that some companies were abusing the system offering low value, poor quality learning"[61].

3.3 The sharp increase in activity, together with anticipated overspends, forced the Department into considering options for controlling expenditure including reducing the level of the discount to a universal 20 per cent, or placing a lower financial cap on the size of the discount. It opted to withdraw the ILA scheme, pending development of a successor scheme that would build on the strengths of the old one but which would embrace better control over expenditure and better protection against abuse.

3.4 On 24 October 2001, having received legal advice that it should serve six weeks notice before making any major change, the Department announced the withdrawal of the scheme with effect on 7 December. The announcement led to another surge in the booking of learning and claiming of incentives on existing accounts. **(Figure 16)**. Total incentives claimed rose by 20 per cent between October and November.

16 Increase in activity in November 2001 compared to October 2001

Activity	Total as at October 2001	Total as at November 2001	Increase %
Number of accounts opened	2.53 million	2.62 million	4
Number of learning episodes[62] booked	1.27 million	1.53 million	20
Incentives claimed	£203.2 million	£243.8 million	20

Source: Department for Education and Skills

Early cancellation of the scheme

3.5 Early in October 2001, the publication "Education and Skills: Delivering results - a strategy for 2001-2006" mentioned expansion of the ILA scheme. Although some providers regarded suspension and closure so soon afterwards as an about-turn, the Department always intended that there would be a successor scheme. In letters to providers, telling them that there was no need to rush registrations because they had until 7 December, the Department made clear that it intended to stop malpractice. "This is not a signal for you to rush account holders into booking learning which may be inappropriate to their needs. We still expect you to comply fully with the Learning Provider Agreement and help individuals to choose the right learning that offers them quality and value for money. To ensure this we will be monitoring all learning booked between now and 7th December and will take immediate suspension action against any provider who we suspect is pressurising ILA holders to enrol for learning."

61 Memorandum by John Healey to Education and Skills Select Committee, HC561-I, Third Report of Session 2001-02.
62 Course, module or unit of learning.

3.6 On 21 November 2001, the Department received evidence from an ILA provider alleging that a third party had offered to sell the company a large number of ILA account numbers. It alleged that Capita's database had been improperly accessed. The Department's Special Investigations Unit interviewed the provider the next day and was given a computer disk containing the full names, addresses, contact details and account numbers, as they would have appeared on the ILA database. The accounts had either not been used or had only very recently been subject to claims.

3.7 The Department confirmed that the details supplied were valid accounts. In addition there were allegations of a large number of accounts potentially in circulation. The numbers of complaints about the scheme were also increasing. In line with Police advice, Ministers decided to close the scheme immediately, a fortnight earlier than had originally been announced, to protect public funds by mitigating the risk of accounts being drawn down fraudulently. Capita was instructed to suspend its operations later the same day.

3.8 Capita worked with the Department to determine how its database had been compromised, concluding that there was no evidence, as alleged, of involvement by any of its employees. It would appear that registered providers were trawling the database for unused accounts. A small number of providers had accessed the system repeatedly during the last days of the scheme, inappropriately using their legitimate access to it. There was evidence that the rate of claims for payment during the period was higher than ever before. Overall the number of account details retrieved increased the potential for fraudulent claims.

3.9 The Department estimated that if it did not close down the scheme immediately, the value of fraudulent claims could run into tens of millions. The Department did not know which or how many providers were taking advantage of the system, and considered that tens of millions of pounds could have been lost before it was clear which ones were involved.

Impact of closure of scheme

3.10 Cancellation of the scheme a fortnight earlier than expected entailed all payments due to providers, amounting to some £15 million, being frozen while the Department carried out manual checks on legitimacy of claims. The Department would not accept claims for any learning that had not been booked by 23 November 2001, but the number of applications for accounts had, as expected, surged in anticipation of closure of the scheme. Providers told us and the Education and Skills Select Committee that the Government had established an expectation that learning registered up to 7 December would be funded, and they felt misled. In practice, the Department resumed payments to providers on 21 December 2001 and 95 per cent of providers' claims had been met by June 2002.

3.11 As the Department, had no contractual relationship with providers, it was unable to determine the extent of any job losses and bankruptcies resulting from the closure of the scheme a fortnight earlier than the planned suspension. The Department has no plans to compensate providers - the scheme brought new business to providers who made commercial decisions for themselves about how long the scheme would operate.

