

House of Commons
Education and Skills Committee

**INDIVIDUAL LEARNING
ACCOUNTS: GOVERNMENT
RESPONSE TO THE
COMMITTEE'S THIRD
REPORT OF SESSION 2001-02**

Third Special Report of Session
2001–02

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THIRD SPECIAL REPORT

The Education and Skills Committee has agreed to the following Special Report:—

INDIVIDUAL LEARNING ACCOUNTS

GOVERNMENT RESPONSE TO THE THIRD REPORT FROM THE EDUCATION AND SKILLS COMMITTEE, SESSION 2001–02

The Education and Skills Committee reported to the House on *Individual Learning Accounts* in its Third Report of Session 2001–02, published on 1 May 2002 as HC 561-I. The Government's response to that Report was received on 24 June 2002. The response is reproduced as the Appendix to this Special Report.

INDIVIDUAL LEARNING ACCOUNTS**GOVERNMENT RESPONSE TO THE THIRD REPORT FROM THE
EDUCATION AND SKILLS COMMITTEE, SESSION 2001-02****Memorandum from the Department for Education and Skills****Introduction**

The Department is pleased to take this opportunity to respond to the report of the Education and Skills Select Committee inquiry into Individual Learning Accounts (ILAs).

The Department welcomes and values the Committee's strong support for the concept of ILAs, and, particularly, their simplicity and attractiveness to learners. That support encourages us in our determination to retain those key concepts in developing a successor scheme. The inquiry and report, through its detailed analysis, identification of problems, and its conclusions and recommendations will provide solid assistance to the Department in considering further the issues we are tackling in developing a successor scheme.

The programme was successful in many ways. The latest statistics are that 2.6 million people became account holders, over 1.3 million accounts were activated and there have been some 1.7 million learning episodes. Evaluation found that 91 per cent of ILA learning met or exceeded expectations and 85 per cent of those learners said that ILAs had increased the learning options open to them. That is why the Secretary of State and the Department's Ministers have been clear and unequivocal that a successor scheme will be developed. The importance of ILAs to our lifelong learning strategy—particularly in the long term - demands that a successor scheme must be in place just as quickly as the issues can be fully resolved.

The original programme was successful and popular with both learners and learning providers. It was, therefore, with considerable regret that it had to be closed because of the serious flaws which we identified and the inquiry has confirmed. Since the programme was closed the Department has been:

- managing the closure effectively, ensuring that valid learning is supported and the consequences for both learners and providers are dealt with clearly and effectively;
- establishing the full extent of misuse and fraud, checking complaints and investigating all learning providers where there is evidence of serious concerns;
- developing the outline design for a successor scheme and ensuring the lessons from the ILA programme are identified and fully learned.

Response to the Select Committee's conclusions and recommendations

The Select Committee's headings, sub headings, conclusions and recommendations are in **bold** text.

The Department's response is in plain text.

Background

1. **Presented with a manifesto commitment, and a single target of one million users, insufficient attention was given both to the reasons for the previous rejection of an ILA scheme and to ensuring that quantity was balanced by quality. While the development of targets for the achievement of policy objectives is to be commended, such targets should be based on outcomes not tied to specific delivery mechanisms (paragraph 11).**

The Department does not agree that it gave insufficient attention to the 'previous rejection' of an ILA scheme, or that there was what could be properly called a previous scheme. It is worth noting that there was nothing like a precise proposition at the time of the 1996 Competitiveness White Paper to which the Committee refers. Crucially, there were no clear proposals for a discount, other financial incentives or a delivery mechanism.

There was a single numerical target of one million users by March 2002 as that was the manifesto pledge. But alongside this target there were a number of policy aims and operational objectives. The overall aim was to widen participation in learning, to help overcome financial barriers to learning faced by individuals and provide a mechanism to enable individuals to invest more in their own learning. The scheme was therefore universally available and within that some specific groups were identified as targets: women returners, younger workers with low skills or few qualifications, self-employed people and non-teaching school staff. ILAs were also intended to be a mechanism to encourage the development of wider choice and innovation in the delivery of training and to attract new providers, not just established providers known to the former Training and Enterprise Councils (TECs) and the Further Education Funding Council. This in turn would support improvement in the training market, through encouraging providers operating in smaller niche markets and with new, non-traditional learners.

This innovative approach led to the funding of targeted ILA pilot approaches with Community Groups, Trade Unions and small businesses; though limited, these proved successful and we will further develop this approach in a successor scheme.

The Department is taking account of the Select Committee's comments on targets and outcomes in developing a successor scheme.

The TEC Pilots

2. **The implications of opening up the scheme to new providers not known to TECs was not thought through either in terms of quality of learning on offer or the risk of fraud. As a significant change to the pilot scheme, this should have merited greater consideration (paragraph 15).**

The Department took a number of steps to draw the lessons from the early TEC pilots in the development of the national framework and in the roll out of the programme. SWA Consulting were appointed in August 1998 to evaluate the impact of local models and draw out the learning points. This informed a good practice guide to help TECs manage ILA projects in 1999/2000. KPMG conducted a market feasibility study during which they held discussions with TECs on identifying the lessons learned from the early development projects, and in particular, on the effectiveness of methods that have been used to promote ILAs during the pilots. These findings alongside wider research and consultations were used to inform, refine and develop the ILA product definition and underlying delivery process.

In addition, the Department drew on the valuable experience of TECs by seconding TEC

personnel to the policy development team and ensuring that the TEC National Council was represented on the project steering group. Also, one of the TEC pilots continued into the national programme to pilot the programme with Community Groups. So there were clear steps taken to learn policy lessons from the TEC experience. The decision to extend the range of providers in the national programme was taken to widen choice and expand the training market. With hindsight this should have been combined with stronger quality checks of learning providers and tighter system security. These features will be implemented in a successor scheme without losing the facility to encourage good new learning providers.

Saving to Learn

- 3. Once the savings concept had been replaced by a straightforward offer of a Government-subsidised discount, the name “Individual Learning Account” ceased to be a strictly accurate description of the scheme (paragraph 20).**

Key concepts of the original delivery model, piloted in a variety of forms through TECs, remained in that the programme was for individuals, universally available and had a monetary value in the form of discounts for individuals on the cost of their learning. An account was necessary, therefore, to record transactions and provide a record of each individual’s learning as part of our efforts to achieve the sort of cultural change in attitudes to learning and training that the country needs. The Department decided that, in the light of these features, Individual Learning Account was an appropriate name for the programme.

The National Framework

- 4. We regard the failure of the Department for Education and Skills to learn from the mistakes made in the past by its predecessors and other Government Departments to be one of the most disturbing aspects of the ILA experience (paragraph 22).**

In paragraph 22 of the report, the Committee refers to the 1998 Beating Fraud Green Paper and the pledge that the Government would work across boundaries to share expertise and create a professional approach to anti-fraud work. There are a number of cross-Government activities which already take forward this commitment. These include:

- a Fraud Response Liaison Group (chaired by the Department for Education and Skills) involving officials in a number of Government Departments and Non-Departmental Public Bodies with responsibilities for fraud detection and investigation. The group was set up in 1997 and currently meets quarterly. Its purpose is to share information, lessons learned and, where providers access funds from more than one Government Department or Non-Departmental Public Body, to facilitate a coordinated approach to investigations, where appropriate. It also considers common problems and training needs for investigative staff. As membership of the group has grown significantly a protocol for the sharing of provider information is currently being developed.
- a Treasury led Special Investigation Group (coordinated by the Government Accountancy Service) was set up last year. This group is concerned with the development of common standards in relation to the abilities and skills required by staff working in the area of special investigations; and
- a Better Governance and Counter Fraud Group, chaired by the Chartered Institute

of Public Finance and Accountancy, which brings together specialist staff from across the public sector to develop and disseminate best practice on risk management, particularly relating to fraud.

