House of Commons

Education and Skills Committee

UK e-University: Government’s Response to the Committee's Third Report of Session 2004–05

Second Special Report of Session 2005–06

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The Education and Skills Committee

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Second Special Report

1. The Committee published its Third Report of Session 2004–05 (*UK e-University*)[1] on 3 March 2005. The Government's response was received on 20 July 2005, and is published as Appendix 1 to this Report.

Appendix 1

Government's response to the Third Report from the Education and Skills Committee, Session 2004–05.

The Committee's conclusions and recommendations are in bold text. The Government's response is in plain text.

1. We thank the Committee for their report on the UK eUniversity. There were considerable hopes for this initiative and we acknowledge that the outcome has been highly disappointing. Whilst some of the factors that led to the failure of the venture were specific to time and place we recognise that there are also issues which have more generalised application. Both the Department and the Higher Education Council for England (HEFCE) have separately undertaken their own assessments of the lessons to be learned (HEFCE's can be found at http://www.hefce.ac.uk/learning/tinits/euniv; the Department's is currently in draft) and have begun the process of implementing changes as a result. The Committee's report has played a very valuable part in these processes.

2. We have not commented on the Committee's Recommendation 1 ("that the way in which decisions to televise select committee meetings are made is reviewed with a view to giving Committees a more active role in the process"). This is not a matter for Government but for the House authorities and the broadcasting organisations.

3. This response deals with the Committee's remaining recommendations under three broad headings:

a. issues around the general operation of the venture (covering recommendations 2-11, 13, 14, 24-26);

b. accountability issues (primarily recommendations 12, 15-23);

   i) relating to UKeU structure;

   ii) relating to HEFCE;

   iii) relating to DfES;

c. the way ahead on e-learning (recommendations 27-32).

1 Third Report from the Education and Skills Committee, Session 2004–05, *UK e-University*, HC 205.

A. Issues Around the General Operation of the Venture (Recommendations 2-11, 13, 14, 24-26)

2. The UKeU failed to meet its targets, aims, and objectives. The launch of the first UKeU courses was delayed until September 2003. When launched, they attracted just 900 students against a target of 5,600. Furthermore, despite it being a condition of grant, UKeU failed to attract significant private investment. (Paragraph 23)

3. At the very heart of the failure of UKeU was that systems and structures that may have been considered appropriate when set against the original plan became inappropriate for a venture that was almost entirely publicly funded. (Paragraph 32)

4. We consider that for either the private sector or the public sector the bonuses paid to senior staff were wholly unacceptable and morally indefensible. The argument that they reflect private sector practice does not stand up to scrutiny. Any company which paid bonuses of the kind having underperformed in the way that UKeU did would face severe criticism from its shareholders. The non-executive directors who approved these bonuses through the Remuneration Committee cannot escape criticism. (Paragraph 33)

5. We are also unable to accept the view of the Chairman and Chief Executive that they were involved in a risk business which made such bonuses appropriate. The company was involved in a new and relatively untried sector, but it carried no market risk. It was backed with £50 million of public money; the risk was to that public investment, not to the company. (Paragraph 34)

6. Our findings are that UKeU failed largely because it took a supply-driven, rather than demand-led approach. (Paragraph 35)

7. A supply-driven approach, combined with the very ambitious nature of the venture in an emerging market that did not sustain the high expectations of demand, and an inability to work in effective partnership with the private sector, led to the failure of UKeU to meet its targets, aims, and objectives. (Paragraph 36)

8. We have found that UKeU inherited a narrowly focussed definition of e-learning and chose to pursue that approach without questioning it at any stage. It did not focus on research and development concerning the definition of e-learning, and it did not have a 'learner-centred' approach. (Paragraph 43)

11. UKeU allowed the development of the technology platform to drive its strategy and the development of programmes. It had a skewed focus on the platform, based on an assumption that once this was right, the original projections of very high student numbers would be easy to realise. Unfortunately this assumption was not based on research evidence, but on an over-confident presumption about the scale of the demand for wholly internet based e-learning. (Paragraph 60)

13. It appears to us that the wave of enthusiasm which caused all but a handful of higher education institutions to sign up to the UKeU project receded very rapidly,

leaving it without private sector investment or active higher education sector engagement. (Paragraph 65)

14. We have found that, although there were ambitious aims for the project before UKeU was established, it added to the pressure by taking very ambitious business decisions. (Paragraph 67)