3.12 In addition, an unknown number of learners have registered for an ILA but been unable to afford to undertake their courses without the support of the ILA incentive. Any learning registered and booked on the system by the 23 November and delivered by 22 May 2002, and validated by the Department, has been paid for.

3.13 The Department recognises that it will need to work hard to regain the confidence of some providers and to convince stakeholders that the successor scheme is not as exposed to fraud and will not be withdrawn at short notice.

Winding down the scheme

3.14 Following cancellation of the scheme in November 2001, the Department developed a risk-based approach to categorising providers, to determine how to take forward the investigations to validate claims and payments, and recover funds wherever possible. The aim was to balance how much investigation should be undertaken against the level of past and outstanding claims and risks indicated by the levels of complaints and supporting evidence against each provider. The Department's approach was to release payment to all providers as soon as possible with the exception of the following:

a) five providers using the system in a particular way, one of whom may have been involved in circulation of instructions on how to circumvent the system;

b) providers identified as having higher volumes of recorded compliance complaints, for example, ILAs being used without learners' consent;

c) providers against which the Department has gathered strong evidence of fraud; and

d) providers currently under investigation by the Special Investigation Unit and Police.

3.15 Since November 2001, the Department increased the resources allocated to investigating complaints about learning providers. As at 1 August 2002, the Compliance Unit was checking some 563 providers, who together have been paid £97 million. Some £7 million claimed has been withheld. In addition, the Special Investigations Unit has been investigating 133 providers, who have claimed a total of £67.6 million. Some 35 were still being examined, and one case has been closed following a successful prosecution. The other 98 have been passed to the police, two thirds of which concern misuse of accounts[63]. A fifth concern "ghost learners" and there is one case of inappropriate access to the ILA database. Ten different police forces are involved.

3.16 Each of the largest 20 providers (by number of account holders) currently has claims outstanding, ranging from £500,000 to £6 million. Ten providers are amongst those under investigation by the Special Investigations Unit. Nine have claims all or almost all in respect of the European Computer Driving Licence qualification[64], and together have received £21 million in incentives for these courses.

3.17 The Department is taking legal advice on civil actions to recover funding either in respect of fraud or practices which, while not criminal, are contrary to the Learning Provider Agreement which all ILA providers signed. The Department expects that it may take up to two years to complete its investigations.

3.18 As the Department discovers the methods used by providers to obtain public money improperly, it is identifying the specific weaknesses which made these activities possible **(Figure 17)**. The Department is committed to ensuring these weaknesses will be addressed in the successor scheme.

3.19 The Department is also planning further analysis of the companies against which it is taking forward formal investigations to identify any links with other companies previously involved with fraud and abuse and currently in receipt of public funds[65]. In addition, the Department is looking to improve liaison between itself and other departments and agencies to share information on concerns about providers and lessons learned from any investigations. Internal Audit is also working with those responsible for developing the successor scheme to ensure that lessons learned are addressed.

17 Weaknesses highlighted during Departmental investigations

- There was no verification of the values of the incentives being claimed and learners were not informed of the amounts (plans for annual statements of account were put on hold).
- Systematic generation of ILA numbers allowed providers to guess sequences of numbers with high probability of success.
- Few details were required of providers for registration purposes.
- Lack of standard procedures for processing complaints and a lack of resources has meant that few were quickly followed up, allowing unscrupulous providers to make many more claims before being suspended.
- Learning providers exploited learners' lack of understanding of the ILA system. This may have been prevented by, for example, the letter accompanying the ILA card clearly explaining the importance of keeping the account number secure.

Source: National Audit Office

Action against providers

3.20 As long ago as December 2000, the Department was made aware of at least one company marketing heavily, providing poor quality products and making false claims of accreditation for its products. Another provider was suspected of claiming the 80 per cent discount for ineligible courses. The Department, on legal advice, decided against criminal prosecution because the providers had been exploiting loopholes in the ILA system rather than committing outright fraud. Both cases are still subject to investigation by the Special Investigations Unit.

A successor scheme

3.21 The Department has agreed in principle, to work with Capita in developing arrangements for a successor scheme. The decision on whether to work with Capita as the delivery partner for the successor scheme is however subject to satisfactory progress and the outcome of negotiations with them. The Department will not finalise contractual terms with the partner, until it is satisfied that the risks involved in operating the new scheme have been minimised. The Department's conclusions so far on the lessons that need to be taken into account in developing the new one include:

- the system needs stronger quality assurance mechanisms to prevent unscrupulous providers benefiting from the scheme;

63 An account from which funding has been removed without the account holder's consent. Usually the account holder has no knowledge of the learning provider accessing the funds.