The groups mentioned above are generally of an informal nature, with the sharing of information being reliant on what members feel they can or should share. The recent report issued by the Cabinet Office Performance and Innovation Unit on Privacy and Data Sharing recognises the current legislative limitations for data sharing and the need to formalise arrangements for making better use of available intelligence, balanced with the rights of the individual. The Department is in the process of preparing an Action Plan to detail the action needed in responding to this report, and also in responding to other maturing legislation, including the Data Protection and Freedom of Information Acts. The Department plans further analysis of the companies where we are taking forward formal investigations to identify any links with other companies previously involved with fraud and abuse and currently in receipt of public funds.

The Department has also taken the initiative to develop a new strong mechanism for working across Government on learning provider issues. We have taken early steps to set up a formal group to bring together key interests from across Government Departments and relevant Agencies at senior policy and operational level to share information on concerns about providers, improve liaison across Government on investigations and follow-up of lessons learned from fraud investigations. As part of this work we will discuss with the Departments and Agencies concerned how we might more effectively share information about poor practice and poor providers, whilst protecting confidentiality.

The Department's Special Investigation Unit has developed a rolling programme of fraud awareness seminars for all Directorates and Divisions in the Department so that fraud prevention can be more effectively embedded into policy making processes and systems development. The Learning and Skills Council has a similar programme. We will be considering the Fraud Response Plans of all the Department's Non-Departmental Public Bodies. We are also reviewing our risk assessment strategy to ensure that the risks of fraud are fully considered across all of the Department's activities.

The Department's Internal Audit Unit is working closely with the development team for a successor scheme to ensure that the lessons to be learned which were identified in the Special Audit Review of the ILA programme are addressed.

The 80 per cent discount and the end of vocational tax relief

- 5. The introduction of the 80 per cent discount was a crucial step in widening the attractiveness of the ILA to unscrupulous operators. There was no check on the provider to give good value for money, and no incentive for the customer to complain (paragraph 29).**

The York Consulting early evaluation of the ILA programme found very high rates of satisfaction amongst learners, showing that the programme was successfully meeting its overall aim of widening participation in learning and helping to overcome the financial barriers to learning faced by individuals. Some key findings were:

- 91 per cent of ILA learning met or exceeded expectations;
- 85 per cent of ILA redeemers said the ILA had increased the training/learning options open to them;

- More than half ILA redeemers (51 per cent) said they had little (27 per cent) or no (24 per cent) prior knowledge of the subject(s) they were studying with ILA support ;
- 50 per cent of ILA redeemers would not have been able to pay for their course without their ILA;
- 22 per cent had not participated in any training/learning in 12 months preceding ILA use;
- 16 per cent of ILA redeemers had no previous qualifications; and
- 54 per cent of redeemers said their ILA made them more interested in learning.

However, the evidence indicates that those learning providers who abused the programme by, for example aggressive mis-selling and providing poor value for money products, first concentrated, from early summer, their efforts on the £150 introductory incentive for the first million account users. Once this offer ended on 31 July 2001, these unscrupulous providers and others not previously involved in ILAs moved on to exploit the 80 per cent discount. The maximum payment allowable under the 80 per cent discount was, of course, set at £200. It was the increasing volume of complaints to the Department, the Individual Learning Account Centre and Trading Standards Officers that highlighted these abuses of the programme.

The Department agrees that a key part of ensuring good value for money is that learners have a personal stake in their learning alongside effective registration procedures, quality checks and well-publicised and robust complaints procedures.

The delivery model

6. **We welcome the entry of new and innovative providers into the market for delivering lifelong learning. It should have been possible to design a scheme to encourage new providers that was not wide open to fraud or abuse by unscrupulous people posing as learning providers, but the lack of quality assurance made it almost inevitable that it would be abused (paragraph 33).**

The Department welcomes the Committee's recognition of the aim of the ILA programme in stimulating new and innovative provision of learning and accept entirely the Committee's description of the balance to be struck vis-à-vis learning providers. Tighter checks on learning providers will be at the heart of the new scheme.

There is widespread agreement that registration of learning providers would need to be strengthened in a successor scheme. Findings from the report of Segal Quince Wicksteed (SQW), 'Individual Learning Accounts: A Consultation Exercise on a New ILA style Scheme', show that the majority of learning providers (68 per cent) support more rigorous quality assurance of providers. We are exploring the possibility of the Learning and Skills Council taking a lead role in this process. We are also looking at ways in which the LSC's existing and tested arrangements for initial provider assessment might be developed for use in a successor scheme. Such arrangements, together with more effective complaints procedures and on-going monitoring of providers through random checks and de-registration of providers who abuse the scheme will act as strong deterrents to abuse and fraud.

7. **The failure of the DfES to learn from past experiences, such as franchising and demand-led funding, is a matter of concern (paragraph 35).**

Demand-Led Element (DLE) funding was a funding methodology put in place for FE funding in academic year 1994/5. Part of the colleges' response to DLE funding was to introduce franchising in order to increase their throughput and consequent take-up of the funding. In addition to an agreed number of funding units, colleges could claim, at a reduced rate, for additional units from the DLE of funding held by the FEFC, the budget which was, as implied, demand-led. This successfully stimulated the desired growth but it became clear that its success had become too great to be affordable and, in February 1997, the Department announced that DLE funding would end from academic year 97/98 with further provision being on a cash limited basis.

The Department believes that it would be wrong to draw too close parallels between DLE funding and ILA funding because of their very different context and environment. ILAs were a new way of stimulating training, putting the focus on the individual's requirements. Nothing quite like it had been tried before. It is accepted that there is a similarity in unexpected growth of the scheme, but ILAs were an entirely new programme, without precedents on which to model likely demand and the speed with which participation grew for ILAs was far in excess of that experienced with DLE funding.

Public/Private Partnerships

8. The change control process clearly did not work (paragraph 37).

The Department agrees that there should have been tighter control of contractual changes and their consequent impact on other aspects of the service provision and this will be a key part of a successor scheme. Indeed, the contract change control procedures, jointly discussed and agreed with Capita and put in place for residual activity on the closed programme, have already been considerably strengthened through tighter management and more rigorous review of proposed contract changes. This type of rigorous arrangement will be carried through to the contract management of a successor scheme and reviewed regularly.

9. Despite the out-sourcing of service delivery, the risks in effect always remained with the Department. Surprisingly, the potential expertise of Capita in designing systems to be fraud-resistant was neither called upon, nor offered (paragraph 38).

As Capita acknowledged to the Select Committee, as the service delivery partner of the Department, they developed, implemented and operated the ICT system for ILAs. Capita also administered defined elements of the business process for the scheme. They also advised the Department on operational and technical issues. Improved partnership management and governance arrangements will be developed with the Service Provider for a successor scheme.

Capita were contracted to have in place for the ILA programme IT systems which are secure and meet the requirements of the Data Protection Act. Controls were built into ILA IT system to give access only to authorised users, prevent individuals opening duplicate accounts and to enable data trawls and analyses (such as for common addresses) to be undertaken on ad hoc basis as means of detecting potential fraud.

Additional, non-technical safeguards and controls continued to be implemented in response to increasing complaint levels. These included withdrawal of non-personalised application forms, re-registration of all learning providers alongside the introduction of a formal learning provider agreement and suspending registration of new providers.

Though we still want ILAs to be easy for the learner to use, the Department

acknowledges that a successor scheme will need to have in place tighter systems. More specifically, the Department plans to introduce more robust learning provider checks and a strengthened and expanded compliance team as part of the successor arrangements. System security will be based on a formal Security Risk Analysis and will also be subject to continuous monitoring and assessment throughout the life of a successor scheme.

10. **There is nothing in the evidence we have received to suggest that Ministers sought advice from other Government Departments, or even heeded warnings from within their own Department, on how to protect such a scheme from unscrupulous opportunists (paragraph 39).**

There were meetings and exchanges of correspondence with relevant other Government Departments to discuss the key policy, design and procurement issues concerning the ILA programme.