24. The problem for UKeU was a combination of the ambitious nature of the original idea, and an over-confidence about the level of demand for e-learning which led to an approach which was insufficiently focussed on research and marketing and which was not learner-centred. To be successful, the project's main focus should have been on clearly identifying its market and knowing the demands of its customers. (Paragraph 108)

25. The lesson to be learnt is that such high-risk ventures entering new and emerging markets must have a focus on front-line research. They need to have the flexibility to adapt to changing market trends, and directors/managers must be able to make strategic and operational decisions, but these decisions must be evidence-based and rooted in robust and reliable research information. (Paragraph 109)

4. **The Committee examined in some detail the business performance of UK eUniversities Worldwide Ltd (UKeU). It has provided a very cogent analysis of value to the Government, HEFCE and all others considering future e-learning initiatives in the HE sector.**

5. **As the report notes, the running of the UKeU business was a matter for its Board and senior management and not for the Government or for HEFCE. We would simply comment that UKeU conducted its operations in a very fast-moving market situation. Private sector enthusiasm for 'dotcoms' changed very dramatically over the period from the announcement of the eUniversity project in 2000 to the launch of the venture in 2003. Similarly, eLearning has taken a different course than the venture anticipated, with greater focus on eLearning blended with elements of campus-based or distance learning, rather than wholly Internet-based learning. Uses of the Internet in commercial ventures have perplexed many experienced companies. We note that different views are emerging in the continuing debate on critical eUniversity issues - which is not unexpected given the complex market conditions (see, for example, the breaking news article of 6 March 2005 from the Borderless Education Observatory set up by Universities UK, *The last chapter? UK Select Committee publishes final report on UK eUniversity* http://www.obhe.ac.uk/news/March2005.html).**

9. It is inexplicable to us that UKeU did not seek to forge a partnership with the British Council to help it to understand the markets that it was trying to enter and to develop strategies for selling its products in them. (Paragraph 52)

10. Evidence to this inquiry suggests that UKeU's understanding of their markets came from anecdotal evidence from individual discussions rather than from systematic analysis. There was no formal market research undertaken to assess either the level of demand or the nature of the demand and the type of e-learning required. There was no systematic evaluation of the markets, no thorough and

robust market research, and no understanding of consumer demand. This was typical of UKeU's supply-driven rather than demand-led approach. (Paragraph 55)

6. **We note the Committee's observations on UKeU's approach to marketing. The whole area of marketing was a major focus in HEFCE's formal review of the venture. At the outset of the venture HEFCE commissioned research to identify potential markets ('A Study on Market Issues for the Proposed e-University', Commonwealth Higher Education Management Service (CHEMS), June 2000). Later PwC also commissioned further research on markets to inform their business model. However, overall more could certainly have been done.**

The Government's approach to risk

26. We do not want the Government to become increasingly risk-averse as a result of the UKeU experience. Instead it should learn from this experience and, in the future, take a more experimental approach to such risk ventures. This would involve focussing more on testing various models and prototypes; taking an evidence-based approach; involving the private sector as partners in a more organic process; undertaking effective risk-assessment procedures; and setting open and transparent success criteria for such projects. (Paragraph 112)

7. **We welcome the Committee's view in the report that the public sector should not shrink from high risk projects. We concur with the Committee that the use of models and proto-types is very valuable particularly in high risk areas and note that a number of models were explored by HEFCE in setting up the eUniversity project. In the case of the eUniversity, the perceived imperative of early entry into the market limited the length of time for prototyping.**

B. Accountability Issues (Recommendations 12, 15-23)

(i) Relating to UKeU structure

12. UKeU's attempt to form genuine partnerships with the private sector, though unsuccessful, was commendable and could have helped UKeU to stay competitive and market-orientated. Instead, UKeU became another example of how difficult the public sector finds it to form successful partnerships with the private sector. The failure to find private sector partners or investors should, however, have caused the holding company, HEFCE and the DfES to have concerns sooner rather than later about the viability of the project. (Paragraph 63)

15. With no private investors, the sole reliance on public money, and with no direct accountability for the expenditure of that public money, UKeU had a very high degree of freedom. It could be argued that this was necessary in such a high-risk venture, but it should have been more accountable either through controls appropriate for a public sector organisation or through carrying some risk as a private company. (Paragraph 79)