64 Basic level qualification on understanding and organising information on a computer, use of some software (word processing, spreadsheets, presentations and databases) and use of the Internet and email.

65 Government response to the Education Select Committee, June 2002.

- the Department needs better intelligence on unscrupulous providers;
- the Department should derive a full business model to test how abuse could occur;
- the risk log focussed too heavily on the risk of failing to meet the target of one million accounts by March 2002;
- stronger IT security arrangements is essential for a successor scheme;
- better management of public/private contracts is necessary for the successor programme.

3.22 The Department told the Education and Skills Select Committee that it is also considering how others can be involved. The Learning and Skills Council, for example has relevant experience in provider assurance.

Chronology

July 1997	Consultation document issued 'ILAs Making them Succeed'	
April 1998	ILAs Development Guide issued	
June 1999	Public consultations (4 in total)	
1998/99	Piloting of original delivery model via TECs (12 projects)	
9 March 1999	Announcement by Treasury of 20% and 80% scheme (no cap)	
25 August 1999	OJEC tendering exercise begins (deadline for receipt of applications is 1/10/99)	46 expressions of interest
1 October 1999	KPMG Market Feasibility Report - The development and launch of a National Framework is produced	
4 October 1999	Pre-Qualification Questionnaire and Briefing Documents issued	9 bidders: 6 are shortlisted
6 December 1999	Draft Invitation to Negotiate (ITN) the customer service contract is issued to shortlisted firms	
14 December 1999	Final model recommended to Secretary of State and deadline for submission of bids	One bid submitted
20 December 1999	Final ITN is issued	4 of shortlisted bidders withdraw
14 January 2000	Ministers informed of withdrawal of 4 of 6 bidders for contract	
January 2000	Agreement from Ministers that single bidder should be used, on advice from KPMG and the Department	
March 2000	Evaluation undertaken with KPMG	
March - April 2000	Oakleigh Consulting undertake a health check of process	
March 2000	Capita begin work on action plan	
April 2000	Department sent Capita a "letter of intent"	
From June 2000	National Framework rolled out. Individuals able to apply to become account holders. Providers able to register with ILA Centre	
2 June 2000	Contract between the Department and Capita signed	
June 2000	Agreement of Business Rules Handbook by Capita and the Department	
July 2000	Learning and Skills Act provides statutory framework	
4 August 2000	ILA Regulations laid before Parliament	

18 August 2000	General progress report to the Department's Board Members
September 2000	Launch of ILA National Framework and ILA becomes operational with target of 1 million £150 account holders by March 2002 and introduction of two other incentives (80% and 20% discounts) for account holders
1 October 2000	Cap of £200 on support for any individual account holder was introduced (announced in August 2000)
7 November 2000	Contract with Capita amended to include the Scottish Executive and Northern Ireland Department for Education and Learning
December 2000	ILA Team approached Internal Audit re concerns about some learning providers and consequent inspection visits
January 2001	Five Community ILA pilot schemes established in 6 locations to promote ILAs within the local community
February 2001	Joint inspection visit by Department's Special Investigation Unit to two providers
March 2001	Post implementation review by Oakleigh Consulting
March - May 2001	York Consulting/MORI "Evaluation of Individual Learning Accounts: Early Views of Customers and Providers in England" DfES Research Report RR294, published September 2001
2 May 2001	Objective of 1 million account holders is reached
13 July 2001	£150 incentives end
By 31 August 2001	4,300 complaints received about mis-selling, aggressive marketing, poor quality and alleged fraud Compliance Steering Group formed
From 30 June 2001	Learning providers required to sign and return ILA Learning Provider Agreement
15 August 2001	"Choose Your Learning" leaflet issued to all ILA account holders
15 August 2001	Compliance letter sent to all learning providers
20 August- 10 September 2001	York Consulting "Individual Learning Accounts: Follow-Up Study" DfES Research Report RBX 01-02 published in January 2002
24 September 2001	Joint Department and Capita Compliance Unit becomes operational
28 September 2001	Department suspended registration of new providers and introduced requirement that all ILA applications be made via the ILA centre
By 31 October 2001	Complaints had reached nearly 8,500 and expenditure on the programme was nearly £227 million
24 October 2001	Secretary of State announced decision to suspend the scheme from 7 December (decision made on 18 October). Registered providers and account holders informed individually in writing and via web/media advertising
25 October 2001	Secretary of State announced plans to develop an ILA-style successor programme