The risk of fraud was identified on the ILA Programme Risk Register. The programme involved high volume but relatively low value transactions and the control regime was designed to reflect that situation. The programme sought to engage new learners and encourage them to look across the wide range of learning opportunities available. We did not want to introduce heavy-handed bureaucracy, which would have discouraged the development of innovative, local provision. There will be a rigorous approach to the initial registration and accreditation of providers together with stronger financial controls in a successor scheme.

We have described, at 4 above, the cross government anti-fraud arrangements and how we are taking the lead in setting up a senior, strategic group to work across Government to improve liaison and share best practice and information on fraud prevention, detection and investigation issues.

11. **Capita's ILA Centre gave any provider who joined the system unlimited access to individuals' accounts (paragraph 42).**

As the then Minister for Adult Skills said in his Memorandum to the Committee and when giving oral evidence, because the ILA programme was closed due to new allegations of very serious potential fraud and theft, the Department commissioned a report on the system security from Cap Gemini Ernst & Young. The main findings from this review are appended to this response. It does seem that registered learning providers could use their password access to the ILA Centre database to access account information for which they did not have authorisation. A small number of unscrupulous learning providers took advantage of this to abuse the programme. The review did not find specific evidence of access to the ILA system by external third parties.

Capita are working closely with the Department to assist in the investigations into the reasons for the closure of the programme.

The Department readily accepts that the successor scheme requires stronger security measures to guard against those who are intent on mis-use.

12. **An unscrupulous provider could trawl the database and submit claims for having trained any individual on the system whose account had not already been spent (paragraph 43).**

This is the reason the Secretary of State decided to close the programme. On Wednesday 21 November an approach was made to the Department by an ILA learning provider alleging that a third party had offered to sell them a computer disc containing large number of ILA account numbers. The Department's urgent investigations confirmed that

the disc contained ILA numbers which had been obtained from the ILA database and that they were being offered for sale. Ministers decided, in line with police advice, that immediate closure of the programme on 23 November, two weeks earlier than planned, was the only way to protect public funds.

It is clear from our experience with the ILA programme that a better balance must be struck between openness and security. With the benefit of hindsight, all parties now agree that there was a higher level of risk than was anticipated. We repeat that the Department is determined that a successor scheme will have in place stronger security measures and more rigorous monitoring and management of the security arrangements across the entire operation to guard against those who are intent on mis-use. It will be essential for the security standards and requirements to be agreed by the Department and the service provider and that they will be different from those in place for the closed ILA programme.

- 13. We recommend that in future the non-confidential clauses of any such major Service Provider Agreement should be laid before Parliament at least three weeks before coming into effect, in order to allow interested parties and this Select Committee to assess the practicality of the proposed delivery model (paragraph 47).**

Once the Department has reached agreement with the delivery partner on the contractual terms regarding the service requirements for a successor scheme the Department will place a copy of the main substantive provisions of the Service Provider Agreement in the House of Commons library, after excluding commercially sensitive details such as pricing structures.

The Individual Contribution

- 14. We recommend that in the successor scheme to the ILA providers should be required to make clear to learners that the learners have a choice about how, when and with whom they use their ILA (paragraph 51).**

The Department agrees strongly with this recommendation. One of the key aims of the ILA programme was to empower the learner by putting the choice of learning in the hands of the learner. One of the priorities for a successor scheme will be to give learners the opportunity to make informed decisions about their learning and encourage access to independent information advice and guidance.

- 15. Until remedial measures were taken in the summer of 2001, Capita's ILA Centre could not prevent unscrupulous providers creating accounts for individuals whom they had not trained, or who did not even exist (paragraph 53).**

As has been stated in response to recommendations 11 and 12, a successor scheme will have more robust arrangements to guard against fraud and mis-use. The systems and processes will be agreed with the delivery partner for a scheme.

Accreditation of providers - learndirect

- 16. It seems surprising to this Committee that Capita was not able to make a speedy assessment of the suitability of the learndirect database to provide assurance on the quality of providers and to advise the Department accordingly (paragraph 55).**

Entry to the **learndirect** database was never intended to be a quality assurance process.

During the summer of 2001, discussions were held involving Capita, Ufi and the Department but this was to explore whether the ILA and **learn**direct databases could be joined or made more compatible so that learners could receive better information about learning provision. It was not an exercise in introducing systems to quality assure learning or learning providers. Consultants were contracted to advise on this issue of database compatibility but this work ended when the programme closed. The Department will look to build on the preliminary findings of that work in developing a successor scheme.

17. The unavailability of a list of accredited training providers undermined a key part of the ILA structure. The DfES confused quality assurance with registration. It is this confusion which lies at the heart of the ILA debacle. Without a quality threshold or any systematic audit, there was nothing to stop unscrupulous opportunists signing up as providers on the ILA database (paragraph 56).

The Department did not confuse quality assurance with registration. The objective was to bring in new learners and providers and so the programme was designed to be simple and flexible for the learner and provider with the minimum of bureaucracy. The programme was designed to open up the learning market and to place as few restrictions as possible on what people could choose to learn; placing real purchasing power and consumer choice in the hands of learners for the first time. A fundamental principle of the design was that individuals had to pay a contribution for their learning. This personal investment aspect of ILAs was not only intended to give learners greater control over their personal development but also to increase their personal stake so that they would make informed decisions about their choice of learning. ILAs were not, however, intended to be a guarantee of quality of learning or learning providers as such; it was a policy of putting purchasing power in the hands of the learner and 'buyer beware' when purchasing learning. The system was therefore designed to register but not accredit learning providers.

However, it is now very clear from our experience that there is a need to build in stronger registration and quality mechanisms so that the chance of unscrupulous providers benefiting from the programme is minimised. This is also a strong message that has come through from learners, stakeholder organisations and learning providers themselves. At the heart of the new scheme will be tighter registration and quality checks and stronger financial controls.

The £200 cap

18. The Department apparently failed to heed the warning, given three months before the national roll-out of the ILA scheme, from its own experts on the Further Education Funding Council, of the risk to public funding if rigorous quality arrangements were not put in place (paragraph 61).

As the Committee records, a cap of £200 was introduced on the 80 per cent discount for certain ICT learning on 20 October 2000, less than seven weeks after the programme was launched on 4 September 2000. While we had initially wanted to avoid introducing a cap, as the provision we had in mind would be of short duration and therefore not expensive, our early experience of offering the 80 per cent discount caused concern. The Department had a number of instances of providers offering learning at very high prices, and this started to put the success of the policy in jeopardy. Under the uncapped arrangements almost £22 million was paid to providers who claimed a discount of more than £200 for a single account holder. We decided, therefore, that the introduction of a cap was the best solution to meeting the policy objective and allowing many more people to benefit from the 80 per cent discount on their learning.

Further Education Funding Council staff discussed a number of aspects of the design of the ILA programme at liaison meetings with the Department. These included issues about the quality assurance and audit arrangements for providers. In the final design of the ILA programme, there were light touch quality assurance arrangements so that the scheme could be as simple and non-bureaucratic as possible. The successor arrangements for ILAs will include a robust system of learning provider registration, quality checks and monitoring of provider activity.

The emerging concerns - 'deadweight'

- 19. We recommend that any successor scheme to the ILA should be focussed on adults whose highest level of qualification is at level 2 or below and that particular efforts should be made to promote the scheme through employers, trade unions, community groups, approved training providers, schools and colleges (paragraph 73).**

The Department is considering the options of limiting entry to a successor scheme only to particular groups; for example, those not possessing qualifications or having low levels of qualification. Such an approach would however be more complex to administer, especially in determining the eligibility of each individual. More importantly, we tend to the view that it would be right to continue into a successor scheme the policy objective of opening up learning opportunities to all adults. We will consider this issue further.

Promoting the scheme through employers, trade unions, and others, which was a successful approach in the ILA programme, will be very important. Intermediaries have a lot to offer, particularly in reaching and guiding those most in need of support and guidance.