16. An important lesson to be learnt is that senior management should have had either very clear accountability for the expenditure of public money, or risk from

market pressures to succeed through private investment in the project. A high risk venture such as this does not necessitate a high risk approach to structure and accountability. Where there is a significant distance created between the accounting officer and the decisions taken by the senior management of the operating company, there needs to be either clear lines of accountability or some market risk. (Paragraph 82)

17. Our inquiry has found that HoldCo became the primary accountability agent, but this was not the original intention. As a result, HoldCo only had the formal structures in place for it to perform a very limited monitoring role where this role needed to be much more significant. With no private investment, the structure needed to change to develop the role and capacity of the HoldCo to hold UKeU to account. (Paragraph 88)

8. **UKeU was intended to operate in the private sector with commercial-type speed and flexibility to address a new learning market. However, as it was to be jointly funded by public and private investment in equal shares, there was an accountability structure and framework intended to protect public funds.**

9. **The Department provided a significant - but finite - sum to HEFCE for the venture, with guidance on the high level objectives to be pursued. HEFCE provided funds under a legal Deed and conditions of grant to the Holding Company. The conditions of grant required the Holding Company to invest funds only against a robust business proposition and with private matched funding. Terms also required the Holding Company to meet best practice in governance as set out in The Combined Code (Principles of Good Governance and Code of Best Practice) published by the Financial Services Authority, May 2000, including specifically requiring an audit committee. The Holding Company was required to report at least annually, and also exceptionally as necessary, on the value for money achieved from the grant and on the assurance of quality in the venture. The Holding Company was also required to place similar governance requirements on UKeU.**

10. **The Holding Company attracted a Board of senior figures from the HE sector (appointed in the main by the representative bodies for HE – Universities UK and the Standing Conference of Principals – and not by HEFCE, as the Committee's report states. Only a minority were appointed by HEFCE, in discussion with the other UK HE funding bodies). A Board of senior HE and commercial figures also directed UKeU, supported by an experienced senior management team.**

11. **Given the conditions under which the venture was intended to operate, at the time DfES and HEFCE were reasonably confident that the structures in place and the personnel engaged should have provided adequate protection for public funds. We cannot say whether that confidence would have been justified if the venture had operated as planned. Certainly, if such a situation occurred again, we would reconsider whether HEFCE should have been given a rather more formal role in setting the strategic direction of the business.**

12. **However, those conditions changed in spring 2002 when it finally became clear that matching private investment would not be forthcoming for some time. With**

hindsight we can now see that the UKeU structures should then have been reviewed more thoroughly. Some changes were made, at HEFCE's instigation, to the conditions of grant, including a variation to UkeU's Articles of Association to alter the 50:50 balance of powers between the public and private sector by giving a right of veto to the public sector directors. But a more thorough review at this point would have been appropriate, to allow more detailed scrutiny of the intentions of the new UKeU board and senior management on business strategy and company set up. Such a review might also have raised questions about the issues of remuneration and the bonus scheme which the Committee has criticised in its report (Recommendations 3-5). Whilst we might have expected either UKeU or the Holding Company to have raised structures as an issue in spring 2002, in the absence of action on their part either HEFCE or the Department, through their monitoring of the project, should have intervened. All therefore share some measure of blame here.

(ii) HEFCE accountability issues

> 19. A key lesson to be learnt is that, in high risk ventures such as UKeU, a great deal more needs to be done to support the accounting officer to enable him to act effectively in his role. The accounting officer must have at least equal expertise available to him as is available to the company in order to hold such an unusual public-private venture to account. The accounting officer in the public sector must have the backing of experts with a high reputation to assess such public-private ventures against agreed benchmarks and criteria for success. (Paragraph 98)

> 20. A group of advisors to HEFCE including members of PwC who produced the original business plan, and experts from The Open University and British Council, for example, could have been put together to keep UKeU in much closer account in terms of the decisions they made. This would have enabled much closer accountability from the start of the project. (Paragraph 99)

13. **We agree it is vital for high quality advice to be available to an accounting officer. It is necessary to be able to understand what a delivery agent is doing and to be able to mount effective and appropriate challenges where necessary, while avoiding duplication of effort. In the case of UKeU, we do not think that lack of specialist expertise was a crucial factor. HEFCE appointed and took advice from a steering group, which contained a range of expertise, during the set up of the project. Appropriate experts also supported HEFCE in the autumn 2003 review of the venture, and the subsequent wind-down of UKeU, and we understand from HEFCE that these worked very effectively. Hence when expertise was sought, it was readily available. We accept (paragraph 12 above) that there were missed opportunities for earlier reviews during the course of the project; had those reviews taken place, further expert support would have been provided to the HEFCE Accounting Officer.**

