

BRIEF FOR COMMITTEE OF PUBLIC ACCOUNTS

The Customer First Programme: Delivery of student finance

27 July 2010

Subject of the hearing

- 1 This hearing focuses on the serious problems experienced by the Student Loans Company (the Company) during 2009 in delivering student finance, primarily to new students starting their studies in the 2009-10 academic year. Less than half of the applications were fully processed in time for the start of term, and students had great difficulty contacting the Company.
- 2 Students from England who study full time in higher education in the United Kingdom may be entitled to grants and subsidised loans to cover the costs of studying. The Customer First Programme aimed to centralise and modernise delivery of student finance in England. Its main aims are to improve customer service (through faster processing and greater consistency); achieve financial savings; and improve governance. Phased over three years, it transfers responsibility from local authorities to the Student Loans Company. In 2009, the first year of implementation, the Company became responsible for assessing all first year students, and by 2011 will process all applications from students in England.
- 3 In 2008-09, grants and loans totalling £5.4 billion were paid out by the Student Loans Company (the Company), which is a non-departmental public body chiefly funded by, and accountable to, the Department for Business, Innovation and Skills (the Department). The service run by the Company for students in England is known as Student Finance England.
- 4 In September 2009, the media reported widespread concern over the delivery of funding for English students for the academic year 2009-10. Common complaints were that applicants could not get through to the Company, and others had received letters asking them for documentation they had previously supplied. In response, the Minister of State for Higher Education and the Company's Chairman asked Professor Sir Deian Hopkin to undertake a review of the service. The report of the Hopkin Review (December 2009) focused on customer experience and was highly critical of the Company's performance, reporting that there had been far reaching impacts on applicants and stakeholders. Given its slightly longer timeframe, the NAO study was able to go beyond the Hopkin Review, particularly in its quantitative analysis.

The scope of the NAO's report

- 5 The NAO's report looks at the implementation of the Programme in its first year. In particular, it assesses:
 - the Company's performance in processing students' applications for finance;
 - first-year students' experience of the Company;
 - the value for money of the Programme to date; and
 - the Department's oversight of the Company and of the ongoing risks to the Programme.

Headline findings

6 The NAO's report concluded that the Student Finance England service did not achieve value for money in 2009 because of the unacceptable level of service.

- Major problems in processing meant that the Company took 33 per cent longer to process applications than local authorities did in 2008. Only 46 per cent of new applications were fully processed by the start of term and some students may have been deterred from starting or continuing in higher education.
- Those most in need of support, for example, applicants eligible for Disabled Students' Allowances experienced some of the worst service.
- Students experienced great difficulty contacting the Company. In the period February 2009 to January 2010, only 44 per cent of calls were answered on average and in September 2009 this fell to 13 per cent.

7 Oversight and governance of the Programme and the service has been ineffective. The Department and the Company's Board underestimated programme risks, lacked sight of mounting problems, and failed to act swiftly or effectively.

8 A radical improvement in the Company's performance is needed in 2010 to restore confidence in the student finance system and deliver a satisfactory service. Although the Company now has the benefit of a year's experience, it expects to process at least twice as many applications in 2010 as it will be responsible for applications from both first and second years; and the number of students applying to university has risen.

The PricewaterhouseCoopers' health check review

9 In response to a recommendation in the NAO report, the Minister for Higher Education commissioned a report by PricewaterhouseCoopers (PwC) to assess the Company's preparedness to process this year's application. PwC's report was published in April 2010, and found that while the Company had made good progress in a number of areas, and the scanning technology had been tested and was operational, there were a number of serious concerns:

- the contact centre needed 100 more staff to meet call targets during the contact peak;
- there was limited flexibility to increase processing if required;
- there were weaknesses in management information and reporting;
- the Company had failed to rebuild relationships with stakeholders; and
- the Company's Executive Team could not give the leadership and direction required.

10 PwC reported a "surprising lack of focus and urgency" in addressing the recommendations from the Hopkin Review. It stated that its immediate recommendations had to be fully completed by the end of May to improve the chance of success in processing this year's applications.

Wider lessons for Government

11 The inability of the Department to identify serious problems and to intervene effectively highlights a weakness in its oversight of devolved services. The Committee noted in the past year similar issues in the Department's oversight of both Train to Gain and the further education capital programme. As in those cases, the NAO's report highlights the Department's lack of skills and experience; poor management information, and unwillingness to challenge service providers.