The emerging concerns - over-spending

- 20. Without access to the detailed notes of confidential discussions between Treasury and DfES officials, we cannot know how large a part the desire to rein in over-spending played in the demise of the ILA. This is not a satisfactory position and we have requested the Secretary of State to provide us with the relevant papers (paragraph 80).**

After considering all available information, the Department's Ministers made the decision to suspend ILAs from 7 December 2001. The Prime Minister, the Chancellor of the Exchequer and Ministerial colleagues were then informed of the decision before the announcement was made public on 24 October 2001. The Secretary of State has confirmed these details to the Committee and the dates of key internal DfES meetings when we took these decisions. From the outset of the Select Committee's inquiry, we have been open in the provision of evidence and in the Memorandum, going beyond customary expectations set out in guidance (Citizen's Charter: Open Government; Code of Practice on Access to Government Information, Second Edition 1997).

The Committee has been kept closely informed about spend against the total ILA budget. In addition to information provided in oral evidence, John Healey wrote to the Committee on 30 November 2001, 7 December 2001, 18 December 2001, 15 January 2002, 16 January 2002, 7 March 2002 and 26 April 2002. The Department's forecast of the final overspend for the financial years 2000-01 and 2001-02 is £93.6 million.

The increasing number of complaints

- 21. Both types of complaint mechanism, for the provider and for the learner, failed**

badly in the ILA scheme and any successor scheme will have to perform much better in recognising, handling, remedying and learning from complaints (paragraph 87).

Despite its faults, the complaints mechanism did allow the Department and Capita to identify emerging problems with the programme. In response to rising complaints in summer 2001, the Department and Capita took action against unscrupulous learning providers and a number of important changes were made to the system. These included:

- the establishment of a Compliance Steering Group;
- requiring all ILA Providers to sign and return an ILA Learning Provider Agreement from 30 June 2001;
- removing 700 Providers who did not sign the Learning Provider Agreement from the Register on 14 July 2001; (105 were subsequently reinstated after signing the agreement. The initial cut-off date for the return of the Learning Provider Agreement was 10th August 2001. Providers who had failed to complete and return their agreement by that date were suspended or de-registered. However, following this ‘cut-off’ date providers who subsequently completed their registration forms and so signed up to the Agreement were re-instated on the ILAC system. This re-instatement process continued up until 17th October 2001);
- issuing a learner leaflet entitled ‘Choosing Your Learning’, in August 2001;
- a compliance letter sent to all learning providers on 15 August 2001;
- stopping third parties automatically receiving supplies of blank application forms;
- increasing DfES and Capita resources on the investigation of complaints and cases for potential abuse;
- a complete re-draft of the Learning Provider Guidance (overtaken by the closure of the scheme);
- setting up a joint DfES and Capita Compliance Unit, operational from 24 September 2001; and
- from 28 September 2001, the Department suspended the registration of new providers and required that all ILA applications had to be made via the ILA Centre. Non-personalised applications were no longer accepted.

The Department agrees that a successor scheme must have improved mechanisms for capturing management information on complaints together with managed processes for analysing, dealing with, remedying and learning from complaints. The number and nature of complaints can be a very important early indicator of possible problems.

Misuse, abuse and fraud

22. We find it hard to credit that Capita, a major player in winning contracts for work contracted out to the private sector, should not have pointed out that, without a quality threshold for providers, the ILA was a disaster waiting to happen. The culpability of Capita was matched by that of the Department, in particular for not demanding more robust anti-fraud mechanisms in their specification (paragraph 97).

There are important lessons about the process of risk identification and management and also for the specification and operation of both systems security arrangements and management information about activity. The Department should have had clearer agreement with Capita on the risks, their significance and how they should be managed. The Department should have specified a full business model for the ILA programme and subjected this to tests of how abuse could have occurred. This would have allowed us to identify other risks and design better monitoring systems to pick up early warning indicators. The Department is building this approach into the development work for a successor scheme.

Whilst there were some discussions on these issues between Capita and the Department there was no formal mechanism for escalating these between the Department and Capita. This must be addressed in the partnership governance and management arrangements for a successor scheme in such a way that will enable the Service Provider formally to raise concerns and propose changes.

There are also lessons about the management of a public/private partnership of this kind. The Department will incorporate stronger and clearer contract management arrangements into a successor scheme, based on a thorough risk analysis as well as on performance and financial information.

23. It is a matter of concern that, while Ministers were clear that misuse and abuse had taken place, alongside fraud, they were unable to provide either an exhaustive list or a working definition of misuse and abuse. The Department needs to be clear about which activities are unacceptable (paragraph 101).

The Department was clear about the nature of the misuse and abuse of the programme, alongside fraud. John Healey set out the position when he gave oral evidence to the Committee. The Department wrote to every learning provider in August 2001 pointing out which activities were unacceptable. The identified areas included misleading individuals, claiming incentives where it is unclear that the learning had taken place, learning commencing prior to an individual becoming an ILA account holder, the absence of enrolment forms authorising learning providers to claim the ILA incentive on behalf of the individual, individuals not paying any personal contribution to the learning for which they were claiming an ILA incentive and the use of aggressive marketing tactics or inaccurate material, often through marketing companies, to encourage people to open an account and sign up for training. Misuse, abuse and fraud is categorised in the table below.

The Department will state more clearly what is unacceptable in a successor scheme. The future arrangements will also include robust complaints procedures, and providers who abuse the scheme will be excluded.

Categorisation of complaints and abuse

Some 19,296 complaints have been received. The latest information available shows there have been 7,495 complaints (39 per cent of all complaints) relating to access to ILAs without the consent of the account holder (non-consent) and non-compliance with the programme rules (non-compliance). The remaining 61 per cent of complaints cover operational issues such as level of discount and eligibility of courses.

Non-consent and non-compliance complaints are identified as being in one of four categories: misused accounts, free learning, no learning and other. The last three relate to non-compliance with the programme rules. The 7,495 figure is broken down as follows:

Non-consent

Misused accounts **5,022 (67 per cent)**

(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.)

Non-compliance

Free learning **450 (6 per cent)**

(Contribution not sought from the account holder e.g. on a course value £250 account holder should personally contribute £50.)

No learning 1,049 (14 per cent)

(Account holder authorises access to the ILA but subsequently received no learning.)

Other 974 (13 per cent)

(Cash or other incentives offered to enrol on course. Learning delivered is outside the specific list of eligible learning.)

(N.B. The breakdowns of the non-compliance total are estimates as enquiries are still being pursued.)

In addition to the above, additional examples of abuse have been identified through investigation by the Department's Special Investigation Unit (SIU) and the Police, which involves:

Inappropriate access to ILA database 1 case

(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.)

Ghost learners 19 cases

(Fictitious account holders created often using a common address.)

The Department's SIU has had 125 learning providers referred to it, 27 files are being examined and 98 have been passed to the police. The files passed to the police cover the following categories:

Misused accounts 66 (67 per cent)

No learning 3 (3 per cent)

Other 9 (9 per cent)

Inappropriate access to ILA database 1 (1 per cent)

Ghost Learners 19 (20 per cent)

In addition the Department's Compliance Unit is checking a further 569 learning providers.

Remedial measures

- 24. We recommend that the successes of trusted intermediaries, such as trade union learning representatives, should be taken fully into account in designing an ILA successor scheme (paragraph 106).**

The Department fully recognises the valuable contribution intermediaries made to the original programme, especially in reaching those not in learning. The **ILA Community Group** projects attracted people who had never previously heard of ILAs (two thirds of those who opened them through the projects) and encouraged the participation of larger proportions of ethnic minority groups (14 per cent from ethnic minority groups compared with 5 per cent nationally). They also attracted a higher percentage of people with no qualifications (22 per cent against 16 per cent nationally) and 73 per cent of users (compared to about 50 per cent nationally) said they would not have been able to fund their learning without an ILA. An evaluation (TUC Learning Services) of accounts opened through the **Union Learning Fund** showed 79 per cent of learners are from those groups least likely to participate in learning. The **Small Firm Learning Account** (SFLA) was aimed at increasing participation in learning, through the take-up of ILAs among owner managers and their employees in companies of 5–49 people. This innovative pilot project, which operated in Leicestershire and Lincolnshire, engaged 352 firms in 3 months with 1242 employees opening accounts during the period of the project. It was refocused following the withdrawal of ILAs and re-launched as the **Small Firm Development Account** (SFDA) early in 2002. The new pilot will be formally evaluated in due course.