21 November 2001	Department informed by ILA learning provider of approach by 3rd party with a view to sell ILA account numbers. Interview with provider took place on 22 November
23 November 2001	Ministers made decision to close the ILA programme in England with immediate effect
23 November 2001	ILA programme closed in Northern Ireland
November 2001	SQW/NOP Evaluation of ILA Community Projects, reported June 2002
20 December 2001	ILA programme closed in Scotland
21 December 2001	New applications for ILAs were suspended in Wales
December 2001-present	Two projects set up to carry forward - wind-down of ILA programme, including ongoing investigations and - development of successor programme
By 31 January 2002	Nearly 18,300 complaints received Programme overspent by £66.7m
January-March 2002	SQW/NOP "Individual Learning Accounts: A Consultation Exercise on a New ILA Style Scheme" DfES Research Report 339, published April 2002
May 2002	Capita survey (requested by the Department) of 600 learners who had used their accounts since August 2001. Reported June 2002

NOTE

1 The Department held regular Project Management Board meetings with Capita.

2 The Department received monthly, quarterly and annual service reports from Capita.

SOURCES:

- Memorandum by John Healey, Minister for Adult Skills, to Education and Skills Select Committee, 22/2/02
- Synopsis of Lessons Learned Review of the Development, Introduction and Operation of Individual Learning Accounts: Special Audit Review by Internal Audit, published as Sub-Appendix B, Education and Skills Committee Third Special Report, Session 2001-02, HC987

Appendix 1 Methodolgy

The methodology for the study included:

- review of the Department files and meetings with key staff including representatives from Internal Audit and the Special Investigations Unit;
- analysis of management information, and meetings with staff, Capita and consultants employed by the Department;
- review of evidence to the Education and Skills Select Committee and the Committee's subsequent report[66] ;
- Department's response to the Education and Skills Select Committee's report;
- review of the results of the Department's consultation on a successor scheme; and
- discussions with other interested parties, including:
  - Learning and Skills Council;
  - the Parliamentary Commissioner for Administration (the Ombudsman);
  - National Institute of Adult Continuing Education;
  - Henley Community Online;
  - representatives from the media/press who have run articles about the scheme;
  - various individuals and providers who have written to us.

66 HC 561, Third Report, Session 2001-02

Appendix 2

Relevant previous conclusions and recommendations by the National Audit Office and the Committee of Public Accounts

Reports by the National Audit Office

Investigation of alleged irregularities at Halton College (HC 357, 1998-99)

Investigation of various irregularities at Halton College which took a leading role in the development of work-based training, much of it through franchising. The college had overclaimed £6.4 million mainly from reclassification of franchised provision as direct provision for which it could claim higher funding. In response, the Further Education Funding Council announced that all external audit of student number records would be undertaken by the Council or its contractors.

The Implementation of the National Probation Service Information Systems Strategy (HC401, 2000-01)

With the National Probation Service Information system poor specification of expected outputs, weaknesses in service monitoring and inadequate control by the Home office contributed to the higher than expected cost of the programme.

The Cancellation of the Benefits Payment Card (HC 857,1999-2000)

The result of skimping at the start by allowing inadequate time for specifying the requirement and piloting was delay and wasted money on the Benefits Payment Card Project.

Lessons learned included:

Risk management

- For all projects, purchasers should maintain from the start an assessment of inherent risks …and analyse before singing contracts the sensitivity of the business cases to major slippage and cost overrun.
- Risks identified should be registered, assessed for impact and probability, assigned to a risk manager and used as a basis for subsequent management and contingency planning.
- Departments should appoint a permanent "risk scrutineer" independent of the project team and ad hoc input from consultants, to monitor how the project is handling risks and to report to senior management at regular intervals.
- Contracts with suppliers require detail and clarity about reporting obligations of suppliers to support risk management and contingency planning. Contractual obligations must be underpinned by a recognition on all sides of the need for openness, extending beyond oral reporting to sharing their risk management documentation.
- Some risks such as the delivery of benefits payments…, are too great for private sector suppliers to absorb and department therefore must retain a direct interest and involvement in how the service is to be delivered.
- It is vital that all bidders… are clear about the extent of risk transfer… Purchasers must ensure that the extent of risk transfer they propose is viable…