> 18. In the absence of risk from market pressures, the accounting officer needs to be able to make accountability reach down to the operational level. The Government will have to consider the implications of this conflict in the role of shadow director and accounting officer for any future projects. (Paragraph 92)

14. **We understand these concerns. The complex accountability structure of the venture was intended to make clear that neither HEFCE nor Government would control the business. That caused tensions as it gradually became obvious that HEFCE funding was in fact the only significant source of income for the company, and that decisions by HEFCE's accounting officer would be critical to its future. Questions about avoiding shadow directorship roles then inevitably arose.**

15. **In many ways the UKeU venture was a one-off in terms of seeking to establish a self-standing commercial company with public good elements. We do not therefore expect this issue to arise again to the same extent. If it did, we would put in different structures to circumvent as far as possible such dilemmas. We are aware that Treasury is considering this kind of issue in respect of public private partnerships and we will discuss with them how the development of their thinking can take into account the circumstances of this case.**

16. **We understand from HEFCE that scrutiny of the eUniversity project, as well as increased experience with other funded bodies, has helped it develop its risk management and related bodies procedures over the course of the project. The Council now has in place an accountability framework that enables it to give secure and consistent treatment to related bodies (i.e. bodies other than higher education institutions (HEIs) which HEFCE fund to secure services to the HE sector), comparable to that for HEIs. It is firmly committed to evidence-based approaches to the development of policies and projects, which is evidenced by the considerable corpus of material that it is releasing through the Higher Education Academy from the eUniversity project development (at http://www.heacademy.ac.uk/e-University.htm).**

(iii) DfES accountability issues

21. We have heard no evidence to suggest that the DfES would have arranged structures differently if it had chosen to run the project directly. (Paragraph 102)

22. The lessons for the Government on ensuring accountability are the same as those for HEFCE: in high risk ventures such as this, more needs to be done to support the accounting officer to enable him to act effectively in his role. The accounting officer must have equivalent expertise available to him in order to hold such a public-private venture to account. (Paragraph 104)

23. The DfES must improve its working practices if it is to continue to work with the private sector. (Paragraph 104)

17. **The Department felt that it was not the body best placed to manage the eUniversity project and therefore delegated this to HEFCE. We believe that this view was the right one; indeed, in the future the Department will increasingly eschew hands on delivery of new and existing ventures as it adopts the strategic leadership role described in Chapter Nine of the *Five Year Strategy for Children and Learners* (published in July 2004 as Cm 6272). However the Department fully recognises the importance of taking steps, and developing its staff, to ensure that delivery partners operate effectively.**

18. **Since the Committee's hearings in 2002 on the failure of the Department's Individual Learning Accounts programme, the Department has continued building on the lessons learnt to develop financial, risk management and programme and project management skills across the Department, using professional specialist expertise where it is needed. Over the two year period April 2003 to March 2005 around 1,050 members of staff and 230 staff in its NDPBs have been trained in project and programme management (PPM) techniques. In addition approximately 390 individuals have obtained an accredited PPM qualification in the period.**

19. **More recently the Department has developed and is currently implementing a Departmental Risk Improvement Plan to further enhance and foster a management culture which supports well thought-through risk taking and innovation. This plan focuses on the areas where we need to raise our risk management capability including the effective management (not just identification and assessment) of risk; improving the management of risk with delivery partners; and improving the clarity of risk management strategy and policies. The plan is backed up by a robust evaluation strategy which will allow us to monitor and review progress and its effectiveness, and provide us with evidence upon which to base decisions about future improvement actions.**

20. **The Department's own assessment of the lessons to be learned from the e-university venture will inform continuing thinking on how best to position itself to ensure effective delivery of new and existing ventures by partners.**

C. The way ahead on e-learning (recommendations 27-32)

27. The Government, through HEFCE, must deliver on its commitment to outline its strategy, and action plan for its implementation, for embedding e-learning in HE in a full and sustainable way. (Paragraph 117)

28. The Government, through HEFCE, should state as soon as possible how it intends to invest the residual £12 million funds remaining from the e-University project in order to meet its commitment 'to embed e-learning in a full and sustainable way' over the next 10 years. In doing so, it should keep in mind the importance of collaborative projects across the FE and HE sectors (Paragraph 126)