We will continue to work with intermediaries to explore ways in which they can play a key part in the delivery of a successor scheme. In particular, we will seek to develop strategies with intermediaries in order to attract new and non-traditional learners.

Compensation for learning providers

- 25. We recommend that the Department should at least re-imburse those bona fide learning providers who can demonstrate that they have been financially disadvantaged by the accelerated date of closure of the scheme (paragraph 127).**

The Department recognises the concerns of learning providers. The Department gave as much notice as possible when the decision was taken to withdraw the programme from 7 December 2001. We wanted to allow people to use their ILAs to help pay for learning they had planned and to allow businesses time to adjust their plans and enable learners and providers to forward book learning by up to 6 months. Around 6 weeks notice was given. Any longer period would simply have provided the unscrupulous providers with an opportunity to continue, or even increase, their activities. In the event, of course, in the light of new and serious allegations about potential fraud and theft involving the sale of large numbers of ILA account numbers, the programme had to close with immediate effect on 23 November 2001. Had the Department not closed the scheme immediately, we would not only have been failing to act on police advice, but would also have risked further loss of public money.

The Department has received some representations from providers for compensation for losses they feel have been incurred by the need to close the programme immediately on 23 November, just two weeks earlier than planned. We have listened to those representations and carefully considered the views of the Select Committee and, whilst the Department does of course sympathise with the position of learning providers, we cannot agree that the Department should compensate them because of the closure of the ILA programme. ILAs were successful in encouraging new learning and brought new business to learning providers and the extent to which organisations made business decisions around ILA participation is something each organisation determined for itself.

With regard to the contractual position between the Department and registered learning providers, which the Committee refers to, it may be helpful to set out our position. A contract is an agreement negotiated between two parties free to reach their own terms in which each makes a promise to the other. Neither the Secretary of State nor registered learning providers were free to bargain in respect of the Learning Provider Agreement nor does it contain any

promise on the part of the Secretary of State. The Learning Provider Agreement sets out some of the criteria set by the Secretary of State for the operation of the ILA programme. Registered learning providers were asked to sign up to this agreement to signify that they had fully understood those criteria.

To minimise the financial implications and disruption for providers, the Department introduced a paper-based claims process to replace the web-based process used before the closure. This process has been set up to pay valid claims as quickly as possible, while pursuing inquiries and investigations into unscrupulous providers. The current payment procedures for provider claims adhere to Treasury policy on payment of valid invoices and meet the DfES standard of paying valid claims within 20 working days of receipt (as long as learning providers meet the published timescales for return).

Up to the end of May, a total of 5,526 claims (94 per cent) worth £10.6 million have been paid since 21 November, and a further £15.9 million representing some 371 (6 per cent) provider claims have been withheld over the same period (including providers referred to the SIU). These overall totals include claims which were held in the web-based system at the time of the closedown, in addition to claims received through the paper-based system.

Lessons

- 26. We recommend that the report on system security from Cap Gemini Ernst & Young should be placed in the House of Commons Library as soon as it is available (paragraph 138).**

As John Healey undertook to the Committee in his Memorandum and when giving oral evidence, the main findings from the Cap Gemini Ernst & Young review are appended to this response and will be placed in the House of Commons Library. Both the Department and Capita are committed to using the report to learn lessons for the future.

- 27. We recommend that the results of the review of the development and management of Individual Learning Accounts by the DfES's Head of Internal Audit should be placed in the House of Commons Library as soon as it is available (paragraph 139).**

John Healey said when giving oral evidence that he would be happy to provide the Committee with the main findings of the Internal Audit review. The main findings from this review, including the lessons that have been identified, are appended to this response and will be placed in the House of Commons Library.

The lessons identified from this work are already being applied in the development of the new scheme, and will also be taken into account as appropriate for all Departmental projects and programmes. We will also take steps to ensure the lessons are widely shared across Government Departments.

- 28. We recommend that the National Audit Office should take a close interest in the ILA failure, but we expect its analysis to take a balanced approach as far as risk-taking is concerned (paragraph 142).**

The Department welcomes the Committee's recommendation concerning the need for a balanced approach to accountability and risk taking so that beneficial innovation is not stifled.

The Department and Capita have separately had a number of meetings with NAO to assist its work and have provided a considerable amount of information and documents. The Department will use the findings of the NAO report to help learn lessons and in the development of the successor scheme.

- 29. The Department should have undertaken a full risk assessment of the ILA scheme, which should have been aimed not at designing all risk out of the programme, but rather at understanding the level of risk which was being accepted in return for a recognised benefit such as ease of access (paragraph 143).**

The Department recognises that there are important lessons to be taken forward about the process of risk identification and management. There was a risk register but the identified risks should have been better managed. Also, as mentioned in 22 above, the Department should have specified a full business model for the ILA programme and subjected this to tests of how abuse could have occurred. This will be applied to a successor scheme.

A further important issue to consider in drawing up programme specifications, particularly where public/private partnership arrangements are planned, is what risks can be transferred to or shared with the Department's contractors and partners. Where relevant, the Department will ensure contracts clearly specify joint and separate risk management responsibilities following discussions and agreement with the delivery partner.

Partnership with private sector

- 30. There should not be an automatic assumption that Capita should be the provider to take forward any new ILA scheme. The Committee notes the contrast between the Department's continuing co-operation with Capita and its refusal to consider compensation for learning providers (paragraph 151).**

We are continuing to work closely with Capita on the wind down of the ILA programme to ensure payments to providers in respect of eligible and valid claims are made as quickly as possible and Capita are providing assistance to our investigations of compliance issues. The Department and Capita have gained a great deal of experience from running ILAs. The lessons learned will be built on to the benefit of a successor scheme.

We have agreed, in principle, to work with the Capita in developing arrangements for a successor scheme. The decision on whether we will work with Capita is however subject to satisfactory progress and the outcome of negotiations with them; for example, agreeing the financial basis for delivery and appropriate revisions to our existing contract with Capita over the coming months. A successor scheme will be a major test for Capita, as well as the Department. There are thresholds to pass in development work towards the launch of a successor scheme and no finalised contractual arrangements will be made until we are satisfied that all necessary steps have been taken by the Department and our delivery partner to minimise the risks involved in operating the new scheme.

We are continuing to consider how others, such as the Learning and Skills Council, can be involved. The Learning and Skills Council, for example, has relevant experience in provider assurance.

- 31. By retaining even the smallest details of policy design within the Department, an opportunity was missed to transfer the risks to the private sector by transferring fuller responsibility for the management of the scheme to the private sector (paragraph 153).**

The Department must continue to determine the overarching policy objectives for a successor scheme and that responsibility cannot be transferred. Ministers must account for this in Parliament and the DfES Permanent Secretary as Accounting Officer must account to the Public Accounts Committee.

We accept that we need ensure that we are absolutely clear with the delivery partner about the extent to which they are responsible for the delivery of the policy objectives. The operation of a successor scheme in terms of, for example, systems, security, web site management, response to calls; dealing with complaints and making payments should be a risk and responsibility of the service provider.

- 32. It is not clear who was responsible for delivering the specific outcomes of the ILA project. There does appear to have been some confusion of responsibilities (paragraph 154).**

The delivery of the ILA programme was enabled through a partnership arrangement through which Capita captures and processes data on individuals and learning providers and also manages telephone and web-based call centre facilities. The Department was responsible for the policy framework and overall design of the ILA programme, including the eligibility

conditions for individuals and the definition of eligible and ineligible learning for funding. Capita were responsible for translating the policy intentions set out in the contract into a robust and functional system and for the operation of the system and associated call centre facilities to deliver the ILA programme. Their interpretation of this policy was presented in the form of a Business Rules Handbook.

The Department is determined to ensure that there is no confusion of responsibilities with any of its partners in the successor programme.