Procurement of complex information technology systems

- There is often understandable pressure on purchaser and potential suppliers to conclude a deal and to seize, as soon as possible, the benefits of the project. …. Allowing realistic timescales for early planning and detailed specification will pay dividends in terms of overall project delivery and cost.
- Departments undertaking IT procurement projects should fully understand the quality and quantity of resources available which actually will be committed by the supplier to deliver the agreed services. This is particularly important where new software is required. It should be agreed during the competitive process how resource requirements can be achieved and measured and the agreement should be drafted into the contract.
- For major, mission-critical, tailored and bespoke projects there should be proper piloting of technical solutions to address the full service requirement, rather than reliance on part-functional demonstrations.
- There must be agreement between purchasers and suppliers at the outset of information technology projects on the extent to which new systems will either replicate the purchasers' existing systems or re-engineer and simplify them.
- Building bespoke systems adds to the development costs and the longer-term vulnerability of any solution.
- Where there are major project developments which involve more than one system being developed in parallel, it is sensible to plan and monitor these jointly.

Better public services through e-government (HC 704, 2001-2002)

A range of skills is needed to make an IT project a success - business development skills to ensure the opportunities are identified and benefits, costs and risks are assessed; technical support when the system is in operation; and project and change management to implement IT and make it work.

Non-Competitive Procurement in the Ministry of Defence (HC 290, Session 2001-02, November 2001)

Risk registers for non-competitive contracts should include an assessment of the additional risks due to their non-competitive nature. Timescales for negotiating non-competitive prices should be realistic, and departments should ensure that they have visibility of how the contractor manages its sub-contracts.

Public Private Partnerships: Airwave (HC 730, 2001-02, April 2002)

Continuing with a single bidder offered the least risk of delay. Lessons learned included:

Should-cost models

- Decisions on whether to go ahead with a single bidder must take full account of whether it will be possible to gain adequate assurance of good value. The use of a should-cost model should be followed when faced by a single bidder situation. It is essential to get the full co-operation of the bidder and to allocate adequate resources to analyse and interpret what will be complex calculations.
- Examination of the public sector comparator showed its use was limited by a number of factors. The public sector comparator helped with the assessment of value for money but added nothing to whether the private sector proposal was the most appropriate procurement route.

Reports by the Committee of Public Accounts

Investigation of alleged irregularities at Halton College - July 1999 (37th report 1998-99, HC413)

PAC concern	PAC recommendation	Treasury Minute response
Failure of auditors to carry out sufficiently detailed audit of the Student Number returns.	We note the concerns of the Department, the Funding Council and the College about the performance of the College's internal and external auditors, Deloitte & Touche. We note that the governing body has decided not to take legal action against the auditors in respect of shortcomings in their audit work because their legal advice is that any such action would be complex and costly, and might not succeed. The Board decided that it would not be a prudent use of public funds to risk large amounts of public money, initially £150,000 plus VAT, against the prospect of small financial rewards.	The Committee will wish to be aware that since publication of its report, the College's internal and external auditors have resigned. From 1 August 2000 the Funding Council has made it a requirement that colleges may no longer use the same auditors for both internal and external audit. The Funding Council's audit service will continue to review the performance of all college internal auditors. Where it falls below the standards expected, reports will be made to the college's principal and its audit committee together with recommendations for improvement. The Department and the Funding Council have agreed to transfer responsibility for the external audit of student numbers from colleges to the Funding Council. Arrangements for pilots will be put in place by the Funding Council by the end of 1999. In Spring 2000 the pilots will be extended to cover an entire region. In addition, from January 2000 the Funding Council is to set up regional audit forums for colleges and their auditors to share experience, good practice and to raise further awareness and standards.
Effectiveness of audit.	We strongly support the positive response of the Department to the problems uncovered at Halton and at Bilston Community College on which the Funding Council has recently published a highly critical report. The newly announced package of improvements to governance and audit arrangements should go some way towards preventing further cases and re-establishing the credibility of the sector.	The Department and the Funding Council remain committed to tackling the problems highlighted by the Committee. ...The Funding Council will monitor the new measures closely to gauge their effectiveness and arrangements will be in place by January 2000.