12 The Department had been aware of particular risks in using the Company but selected it primarily because it was already involved with the service provided by local authorities. It managed the IT used to process applications, made payments to students, and answered general calls. The Department had considered tendering the work to the private sector, but decided this would carry higher risks such as a contractor failing to deliver the required service if its performance targets were not well-designed. The Department did not fully appreciate how these generic risks still applied to managing delivery through an arm's length public body.

Objectives of the hearing

13 The Committee might explore how the Department and the Company could improve their performance in the following areas:

- Faster processing of applications;
- Better communications with applicants;
- More effective management of the Programme;
- Resolving systemic issues.

Note on witnesses

14 The witnesses are:

| | |
|------------------------|--|
| Simon Fraser | Permanent Secretary of the Department for Business, Innovation and Skills |
| Michael Hipkins | Director, Financial Support for Learners, Department for Business, Innovation and Skills |
| Ed Lester | Interim Chief Executive, Student Loans Company (since 28 May 2010) |

NAO contact

15 Should you have any questions about this report or would like to arrange an informal briefing, please contact Janice Lawler, the study Director on 020 7798 7248 / janice.lawler@nao.gsi.gov.uk, or Rob Prideaux, Director of Parliamentary Relations on 020 7798 7744 / rob.prideaux@nao.gsi.gov.uk

Proposed lines of questioning

16 The remainder of this brief and the questions we propose are structured as follows:

| | | |
|-----------------------------|-------------------|--------------|
| Performance | Questions 1 – 8 | Pages 5 – 6 |
| The student experience | Questions 9 – 14 | Pages 7– 8 |
| Management of the Programme | Questions 15 – 20 | Pages 9 – 10 |
| Systemic issues | Questions 21 – 27 | Page 11 – 12 |

1. Performance

The Company was slow to process applications and by the start of term only 46 per cent of applications had been fully processed. Targets were set for only part of the process. Students entitled to allowances for particular needs such as Disabled Students' Allowances received especially poor service; and management information was weakest in this area.

Key facts

- By the start of term (September/October), 385,200 new applications had been received, but only 176,000 (46 percent) had been fully processed. A further 76,300 had received a provisional or interim payment – meaning that their award could be adjusted
- The average time to process applications increased by one third (three weeks) over the performance of local authorities the previous year
- By the end of January 2010, 77 percent of applications had been fully processed and paid
- There were serious weaknesses in the Company's target for processing applications: it did not cover the whole process but related only to an initial decision – which most commonly was a request for further information from the applicant
- The Company was very slow to pay students applying for the Disabled Students' Allowance: it took 20 weeks to pay a claim, for which there were only 14 people processing applications until August 2009. Only 4,000 out of 17,000 applicants received their Allowance by the end of December.
- The Company had no management information covering its performance in processing other allowances for applicants with particular needs.
- Some students may be more likely to drop out as a result of their experience with the Company

Lead question

- * 1 (To Simon Fraser) In 2009, the Company managed to process less than half of the new applications for student finance in time for the start of term. Why did the Company deliver such a poor service (paragraph 5, page 5)?**
- * • (To Simon Fraser) Could the same thing happen again this year (paragraph 17, page 9)?**

Other possible questions

- * 2 (To Ed Lester) By the end of January 2010 you had fully processed and paid 77 per cent of applications. When did you complete work on the remaining applications (paragraph 2.16, page 20)?
 - In some 5,600 cases, applications had been made in time for your deadlines of April and June 2009, but had still not been paid by mid-November. When did you finally pay everyone who had applied before your deadlines? (paragraph 3.11, page 31)?
- * 3 (To Ed Lester) What was the point of measuring applications that were partly processed and not those that had been fully processed? This was misleading, wasn't it (paragraph 7, page 5)?
- * 4 (To Ed Lester) Last year you relied heavily on provisional and interim payments to get some money to students by the start of term. Are you expecting to do the same this year (paragraphs 2.13 - 2.14, page 20)?
- 5 (To Simon Fraser) The NAO survey suggests that the poor service from the Company could result in more students dropping out. Do you and the Company fully understand the impact of your failings on students (paragraph 2.27, page 26)?
- * 6 (To Ed Lester) The Company's service for applicants for Disabled Students' Allowances was terrible, with only 4,000 of the 17,000 applicants (less than a quarter) having received payment by the end of December. Did you give these people a low priority (paragraph 8, page 6)?
 - (To Ed Lester) When did you fully clear the backlog of applications for Disabled Students' Allowances (paragraph 8, page 6)?
- 7 (To Ed Lester) Why did you have only 14 people processing these applications in July, when it was less than two months before the start of term (paragraph 2.21, page 25)?
- * 8 (To Ed Lester) Why didn't you collect management information on your performance in processing important allowances such as Childcare Grant and Parents' Learning Allowances (paragraph 2.22, page 25)?