- 33. We do not under-estimate the difficulty of getting right the balance between policy and delivery, but we question whether the DfES could have been bolder and given Capita a wider brief to deliver the desired outcomes of the ILA project (paragraph 155).**

The Department agrees that this is an important issue which we are considering in developing a successor programme. The Department intends to involve the delivery partner in the policy design and development process for the successor programme. Any new contractual arrangements will place more precise emphasis on the contractor's responsibility for managing the scheme. The Department recognises the need, however, to achieve the right balance between risk transfer and obtaining value for money. The balance needs to be set in the context of what is likely to be a comparatively small scheme where we will still aim to make access as easy as possible for the learner. That balance will be monitored regularly and maintained throughout the life of a new scheme.

Brand name

- 34. We recommend that the value of the ILA brand name should be market tested by an independent professional firm with relevant expertise in this field before the successor scheme is announced (paragraph 156).**

Some testing of the brand name was done as part of the SQW stakeholder consultation exercise. In general views were mixed—54 per cent of providers and 50 per cent of learners thought the name ILA should be retained, and around 40 per cent in each case thought it should be changed. Despite the problems that ILAs have encountered, only a minority of providers and users feel that the brand has been damaged enough to change it. The Department will give further consideration to the appropriate name for a successor scheme.

Quality Assurance

- 35. Quality assurance is the one indispensable feature that needs to be built in from the start if the new version of the ILA is to succeed. Prior accreditation of providers would be essential; post-payment audit checks should be carefully targeted, based on a risk profile of providers and their claims. Prior accreditation should be designed to ensure that any obstacles to new providers and innovation are minimized (paragraph 159).**

There will be much a more rigorous provider registration system in the successor scheme and stronger quality checks. We expect these will be developed in conjunction with the LSC and will integrate the Qualifications and Curriculum Authority endorsement of qualifications. Links with Awarding Bodies will be explicit. We will put in place Management Information mechanisms to pick up complaints about quality.

In designing a successor scheme, however, we will need to balance the need for stronger checks on providers with the need to preserve as much as possible of the simple non-bureaucratic processes which have been key to engaging new learners and learning providers.

An appropriate accreditation body

- 36. We would expect the Learning and Skills Council to take the lead in prior accreditation, with a fast-track registration process for providers with a proven track record of delivering quality training. National providers, and providers of on-line or distance learning, will almost certainly need to be registered at a national level (paragraph 164).**

The Department agrees that registration of learning providers must be a key element in the successor scheme. The Department is in discussion with the Learning and Skills Council to explore ways in which the LSC can support the registration process, including arrangements for the registration of on-line and distance learning providers. In doing this, it is important to strike the right balance between the costs of the process, the amount of resources available to a successor scheme and the burden on legitimate providers wishing to register for the scheme. All providers who wish to take part in the successor scheme will need to apply for registration.

Targeting

- 37. We recommend (a) that the educational and social objectives of any successor scheme should be defined before determining a delivery mechanism and financial support criteria which advance those objectives and (b) that those objectives should be closely integrated with other aspects of policy towards lifelong learning (paragraph 170).**

The Department agrees that the educational and social objectives of a successor scheme should be defined clearly and that these should be closely integrated with other aspects of lifelong learning policy. In developing the policy we will ensure both that the aims and objectives of the new scheme are clearly focused and that it supports other elements of our lifelong learning provision.

Payment in stages

- 38. We expect that the new ILA system will include some kind of staged payment system, perhaps combined with early notification to the individual of how their ILA has been spent (paragraph 172).**

The Department is examining these areas in detail in the design of a successor scheme. Findings from the SQW report show that the majority of providers (60 per cent) support the withholding of at least part of the payments until the training has been completed. However, staged payments would add to the administration costs and would have to be justified on value for money grounds. Only 34 per cent favour all payments being made at the start of learning as in the previous programme.

Advice and guidance

- 39. We recommend that provision should be made to pay for advice and guidance where this can be demonstrated to advance the objectives of the scheme in terms of reaching the target audience (paragraph 173).**

The Department acknowledges the importance of opportunities for learners to obtain information and advice to help them make informed choices and again this is an area we are giving close consideration to in the development of a successor scheme. We certainly plan to encourage new learners to take advice. The majority of providers (61 per cent), along with key partner organisations, believe that account holders should be encouraged to seek independent advice and guidance before embarking on learning. 85 per cent of ILA learners declared they knew exactly what course of learning they wanted to follow; providing advice and guidance to all learners could be an expensive and unnecessary step.

We are also considering how to encourage learners to take advice or guidance on options for progression following their learning.

Group learning

- 40. We see the possibility of some form of pooling in the successor to ILAs as a promising area for future development (paragraph 174).**

This is an aspect of ILA delivery which the Department is keen to explore with intermediaries such as trade unions and the Learning and Skills Council. We will build on the successes of the pilots described in our response above to recommendation 24.

Timing and consultation

- 41. We are not satisfied that the Government understood, at a sufficiently early stage, the effect of the sudden closure of the scheme on providers. Many of the smaller and more innovative providers may be unwilling to risk entry into a second ILA scheme without a contractual arrangement with the Department (paragraph 179).**

The Government were well aware of the impact the sudden closure of the programme would have on providers; the decision to close the programme was not taken lightly.

As described in 25 above, the Department gave as much notice as possible when the decision was taken to withdraw the programme from 7 December 2001. The Department wanted to enable people to use their ILAs to help pay for learning they had planned and to allow businesses time to adjust their plans. John Healey wrote to all 9000 registered learning providers on 24 October 2001 giving around 6 weeks notice and explaining the necessity for that decision. In the event, of course, in the light of new and serious allegations about potential fraud and theft involving the sale of large numbers of ILA account numbers, the programme had to close with immediate effect on 23 November 2001.

Since that time we have been active in keeping providers informed about issues such as making outstanding payments as quickly as possible (subject to validation checks).

We are developing a successor scheme in a way that we hope will encourage smaller and more innovative providers to take part.

- 42. The new form of ILA should be a permanent and successful part of the lifelong learning strategy (paragraph 180).**

We envisage, as does the Cabinet Office Policy and Innovation Unit and other parts of government, that ILAs will be an important part of our lifelong learning policies and programmes. A successor scheme will be developed as part of our wider strategy to promote lifelong learning.

Conclusion

- 43. We support Ministers in their determination to learn the lessons from the collapse of the first version of ILAs and to bring forward as soon as practicable a more robust version which is capable of expanding adult learning, to the benefit of each learner and the nation as a whole (paragraph 182).**

When the ILA programme closed the Secretary of State made a firm commitment to introduce an ILA successor scheme. We reaffirm that commitment.

We intend coming forward with a new scheme built on a robust framework which achieves the right balance with the successful parts of the ILA programme and safeguards which eliminate its well documented flaws.

It is our intention to announce detailed proposals in the autumn including a start date for a successor scheme. Our capacity to do so will significantly depend on the outcome of negotiations with Capita and a final determination of their involvement in a new scheme.

We welcome the positive contribution of the Select Committee and look forward to their continued support as we develop and deliver a successive scheme.

Documents appended:

SYNOPSIS OF THE DfES ILA PROGRAMME CAPITA SYSTEM SECURITY REPORT

LESSONS LEARNED REVIEW OF THE DEVELOPMENT, INTRODUCTION AND OPERATION OF INDIVIDUAL LEARNING ACCOUNTS: SPECIAL AUDIT REVIEW

SYNOPSIS OF THE DfES ILA PROGRAMME CAPITA SYSTEM SECURITY REPORT BY CAP GEMINI ERNST & YOUNG

1. INTRODUCTION

The Department of Education and Skills (DfES) embarked on an overall review of the Individual Learning Account (ILA) programme and its operation.

Cap Gemini Ernst & Young were engaged by DfES as part of the overall review of the ILA programme to produce a report on the Security of the Individual Learning Account Programme.