30. We recommend that the Government, through HEFCE, ensures that thorough and robust market research is undertaken for use by the whole sector in order to maintain the UK interests in the global market for e-learning, keeping in mind the commercial sensitivity of such research, and the potential for collaborative projects between FE and HE sectors. (Paragraph 134)

31. We recommend that the Government, through HEFCE, clarifies how it intends to invest in and support collaborative ventures in e-learning both across the HE sector, and between the FE and HE sector, in a way that provides equal opportunity and advantage to all those who would wish to be involved in the global market for e-learning. (Paragraph 142)

32. Whilst recognising the important role the Government has to play in providing support, information and guidance for e-learning to develop within HEIs, we

conclude that the Government's role in providing an overarching national strategy for e-learning is vital to ensure consistency, coherence, and clarity of purpose in developments across the sector. The Government, through HEFCE, must clarify its national strategy for developing e-learning in the UK and how it intends to invest in and support e-learning across the HE sector in a way that provides coherent progress. (Paragraph 144)

21. **There are two key documents especially relevant to the Committee's recommendations around embedding e-learning in HE in a full and sustainable way. They have been developed with reference to each other.**

22. **The first is our overall DfES e-strategy, *Harnessing Technology: Transforming Learning and Children's Services,* published on 15 March (http://www.dfes.gov.uk/publications/e-strategy). This is a cross-cutting strategy which sets out, for the first time, priorities for children's services and all sectors of education. It escalates the Government's commitment to use the enabling power of technology for the benefit of children and learners, securing social justice, equality of opportunity and economic success.**

23. **The e-strategy identifies the need for action at two levels. System-level actions will coordinate cross-sector work, and develop a common solution on behalf of all sectors where appropriate. Such actions are designed to promote collaboration across sectors to enable universities, colleges and schools to work more closely together to meet the needs of individual students. Sector-based actions will seek economies of scale through a collective framework in which partners and agencies in a particular sector (broken down into: schools; 14-19 and post-16; higher education; children's services) share good practice and ensure the right solution for that sector. All these actions have been allocated to identified partners, with deliverable goals and milestones, as outlined in the strategy document. The e-strategy will be taken forward in partnership with JISC and Becta, who will be responsible for coordinating delivery across all key partners in all sectors of education, skills and children's services.**

24. **The higher education section of the strategy makes explicit reference to the second key document, HEFCE's e-learning strategy, published on 8 March. The HEFCE strategy includes details of future investment in eLearning utilising the residual funds from the eUniversity project of some £12 million. The HEFCE strategy will be taken forward in partnership between HEFCE, the HE Academy and JISC, and hence will link through JISC and HE Academy with work in the FE sector.**

25. **The strategy builds upon the eUniversity programme to support the development of individual HEI eLearning missions and partnerships and also includes commitment to address the need for research into eLearning. In particular, there is an action designed to fill the support gap left by the UKeU, expressed also as a milestone in the Department's e-strategy in the following terms:**

> **"Provide common collaborative development support for institutions offering remote e-learning opportunities – to be available eventually to all institutions, beginning with a joint HEA/JISC e-Learning Advisory Service set up within the national e-learning advice centre for 2006".**

26. **The value of the eUniversity to HE has also been preserved and maintained through transfer of individual eLearning programmes from UKeU to the individual HEIs concerned: the eChina programme has been moved to Cambridge University; the eLearning research Centre (eLRC) is now based in the Higher Education Academy and the universities of Manchester and Southampton. We believe the eLRC and the Academy will play a very useful part in examining and disseminating experience from the eUniversity and assisting with the implementation of the HE eLearning strategy.**

> 29. £14.5 million of public funds was invested in the development of the UKeU technology platform. At present it is not clear how much of this investment can be recovered, or to what use the platform can be put. Whilst it is too early to determine the future value of the platform, it is important that the returns should be maximised and that they should be invested back into e-learning. (Paragraph 131)

27. **UkeU's Intellectual Property Rights (IPRs) in the platform have been secured jointly by HEFCE and Sun Microsystems. This acquisition will enable the UK HE sector to use these IPRs through a sub-licensing arrangement, and also for the public purse to secure appropriate return on commercial exploitation through Sun.**

Department for Education and Skills

20 July 2005