Investigation of alleged irregularities at Halton College - July 1999 (37th report 1998-99, HC413) continued

PAC concern	PAC recommendation	Treasury Minute response
Reclassification of franchised provision as direct provision, and extent to which other colleges may have overclaimed for the same reasons as Halton.	We note the steps taken by the Funding Council to identify those colleges with similar features to Halton, who might therefore also be overclaiming public funds. We urge the Council to complete its investigations as soon as possible, and to let us know the outcome.	The Funding Council accepts the conclusion and recognises the importance of concluding quickly its investigations into the colleges identified as having similar characteristics to Halton College. Council staff are reviewing the evidence gathered from each investigation with the colleges concerned and the Committee will be informed of the outcome by January 2000. The parallel investigation of the reclassification of franchising is almost complete and the Council will provide a report to the Committee by the end of November 1999.
Concern about the scale of unjustified claims for funding and how they could have evaded the financial controls in place.	We welcome the steps taken by the Funding Council to strengthen the audit of grant claims, and to separate responsibility for internal and external audit. However, we are concerned by the Funding Council's conclusion that internal audit could not be relied on in about a fifth of colleges. We look to them to ensure that internal audit arrangements throughout the sector are rigorous and reliable.	The Funding Council accepts the Committee's concern about the standard of internal audit work being performed at some colleges. Where a conclusion of non-compliance is reached, the Funding Council's audit service will undertake a follow-up visit. The Funding Council's audit service is also advising colleges when they re-tender for their external audit provider, and provides a commentary on the shortlist.

Improving the delivery of IT projects - January 2000 (First Report 1999-2000, HC 65 1999-2000)

PAC concern	PAC recommendation	Treasury Minute response
Senior management has a crucial role to play in championing the successful development of IT systems.	Key decisions on IT systems are business decisions not technical ones and should involve senior management.	Integrating business issues into consideration of IT projects and the role of senior managers and ministers are both issues that must be addressed if the handling of IT projects is to be improved.
The development of high quality project management skills within Government is essential.	The management and oversight of IT projects by skilled project managers is essential for ensuring that projects are delivered to time and budget. The successful implementation of IT systems calls for well conceived risk management and sound project management methodologies.	Large projects need to be managed by people with experience, but government must avoid achieving this at the expense of making IT project knowledge a narrow specialism, with other officials lacking any ability in the field. In addition, good management demands a continuity of key personnel throughout a project, to ensure that knowledge is not lost.

Improving the delivery of IT projects - January 2000 (First Report 1999-2000, HC 65 1999-2000) continued

PAC concern	PAC recommendation	Treasury Minute response
Projects are conceived and grow from identified business needs. However, what seems to be a clear objective at the beginning can easily become blurred and confused as events progress. In the end the product which is delivered might not be what was expected and this may result in significant wasted investment.	The end users must be identified before the project commences so that the needs are taken into account fully during design and development.	Maintaining a focus on business needs is vital to setting clear and consistent objectives for a project. In some past projects suppliers have failed to understand the nature of business needs, and managers have assumed that introduction of new IT will in itself produce effective new ways of working. A true understanding of such needs necessitates close consideration of the role of users by all parties.
The scale and complexity of projects is a major influence on success or failure.	Department should consider carefully whether projects are too ambitious to be undertaken in one go particularly if the project connects with the business operations of other parties, or depends on the development of IT undertaken by other parties.	Projects requiring connections with IT or business developments in other organisations pose particular risks and difficulties. It is particularly important that accountability and control for all those involved is clearly defined at successive stages for projects of this type.
As well as wasting enormous sums of public money, failures in IT can have disabling impacts on public services and on citizens.	Departments should have contingency plans to maintain adequate levels of service in the event of project failures.	Most projects do have contingency plans, it is when those plans are insufficient to cope with the speed or scale of deterioration in performance that can result from problems with an IT system that public services suffer.
With large sums of public money at stake, any lack of clarity, or debatable interpretation in a contract can lead to expensive misunderstandings that might have to be resolved in the courts.	There is a need for a high degree of professionalism in the definition, negotiation and management of IT contracts given the large sums of money at stake.	The CITU team is looking at ways to improve the way procurements are managed, so as to ensure that pressures to reach a deal quickly do not result in unclear or unsuitable contracts.
It is essential that organisations learn lesson from the projects undertaken. Such reviews can sometimes be seen as an unnecessary cost, but in view of the importance of not repeating past mistakes, resources are well spent in this way.	Organisations should learn lessons from the projects and undertake post-implementation reviews to establish whether the project met its business objectives, user expectations and technical requirements and secure the benefits anticipated.	It is essential that lessons from projects, both positive and negative, should be learned and applied.