The ILA Service was scheduled to be provided under a five-year contract by Capita Plc. The original contract specified the requirements for the service and detailed controls to be operated in running the service for DfES. Capita used a sub-contractor, Mastek Ltd, for software development and ongoing software support for this contract.

The ILA Service went live in September 2000, the interim system having been operation since June 2000.

A Security Report was produced between January and May 2002. It was clearly not practicable to seek to revisit every physical and technical component of the work done, nor to understand the detail of every discussion involving DfES, Capita and other third parties. The report was therefore based on judgements we reached drawing on information generally available or provided to us in documentary form by DfES, Capita and other third parties.

This document is a synopsis of the Security Report, listing the main findings and the lessons learned From them. The main report contains legally and commercially confidential material that cannot be placed in the public domain.

2. MAIN FINDINGS & LESSON LEARNED

2.1 The findings listed here are summarised from the investigations carried out for the production of the main report. The elements that comprised the investigation included interviews with key personnel, investigation of log files, audit of documentation and assessment of the technical architecture.

The lesson learned, associated with each of the main findings, are the conclusions and recommendations from the Security Report and other investigations associated with the ILA system.

2.1.1 Contractual Issues

The contract between DfES and Capita Business Services Ltd is for the provision of the Individual Learning Account Service, not for the delivery of a system. High-level requirements for the service are detailed in schedule 2 of the contract. The contract made no clear mandates or stipulations regarding the assessment of the security requirement or the ongoing security management. This also resulted in no ILA-specific security policies or procedures.

Lesson Learned:

Future iterations of the ILA System should have more specific contractual stipulations regarding the security provision, with ownership and responsibilities being clearly defined.

2.1.2 Security Definition

No requirement was specified with regard to the determination of the security requirement, nor were existing Government guidelines regarding Security Risk Analysis followed.

Lesson Learned:

Future iterations of the ILA System should have a formal Risk Analysis carried out to identify specific areas to be addressed by security mechanisms and procedures.

2.1.3 Security Management

The Security Management of the ILA System was incorporated into existing security management functions within Capita Business Services, rather than as a separate function within the ILA structure. With hindsight this could be considered to be unsuitable.

Lesson Learned:

Future iterations of the ILA System will, as part of the initial Risk analysis and Security Architecture design, be assessed regarding the security management requirement and the relevant hierarchy established.

2.1.4 Trend and Pattern Analysis

No structured mechanisms and procedures were established to identify promptly trends and patterns of access and usage of the system that might have indicated possible instances of misuse.

Lesson Learned:

Suitable mechanisms and procedures for identifying promptly suspect trends and patterns of usage should be incorporated into future iterations of the ILA System.

2.1.5 Compliance Monitoring

No procedures were established to ensure that the requirements of the Security Policy were being adhered to.

Lesson Learned:

Future iterations of the ILA System should include compliance monitoring procedures.

2.1.6 Security Testing

No procedures or plans were established for ongoing testing of the system to ensure that the security provision was adequate.

Lesson Learned:

Future iterations of the ILA System should include ongoing and periodic testing of the security to ensure its suitability.

2.1.7 Security Archiving

No procedures were established for the archiving of relevant log files for retrospective analysis.

Lesson Learned:

Future iterations of the ILA System should include a provision for the archiving of relevant log file information.

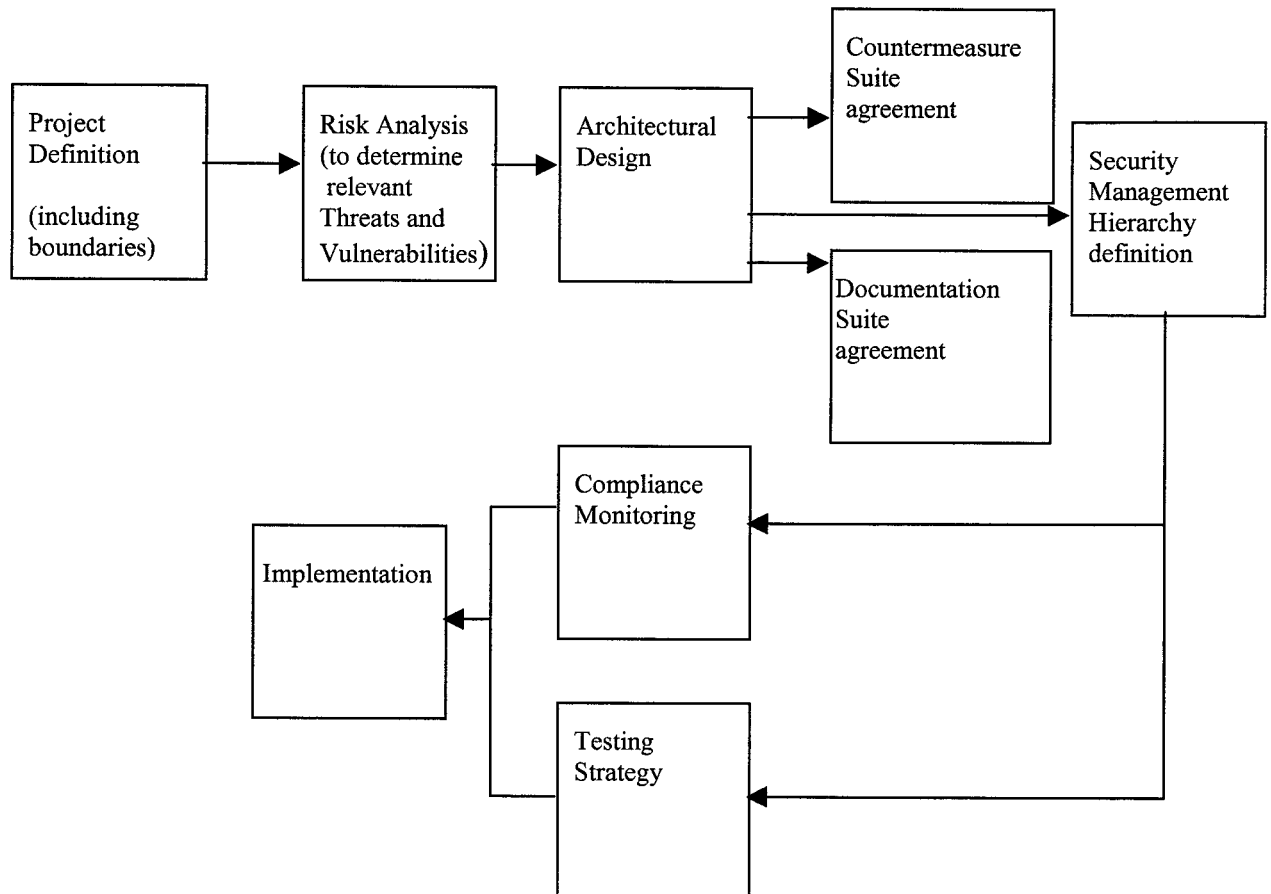
3. SUMMARY

Cap Gemini Ernst & Young would like to thank the Capita and Mastek staff for their time and effort in attending meetings and providing information to the authors of this report.

The Security Investigation was hampered by very tight timescales and the unavailability of some information. This information included some firewall log files as well as testing and security analysis methodologies and results used by Capita, that would have enabled more definitive results to have been achieved.

Bearing in mind the above no specific evidence of unauthorised access to the ILA system by external third-parties was found during the course of the security investigation. Rather, the findings of the investigation highlighted areas where security should be looked at in more detail with those specific issues highlighted in section 2 of this synopsis being the most critical.

Those security issues identified in the Security Report must all be addressed in future iterations of the ILA System. A structured approach to the identification, definition, implementation and ongoing management of security should be used. A high-level schematic of this approach is shown overleaf.

SYNOPSIS OF THE DFES ILA PROGRAMME CAPITA SYSTEM SECURITY REPORT

LESSONS LEARNED REVIEW OF THE DEVELOPMENT, INTRODUCTION AND OPERATION OF INDIVIDUAL LEARNING ACCOUNTS

SPECIAL INTERNAL AUDIT REVIEW

Introduction

1. This Special Review was requested by the Secretary of State and the Permanent Secretary to identify key lessons to learn from the development, introduction and operation of the Individual Learning Accounts (ILA) programme. The approach taken was to review available correspondence and documentation, and to interview key people involved with the ILA programme to determine their views on both the achievements and the problems experienced in the programme.