2. The student experience

The experience of students was poor – particularly for those trying to telephone the Company. A large number of calls could have been avoided if the Company had provided clearer information to applicants.

Key facts

- The Company fell substantially short of its target of answering 55 per cent of calls within 60 seconds achieving this in only 21 per cent of calls.
- In September 2009 the Company answered only 13 per cent of the 4 million calls received.
- The Company was responsible for a high volume of unnecessary calls. Among these were students responding to letters asking for documentation already supplied: half of the 1,000 students the NAO surveyed were asked to send the same documentation more than once. The Company also set a deadline for online applications without including this deadline on the website - where 78 per cent of students applied.
-

Lead question

- * 9 (To Ed Lester) From February 2009 to January 2010, the Company answered just 44 per cent of phone calls and only 13 per cent in September when students were anxious to learn if they were going to get their finance in time for the start of term. Why did you manage customer communications so badly (paragraphs 10 – 12, page 7)?**
- (To Ed Lester) Can you guarantee that this year it will be easy for applicants to find out what is happening with their application?

Other possible questions

- * 10 (To Ed Lester) From February 2009 to January 2010, the Company answered only a fifth of calls within its target time of 60 seconds. Did you plan for a poor level of service or did it just happen (paragraphs 2.25, page 26)?**
- 11 (To Ed Lester) The Company's poor communications were responsible for many unnecessary calls. How will you ensure this won't happen again? (paragraph 3.12, page 31)**

- * 12 (To Ed Lester) PricewaterhouseCoopers reported in April that you needed another 100 people in your contact centre. Have you put these people in place (Independent Health Check Review of Student Finance England)?**
- * 13 (To Ed Lester) Compared to 2009, how much have you improved the contact centre's performance in answering calls? (paragraph 2.25, page 26)**
- 14 (To Ed Lester) In the NAO survey of students, 51 per cent reported that they had been asked by the Company to send the same documents more than once. Have you eliminated this problem in 2010 (Figure 13, page 27)?**

Management of the Programme

The Programme is inherently high risk to deliver, and requires a high standard of management and oversight to achieve the planned benefits and financial savings.

Key facts

- The document scanning system was a major cause of the problems in 2009. The system was not properly specified (it did not reflect the volume at which it would be used), and it was launched before being fully tested. It was eventually relaunched in March 2010.
- The scanning problems meant that applications were separated from supporting documentation and could not easily be reunited. There was no contingency plan.
- The Company had 300 staff in post to do processing from February 2009 but they had each processed an average of less than 2 applications per day by the end of June.
- The Programme Board was comprised of three individuals with no expertise in IT, finance, HR or experience of centralisation project management
- There was a failure of communication between the Board and the Department about their expectations for overseeing the Student Finance England service.
- The Board was unaware of the difficulties processing applications and communicating with applicants until too late.
- In April 2010, PwC reported the Company had shown a “surprising lack of focus and urgency” in addressing the recommendations of the Hopkin Review (December 2009).
- Most senior posts in the Company, including the Chief Executive, Chief Operating Officer, Director of Human Resources and the Chairman of the Board are currently interim appointments.
- The Department expected the centralisation of the service to achieve annual savings of around £20 million from 2011-12. Despite cost overruns and additional funding of £9.8 million in 2010-11 it still expects to achieve the planned savings by reducing operating costs and deferring some elements of service improvement.

Lead question

- * 15 (To Ed Lester) The scanning system was a major cause of the problems in 2009. Why didn't you specify it accurately and why did you launch it before it was fully tested (paragraphs 2.5 - 2.6, pages 16 - 17)?**
- Does the Company have a fully developed and tested contingency plan in case of future processing failures (paragraph 3.10, page 31)?