Improving the delivery of IT projects - January 2000 (First Report 1999-2000, HC 65 1999-2000) continued

PAC concern	PAC recommendation	Treasury Minute response
The project had special features that added to its risks. While various parties identified many of the risks at various stages, they underestimated the difficulty of attempting to tackle a huge and complex project.	Successful delivery of innovative and complex projects involves risks that need to be identified and managed.	The approach to risk management was a weakness in the delivery of the Benefit Card Project. DWP has now put in place a robust risk management process which is applied to all projects and is also jointly used by the main IT supplier.
The various parties identified many of the risks at various stages, but did not always share this information.	Risks identified should be registered, assessed for impact and probability, assigned to a risk manager and used as a basis for subsequent management and contingency planning. Closed risks should be retained in a closed risk register and reviewed at regular intervals for "re-incarnation". Risk identification must be an ongoing activity, as new risks will occur throughout projects.	The need for adequate risk and sensitivity analysis is recognised as part of the guidance published by the Office of Government Commerce.
It took 18 months from the point where the Department took steps to preserve its right to cancel the project, to take the decision and do so. Meanwhile abortive costs were rising and development of alternative arrangements was stalled.	When projects go wrong, management should face up to the prospect of failure and take prompt decisions to avoid abortive costs.	The Department has now adopted the Office of Government Commerce's "gated review" process, which provides early and regular opportunity to check on the progress of all major projects and procurements and take remedial action.

Non-competitive procurement in the Ministry of Defence (Twenty-ninth report, HC370 , Session 2001-02

PAC concern	PAC recommendation	Treasury Minute response
The Department has only ever terminated two "No Acceptable Price No Contract" negotiations, out of 1,850 such contracts placed.	In future the Department should distinguish the need to agree a price at the outset from the need to agree an acceptable price. It should be prepared to revisit the original procurement strategy and requirement if an acceptable price cannot be agreed within a reasonable timescale.	-
Concerns over the timely introduction of new capabilities - in the absence of competitive pressures, contract negotiations may take longer to agree an 'acceptable' price.	In our reports on major projects we have. Recognising this possibility, the Department, in preparing its procurement strategy, should check that the process of negotiation is started early enough to ensure timely delivery of the equipment.	-
Need to promote more co-operation with suppliers, leading to achievement of better value for money.	The Department and the Office for Government Commerce should review the lessons to be learned from its growing experience of partnering and consider the scope for its wider application both within the Department and across Government.	-
Use of risk registers compiled jointly with industry as an aid to pricing contracts.	The Department should act on the Chief of Defence Procurement's statement that they should now be used on all contracts over £1million.	-

Appendix 3 Key data (England)

Month	Accounts opened (cumulative)	Complaints received (in month)	Complaints received (cumulative)	Percentage complaints (cumulative)	No of Learning providers	Expenditure (cumulative)[1]	Active Accounts (cumulative)
Sep 2000	109,564	-	5	-	2,241	5,949,672	14,429
Oct 2000	214,880	360	365	0.16	2,939	12,231,396	51,204
Nov 2000	292,641	379	744	0.25	3,500	33,068,858	96,184
Dec 2000	347,175	168	930	0.26	3,876	40,136,718	119,931
Jan 2001	446,724	136	1,066	0.23	4,322	45,729,618	165,507
Feb 2001	556,928	254	1,320	0.23	4,781	54,107,629	218,643
Mar 2001	661,558	172	1,492	0.22	5,383	65,695,333	281,461
Apr 2001	781,572	256	1,748	0.22	5,785	76,691,231	339,946
May 2001	988,539	271	2,019	0.20	6,321	90,169,229	425,239
Jun 2001	1,276,275	346	2,365	0.18	6,935	104,711,045	542,161
Jul 2001	1,578,014	731	3,096	0.19	7,449	127,851,914	723,779
Aug 2001	1,941,468	1,208	4,304	0.22	8,053	152,815,448	848,257
Sep 2001	2,386,238	1,749	6,053	0.25	8,471	180,015,080	1,028,557
Oct 2001	2,529,609	2,395	8,448	0.33	8,850	226,841,152	1,243,141
Nov 2001	2,620,645	7,480	15,928	0.61	8,910	260,888,560	1,483,624
Dec 2001	2,620,645	1,335	17,263[2]	0.66	8,910	264,974,254	
Jan 2002	2,620,645	1,015	18,278[3]	0.70	8,910	268,835,094	

NOTES

1. Expenditure refers to total ILA programme payments - the majority represents payments to learning providers but also included are Capita contract payments, development pilots and other related programme costs.
2. Cumulative complaints figure includes some 5,900 logged complaints received by telephone and in writing from individuals who state money has been taken from their account without their knowledge or consent.
3. As above.