Summary of Findings

Policy Development

2. It is clear from the submissions reviewed that decisions on the overall shape and direction of the programme were made following consultation with, and the agreement of, Ministers. This included making it a universal programme providing discounts on a wide range of courses to help encourage adults to take responsibility for, and contribute to the costs of, their own learning. However, it has not been possible to identify when and how some decisions on the operation of the programme were arrived at (see also paragraph 4 b.). Examples of decisions that later led to problems included:
 - a. The establishment of a buyer beware system where there would be no central checking of provider viability, quality or track record.
 - b. To encourage the widest possible range of providers (including small, new and innovative) rather than relying solely on the existing provision from colleges and work based learning providers.
 - c. To allow learning providers to retain their own stocks of ILA application forms. This enabled them to pro-actively market the programme directly to prospective learners, and sign them up for their courses.
 - d. To allow learning providers to determine the eligibility of most of their own learning courses for ILA incentive payments.
 - e. The introduction of an 80 per cent subsidy, initially without a cap, in 1999.

Problems Arising in the Programme

3. Examples of problems that arose include:
 - a. A significant minority of learning providers set out to take advantage of the programme by increasing course prices, aggressive marketing techniques and mis-selling.

- b. The prime focus of these suspect providers was on maximising their income through targeting the most “profitable” aspects of the programme (initially the £150 contribution for the first million learners, then the 80 per cent subsidy).
- c. Suspect providers also targeted distance learning. The number of complaints received indicates that some distance-learning providers offered poor quality learning opportunities with little or no support.
- d. These activities, allied to the overall popularity of ILAs, led to quicker take-up of learning opportunities than expected, which in turn led to an over-spending of the available budget.

Operational Weaknesses

4. The target to achieve one million ILAs by March 2002, meant that the ILA Team were under severe time pressure to establish a service provider contract with Capita, to ensure that the programme could start in September 2000. The time pressures contributed to the problems experienced by the programme, particularly with regard to the contracting process, and were further exacerbated by the fact that some other key areas of ILA development and operation did not demonstrate consistently good practice. These included:

- a. No business model was developed to help identify strengths and weaknesses in the policy options available as the programme was developed.
- b. No decision log was set up to record and track decisions made. This, allied to inadequate knowledge management and document filing systems within the ILA Team, has meant that it has not been possible to identify when and how all decisions were arrived at.
- c. Although a great deal of management information appears to have been collected by Capita, it was not provided to the Department in a sufficiently helpful format to indicate possible abuse of the system by providers or to provide the information for Ministers to decide on action needed.
- d. Although a risk register was in place and being reviewed by the project board, there is insufficient evidence of active, ongoing management of each risk by a nominated team/individual outside the Board meetings.
- e. Resourcing of some key specialist roles was not always adequate during the development and operation of the programme. This is particularly true of both the contract management and financial management arrangements.
- f. Departmental guidance to learning providers did not clearly specify the requirements and expectations of the programme.

Conclusions & Recommendations

5. The lessons identified by this review are summarised in the attached Appendix. Some of the key lessons arising relate to the need to enhance project, risk, contract and financial management arrangements.

6. To carry forward the findings from this review, we make the following recommendations:

a. To help embed the lessons learned from this review (see Appendix) into Departmental procedures, they should be made available to all programme and project boards and managers in DfES through appropriate media (good practice guidance, web-site, etc.).

b. More immediately, the lessons learned from this review (see Appendix) and all other relevant ILA reviews currently underway, should be built into the management arrangements for both the development of the ILA replacement programme and the wind down of the original ILA programme, where appropriate.

c. To ensure that all the key lessons arising from the various ILA reviews currently underway are captured, a consolidated report incorporating all of the lessons learned should be prepared.

Programme management arrangements

1. All stages of policy should be developed under project/programme management disciplines. These disciplines should be introduced from the start of policy developments to ensure consistency and the earliest possible introduction of rigorous control and review mechanisms. This would help to identify key information needs as early as possible and to plan available time to most effectively help inform and support delivery.

Resourcing

2. Senior staff responsible for programmes/projects should have sufficient time built into their roles to give appropriate consideration to the key policy issues and options that arise and the decisions that need to be made.

3. A flexible approach to resourcing programmes is necessary. The ability to move additional staff to “hot-spots” is essential. It is vital to ensure that staff with appropriate skills are in place, particularly in key areas supporting delivery, such as programme and risk management, contract management and financial control. Where external expertise is needed, the role they are required to fulfil should be clearly defined.

Business Modelling

4. Business processes should be modelled and examined for strengths and weaknesses before the design is finalised. This will provide more reliable information on which to assess risks, evidence to base decisions on and determine the management information MI needed to monitor performance, costs and risks. The business model should include a financial model to help determine the cost implications of policy options and support monitoring after implementation.

Risk identification and management procedures

5. Early identification of risks is essential to determine the level of acceptability of these risks to management (i.e. the “risk appetite”). Countermeasures commensurate with the risks should be identified, designed, and implemented. Active risk management should be in place to monitor the likelihood of key risks occurring and to take action to minimise their impact. Named teams/individuals should have responsibility for the ongoing management of each risk. Active issues management should continue after the implementation as an important part of performance management.

6. All policy developments should take proper account of propriety and value for money issues and consider the risk and implications of fraudulent and improper activity. Attempts should be made to “break the system” to determine its robustness and reliability before it goes live.

7. Ministers should be provided with clear information on the risks arising from policy options. High-risk projects/programmes should provide regular progress reports to the Audit Committee or the Board, as appropriate. If it becomes evident that the risks of proceeding with a policy could place the Accounting Officer (AO) at risk, then he must be advised immediately to enable direct intervention with Ministers, if necessary.

Contracting and contract management arrangements

8. Clarity on the relationship with the contractor is essential, including whether the relationship is simply sub-contracting part of the management or delivery arrangements, or whether a full partnership is required. The risks to be transferred to or shared with our contractors/partners should be carefully considered and specified in the contract. In particular, there is a need for absolute clarity in our data security requirements and a clear and documented understanding of who bears the risks should security be breached. There may also be a need to include provision in contracts for rigorous testing of security arrangements.

9. Contract specification and bidding processes must rigorously test the capability of all bidders to meet our full operational, quality and delivery requirements. Contract management arrangements must build on this to test contractor performance in all key delivery areas, and their ability and commitment to meet changing policy and delivery needs, should these arise.

Management information (MI) specification & performance monitoring arrangements

10. Specification of management information (including financial and budgetary data) and reporting requirements for senior managers and Ministers should be set out clearly at the earliest possible stage in developments. This should be based on a clear picture of the environment that the policy is intended to influence and change. It is therefore important to establish reliable and relevant baseline information on the state of the environment before introducing the programme.

Financial monitoring arrangements & budgetary control procedures

11. Demand led schemes that have a pre-determined budget limit require careful management to ensure available funds are not exceeded. Options to manage demand must be assessed and robust management information systems developed in advance of going live. Financial monitoring arrangements should include early warning systems to highlight unexpected activity/spend and allow time to implement counter measures to maintain expenditure within acceptable limits.

Operational Management

12. A clear vision statement for each policy/programme should be agreed with Ministers before the completion of policy design. A lack of clarity can affect partners' business planning and customers' expectations.

13. What the individual client or sector should expect as a result of the policy being developed should be defined. In the case of ILAs, this might include the level of competence expected of providers, the level of support providers should make available to learners, reasonable pricing.

14. From day one of implementation, there should be clear guidance to all relevant stakeholders on how to use, support, and access the system developed. This should include clear instructions on the criteria and method for making financial claims against the programme. Client satisfaction measures, and systems for analysing client complaints, as early as possible after implementation would help to provide early warnings of problems.