Other possible questions

- * 16 (To Simon Fraser) The Programme Board was comprised of three individuals with no expertise in IT, finance, human resources, nor any experience of a major centralisation project. How did that situation arise and what are you doing about that (paragraph 15, page 8)?**
- * 17 (To Ed Lester) In July 2009, the Company's Board thought everything was going well. Why weren't they told that there were serious problems (paragraph 3.29, page 36)?**
- * 18 (To Ed Lester) PricewaterhouseCoopers reported in April 2010 that there was "a surprising lack of focus and urgency" in addressing the recommendations of the Hopkin Review. How could this happen after the fiasco of 2009 (Independent Health Check Review of Student Finance England)?**
 - 19 (To Simon Fraser) Most senior posts in the Company, including the Chief Executive, Chief Operating Officer, Director of Human Resources and the Chairman of the Board are currently interim appointments. Is the Company stable and well led?**
 - (To Simon Fraser) Should the Chief Executive and Chair of the Company have been replaced sooner (SLC press notices, 25/28 May 2010)?
- * 20 (To Simon Fraser) You expected the Programme to save you £20 million a year from 2011-12, compared with the service provided by local authorities. What savings are you now expecting (paragraph 13, page 8)?**

Systemic issues

Underlying the serious problems in 2009 were several systemic issues:

- there was a lack of understanding of the risks involved;
- organisational change was not well handled;
- there was no proper piloting;
- the Department's sponsorship was ineffective;
- lessons from other programmes had not been learned.

Key facts

- The Department was aware of the risks of working with the Company which had known weaknesses in its culture and capabilities. However, the Department did not develop any alternatives.
- In 2006 the Company began a pilot service covering 11 local authorities, but the Company ignored consultants' advice to pilot on a national scale.
- The Department was unaware of the serious problems in processing applications and handling customer communications until a specific complaint in late August. This is despite it having a sponsorship team and chairing the Programme Board.
- The Department saw its role as strategic and allowed the Company operational independence, but it was ultimately accountable for the Programme and service delivery. Part of the failure stems from the Department's ineffective oversight, which is a problem identified by the Committee in its reports on Train to Gain (January 2010) and the further education capital programme (July 2009).

Lead question

- * **21 (To Simon Fraser) Given the high risks involved in the Programme, why was the Department so ineffective in identifying that things were starting to go wrong and doing something about it (paragraph 16, page 8)?**
- (To Simon Fraser) Are you satisfied that your officials now have a clear and up-to-date view of the Company's performance (paragraph 16, page 8)?

Other possible questions

- * **22 (To Ed Lester) When piloting the new arrangements in 2006 in only 11 local authorities, why didn't you take the consultants' advice at the time to run the pilot on a national scale (paragraph 2.2, page 15)?**

- * 23 (To Simon Fraser) This was always going to be a challenging problem, transferring work from 130 local authorities to one organisation. Why did you underestimate the risks and fail to mitigate them (paragraph 4, page 5)?**
- 24 (To Simon Fraser) Why did the Department select the Company to deliver this high risk programme, when it knew of the weaknesses in its culture and capabilities (paragraphs 3.6 - 3.7, page 30)?**
- * 25 (To Simon Fraser) If the Company fails again in 2010, are you ready to transfer the work to another organisation or will you let them have a third go at getting it right (paragraph 17, page 9)?**
- 26 (To Simon Fraser) How are you responding to the NAO recommendation that the Department and Company need to strengthen their relationship, so that there is more open communication and shared understanding (paragraph 19c, page 10)?**
- * 27 (To Simon Fraser) Your Department has recently overseen some very poor management in some key services, including both the Train to Gain programme and the capital programme for colleges. How will you make your sponsorship arrangements robust (paragraph 3.28, page 36)?**

List of other relevant material

Professor Sir Deian Hopkin (December 2009), *Review of the delivery of financial support to students in England by the Student Loans Company for the academic year 2009/10 and plans for academic year 2010/11*,

(www.bis.gov.uk/assets/biscore/corporate/docs/d/09-1580-delivery-of-financial-support-to-students)

PricewaterhouseCoopers (April 2010), *Independent Health Check Review of Student Finance England*, (www.bis.gov.uk/assets/biscore/corporate/docs/s/10-997-slc-health-check-review)