Source: Department for Education and Skills

Appendix 4 Learning valid under the different discount schemes

80% discount

Certificate of Achievement in Information Technology (OCR)

Pitman qualifications - Practical Word Processing

GNVQ Foundation part 1 in ICT

GCSEs in IT/CT

GCSEs and Key Skills 1 in Mathematics

CLAIT - All modules at level 1

City and Guilds 7261 Information Technology - Level 1 modules 300-310, 400-411 and 700

City and Guilds 4242 ICT Basics

OCR Internet Technologies Level 1

BTEC IT desktop skills - Foundation

GNVQ Intermediate IT (OCR, EdExcel, AQA) and GNVQ part 1 IT

GCSE and Key Skills 2 Mathematics

LCCIEB Practical Computing 1st Level

LCCIEB Practical Word Processing - 1st Level

Pitman qualifications - Word Processing Techniques - Essential Level

NCFE certificate in telematics - basic level

NVQ Level 1 Using Information Technology

NOCN units at entry level and level 1 in ICT applications

European Computer Driving Licence

City and Guilds 7261 Information Technology - Level 2 modules 320 - 336, 420-427 and 720

Cambridge Information Technology Certificate

Keyskill in IT level 2 (OCR, EdExcel, City & Guilds)

NVQ Level 2 Using Information Technology

"Individuals do not have to achieve qualifications....but the course must be aimed at preparing them for assessment for the qualification..;

Discount cannot be applied to learning already paid for through publicly funded grants or scholarships; discounts are not payable against course fees paid for by a third party such as an employer"

20% discount

"The 20% discount is available on a wide range of learning which, for example, enhances the learners' employability or increases their vocational skills. The learning need not necessarily lead to the learner achieving qualifications. There are specific **exclusions** for the 20% discount and these are **centred on recreational and sporting activities and other activities where the outcome is in pursuit of leisure rather than learning as shown below**:

- Learning already paid for entirely through publicly funded grants or scholarships
- Learning which is a statutory requirement for the individual's particular employment
- Courses given as a reward or inducement by an employer
- Full-time courses provided by a school
- All higher education courses (including HNCs, HNDs and Diplomas of HE, excluding NVQ levels 4 and 5)
- Professional qualifications
- Flying lessons (fixed wing, rotary, and paragliding)
- Diving lessons (excluding certain professional level courses approved by PADI)
- Skiing lessons
- Outward bound type courses
- Sporting activities
- Other activities where the outcome is in pursuit of leisure rather than learning which, for example, increases employability or vocational skills
- Driving lessons (excluding lessons to gain a driving skill in addition to ordinary class driving licence, HGV, LGV, fork lift truck driving, but only where not paid for by the employer)"

Source: ILA Business Rules Handbook

Appendix 5 The contract with Capita

1 This Appendix of the report outlines the roles and responsibilities of the Department and Capita under the contract between them.

The contract between the Department and Capita

The contract between the Department and Capita, was valued at £55 million. It contained provision for payment elements for:

- staged set-up costs at the start of the contract;
- learning accounts that were opened;
- the receipt of training supported by the accounts; and
- any adjustments for benefit sharing and for shortfalls in performance.

Roles and responsibilities

2 Under the contract Capita's role was to:

- handle learning provider registration applications via a call centre based in Coventry. Capita agreed call centre service targets with the Department;
- process account holder applications and issue unique account numbers to individuals. The administration centre was based in Darlington;
- provide information for the Department setting out providers' entitlement to payment. The Department was responsible for checking the information prior to authorising payment;
- ensure that incentives were only payable in respect of learning which qualified for support;
- establish procedures whereby providers could access the system to register account holder applications for learning and confirm commencement date which would then feed into their claims for payment. In order to gain access, providers needed to input a User ID and password;
- ensure that data, programs and documents under its control were secure and in line with Data Protection Act requirements.
- maintain information about learning undertaken and incentives claimed for each account holder, and to produce annual statements on the anniversary of individuals' opening of accounts (NB development of statements was overtaken by closure of the scheme);
- provide management information for the Department, on a monthly, quarterly and annual basis. Monthly information was to include levels of activity, service levels and telephone response times by the call centre, volumes of accounts opened and learning episodes for which claims were made and complaints. Capita was expected to monitor its own performance and to attend monthly meetings with the Department;
- receive, monitor, report on and resolve complaints and appeals.